

1 June 2021

IMPORTANT: This Explanatory Statement is important and requires your immediate attention. If you have any questions about the content of this Explanatory Statement, please contact us on the numbers below or seek independent professional advice.

Dear Unit holder,

Offer to Merge the Intelligent Investor Australian Growth Fund (ARSN 620 030 819) with Intelligent Investor Australian Equity Growth Fund (ARSN 630 396 691)

InvestSMART Funds Management Limited (ABN 62 067 751 759, AFSL 246441) (**InvestSMART**), as responsible entity of the Intelligent Investor Australian Growth Fund (**AGF**), wish to inform you of the offer to merge AGF with the Intelligent Investor Australian Equity Growth Fund (ARSN 630 396 691) (**IIGF**).

InvestSMART, as the responsible entity of IIGF, is making you an offer for all your units in AGF. As consideration for the acquisition of your units in AGF, you will be issued units in IIGF (the **Offer**). The units offered in IIGF will be in the same class as the existing units of IIGF. This Offer is made to all unit holders in AGF.

The number of units you will receive in IIGF will depend on the value of your holding of AGF units on 30 June 2021, the Effective Date of the Offer. You should note that the net asset value per unit of AGF and IIGF on the Effective Date will not be the same. However, the overall value of your holding (except for rounding adjustments, if any) will remain the same, though you will receive a different number of units in IIGF when compared to the number that you previously held in AGF.

Why is InvestSMART merging the funds?

InvestSMART performs regular reviews of the performance and usefulness to investors of all of their investment products, to ensure that they fulfill investor needs at the lowest possible cost. On 1 July 2020, we decided to change the mandate, fees and objective of your fund as the fund was not meeting its objective.

The objective changed from outperforming the S&P/ASX Small Ordinaries Accumulation Index to achieving a return of 1% above the S&P/ASX 200 Accumulation Index per annum over five year rolling periods by investing in a diverse mix of Australian equities and cash. Your fund now holds a portfolio of shares that are identical with the Intelligent Investor Australian Equity Growth Fund (**IIGF**).

We believe, after a further review of our investment products, that your fund has remained uneconomic for InvestSMART to continue to operate and has little prospect of becoming economic to InvestSMART in the near future without substantially increasing the costs and fees to investors.

To provide choice to investors, we are offering investors the following alternatives:

- (a) to accept units in the larger listed Fund, which will maintain your investment in the same portfolio of shares, with no adverse tax consequences; or

- (b) to be compulsorily redeemed and have the Net Asset value of your units returned to you, which may or may not have adverse tax consequences depending on your circumstances.

We believe it is in the interests of unitholders to accept the Offer with the listed IIGF for the benefits listed below.

What are the benefits of this proposal?

InvestSMART as responsible entity of AGF believes this Offer will benefit the unit holders for the following reasons:

- (a) the larger pool of assets in IIGF will provide economies of scale in investing such as better execution costs;
- (b) enhanced fund management efficiency for InvestSMART which will lead better reporting for investors;
- (c) no opportunity to introduce a performance fee that currently exists in AGF;
- (d) a quicker process for investing and selling through the ASX listing of IIGF units.

InvestSMART does not expect or anticipate receiving any financial benefits from this proposal, other than our normal management fees as disclosed in the relevant PDSs.

What are the potential disadvantages / risks of this proposal?

InvestSMART considers that the following additional risks from accepting the Offer are not material to unitholders, but should be considered in making your decision to accept the Offer:

- (a) the Units you will receive in IIGF are listed and you may incur brokerage costs in buying or selling units, though this should be similar to the bid/offer spread incurred when dealing in units in the unlisted units of AGF;
- (b) the market price for Units on the ASX may vary from Net Asset Value per unit, though this risk is mitigated by the market making agent employed by InvestSMART to maintain bids and offers close to Net Asset Value per unit;

What will you receive?

If you accept this Offer, you will cease to hold units in AGF and will hold units in IIGF on the Effective Date noted in this Offer. IIGF is an exchange traded managed fund quoted on the Australian Stock Exchange, ASX Code: **IIGF**. The number of units you will receive in IIGF will be calculated on an exchange ratio based on the respective net asset value for AGF and the 1- day volume weighted average price of IIGF on the Effective Date. Please see Appendix 1 for more information.

The net asset value per unit of AGF and volume weighted average price of IIGF on the Effective Date may not necessarily be the same. Therefore, while the overall value of your holding (except for rounding adjustments, if any) will remain the same, you may receive a different number of units in IIGF from what you previously held in AGF. The statements for the disposal of units in AGF and the issue of units in IIGF will be issued as soon as practicable after the Effective Date.

What are the key differences between a unit in IIGF and your unit holding?

As noted above, if you accept the Offer, you will be receiving units in an exchange traded managed investment scheme. The key differences between an exchange traded and unlisted fund are outlined in the table on the following page.

	Exchange traded IIGF	Unlisted AGF
Entry and Exit prices	Based on market bids and offers provided by market-maker	Based on NAV +/- bid offer spread
NAV used	Real time indicative NAV	Following day NAV
Settlement of buy or sell	T + 2 days	T + 4 day
Buy or sell process	Through ASX broker	Through online application or redemption process
Minimum application	No minimums	\$25,000 application minimum
Additional Disclosures	Additional disclosures of: <ul style="list-style-type: none"> • Portfolio monthly • Units on issue • Indicative NAV intra-day 	NA

Appendix 2 provides more information on the key differences and similarities between AGF and IIGF, including the investment objective and policies, risk factors, latest fund size, fees and charges and application and redemption process.

You should also refer to the relevant sections of the Product Disclosure Statements (**PDSs**) dated 19 July 2017 and 17 August 2020 for each fund respectively, as amended from time to time, which set out a description of the investment policies and specific risk factors of AGF and IIGF.

We recommend you consider the above information, the terms of the Offer and seek independent professional advice to determine whether this Offer is right for you.

What happens if you do not accept the Offer?

If you do not accept the Offer of units in IIGF, your units in AGF will be compulsorily redeemed and you will receive the net asset value of your unit holding at 30 June 2021.

As noted above, InvestSMART has determined that AGF is no longer economic to operate and has little prospect of becoming economic to InvestSMART in the near future without substantially increasing the costs and fees to investors.

Who will bear the cost of this proposal?

InvestSMART will bear the costs of the Offer.

Tax implications

As the acceptance of the Offer will likely create a tax event, InvestSMART has sought and received a draft ruling from the Australian Tax Office (**ATO**) which provides for “rollover” relief from capital gains tax for AGF unit holders who accept the Offer. Please refer Appendix 2 for more information.

However, please note that unit holders who intend to remain in AGF will be compulsorily redeemed and as a result may suffer adverse tax consequences.

Timing and process

The merger of AGF units into IIGF units (the “Offer”) will be completed on 30 June 2021. If you choose to accept this Offer you will be allotted units in IIGF, on or around 12 July 2021. This Offer will be implemented in accordance with the process set out in Appendix 1, “Details of the Offer Process”.

If you wish to redeem from AGF prior to the Offer close, please do so by Monday 28 June 2021, 5:00 p.m. (Sydney time).

Key dates of the Offer are:

Offer Steps	Date
Final date to receive redemption requests from unit holders in AGF	Friday 18 June 2021, 5p.m.
Offer closing date	Monday 28 June 2021, 5 p.m.
Effective date for calculating units to be issued	Wednesday 30 June 2021, 5 pm
Expected date for the issue of new units in IIGF	Monday 12 July 2021
Compulsory redemption of unitholders not accepting the offer	Wednesday 30 June 2021
Payment of compulsory redemption proceeds with final distribution for June 2021	Monday 12 July 2021

Next Steps

We recommend you consider the terms of the Offer carefully and the relevant disclosure documents noted above. If you wish to accept the Offer, please complete the Offer Acceptance Form and return to us by email or ordinary mail before Monday 28 June 2021 to:

Registry Direct Pty Limited
PO Box 18366
Collins St East
Melbourne VIC 8003
or
invest@intelligentinvestor.com.au

Contact Us

If you have any questions regarding the content of this letter or any other aspect of AGF, please do not hesitate to contact:

- your accountant or financial adviser;
- our Investor call centre on 1300 880 160; or
- by email to invest@intelligentinvestor.com.au.

Appendices:

1. Terms of the Offer and details of the Merger
2. Summary of tax implications
3. Key features of AGF and IIGF

Appendix 1: Terms of the Offer

Details of the Offer

1. The responsible entity of IIGF will issue units to all AGF's unit holders on the effective date of the Offer (**Effective Date**) in consideration for the acquisition of units of AGF from the unit holders of AGF who accept the Offer.
2. If the Offer is accepted by all unit holders, AGF will be wholly owned by IIGF on the Effective Date following the issue of IIGF units.
3. The issue of units of IIGF shall be made to unit holders based on the following formula:
$$N = C / P$$

Where:

N = Number of units in IIGF (rounded down to whole units) issued to the Unit holder

P = the 1-day volume weighted average price of units traded on the ASX (rounded to 2 decimal places) on the Effective Date.

C = M x Q with the resultant sum rounded to 2 decimal places

M = Number of units and fractions thereof in AGF held by the Unit holder

Q = Net Asset Value per unit of AGF (rounded to 4 decimal places) where the assets of AGF are valued in accordance with paragraph 5.
4. The assets of AGF shall be valued on the Effective Date in accordance with the Constitution dated 1 February 2017 (as amended and supplemented from time to time).
5. In calculating the assets and liabilities of AGF for the purposes of the Net Asset Value, InvestSMART shall value such assets and liabilities in accordance with the normal accounting policies or valuation principles of AGF.
6. In relation to units of IIGF issued pursuant to this Offer:
 - A) InvestSMART will issue holding statements for such units as soon as practicable to accepting unit holders at their respective addresses appearing in AGF's register of unit holders; and
 - B) InvestSMART will be entitled to assume that all information contained in AGF's register of Unit holders is correct and to use that information for registration of the units issued pursuant to the Offer.
7. The provisions in this Offer shall have effect subject to such modifications or additions as the responsible entity may from time to time approve in writing and consider it is in the best interests of Unit holders.
8. The responsible entity of IIGF will be entitled to act and rely upon any certificate, opinion, advice or information furnished by the Registry, the Auditors of AGF and its or their other professional advisers and shall not be liable or responsible for any loss suffered as a result thereof.
9. The responsible entity of AGF shall be entitled to act and rely upon any certificate, opinion, evidence, or information furnished by the Registry, the Auditors of IIGF and its or their other professional advisers and shall not be liable or responsible for any loss suffered as a result thereof.
10. A draft ATO Tax Ruling has been received. A summary of the tax implications of the merger for AGF unit holders is available at **Appendix 2**.
11. The legal, tax ruling expense, mailing, and other administrative expenses associated with the proposed Offer will be borne by InvestSMART in its own capacity.

Appendix 2 – Tax implications of disposing of original units and receiving replacement units under the Offer

The following is a general summary of the Australian taxation consequences for unitholders who dispose of Intelligent Investor Australian Growth Fund (AGF) units (original units) in exchange for units in Intelligent Investor Australian Equity Growth Fund (IIGF) (replacement units) under the transaction, based on the applicable taxation law as at the date of this Explanatory Statement.

The following summary only applies to unitholders who hold their units in AGF on capital account for tax purposes, and not on revenue account. The application of tax legislation can vary according to the individual circumstances of each unitholder.

This summary is not intended, and should not be relied upon, as specific taxation advice to any particular unitholder. The comments in this summary are of a general nature only, may not apply to your specific circumstances and cannot be relied upon for accuracy or completeness.

Each unitholder should seek and rely on its own professional taxation advice, specific to its particular circumstances, in relation to the taxation consequences of the restructure.

InvestSMART, on behalf of AGF, has applied to the Australian Taxation Office (ATO) for a class ruling in relation to the transaction. AGF received a draft class ruling from the ATO on 27 May 2021. The final class ruling will be issued after the Effective Date. The final class ruling will be sent to the Unitholders. The high-level tax implications are noted below .

Tax Implications – Resident Unitholders

Broadly, the transaction will result in the following taxation consequences for Australian resident unitholders of AGF:

- Upon disposal of their original units to IIGF, AGF unitholders would make a capital gain or loss under Capital Gains Tax (CGT) event A1.
- However, scrip for scrip rollover relief under Division 124-M should apply to disregard any capital gain on the basis that all requirements for the rollover have been satisfied. Where there is a capital loss made, no CGT roll-over is available.
- Therefore, unitholders will not be taxable on any amount due to the transaction. Any subsequent disposal, cancellation or redemption of the IIGF units will be subject to CGT.
- Each unitholder's cost base of the replacement units in IIGF will be determined with reference to the cost base of the unitholder's original units in AGF.
- Unitholders will be taken to have acquired the replacement units on the date they acquired the original units in AGF, for the purposes of determining eligibility for the general 50% CGT discount.

Appendix 3: Key features of AGF and IIGF

	AGF	IIGF
Investment objective and policies	<p>The investment objective of AGF is for the portfolio to achieve a return of 2% above the S&P/ASX 200 Accumulation Index p.a. over five year rolling periods with minimal turnover to allow returns to compound in a favourable tax environment.</p> <p>The Fund's portfolio will comprise 10 to 35 shares at any one time and will also have cash. The maximum exposure to any one share will be 15%.</p>	
Investment restrictions and guidelines	The investment restrictions and guidelines of AGF and IIGF have no material differences.	
Risk factors	<p>The risk factors of AGF and IIGF are similar, except that AGF has an additional key risk factor in relation to the size of the Fund.</p> <p>Key risk factors for AGF and IIGF are set out as below:</p>	
	<ul style="list-style-type: none"> • Portfolio concentration risk • Liquidity risk • Equity risk • Personnel risk 	<ul style="list-style-type: none"> • Portfolio concentration risk • Liquidity risk • Equity risk • Personnel risk • Market maker risk
Asset allocation ranges	ASX listed 70% -100% Cash 0% – 30%	ASX listed 70% -100% Cash 0% – 30%
Issuer	InvestSMART Funds Management Limited	
Investment Manager	Intelligent Investor Holdings Pty Ltd	
Custodian and administrator	Mainstream Fund Services Pty Ltd	
Registry	Registry Direct Pty Ltd	
Auditor	BDO	
Market Maker	NA	Citigroup Australia Ltd
Dealing frequency	Investors need to complete an Application or Redemption Form either online or in paper and receive units based on that day's closing NAV. There is a cut off time of 2 pm each dealing day.	Investors can buy Units from and sell Units to other investors in the secondary market in the same way as ASX listed securities daily at the market price.
ASX listing	No	Yes – ASX Code: IIGF
Unit pricing	Investors receive fractions of a unit to 4 decimal places	Investors receive whole units only
Distributions	Twice yearly	
Minimum investment	\$25,000	No minimum on ASX
Buy/Sell spread	NTA +/- 0.50%	2 cents bid offer spread
Management fee	0.97% on NTA (inc GST)	

Performance fee	10.25% of the excess performance above the S&P/ASX Small Ordinaries Accumulation Index (though this is not currently charged)	Not allowed in Constitution
Fund size – as at 30 April 2021	\$8.8 million	\$58.7 million

Please refer to each respective product disclosure statement for details of each fund which are available at <https://www.intelligentinvestor.com.au/invest-with-us/intelligent-investor-australian-equity-growth-fund/iigf> and <https://www.intelligentinvestor.com.au/invest-with-us/intelligent-investor-australian-growth-fund> or by contacting us.