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## **Prospectus relating to the SMARTfund Advantage**

**Comprising the following Sub-Funds:**

**SMARTfund Defensive OBSR**

**SMARTfund Cautious OBSR**

**SMARTfund Balanced OBSR**

**SMARTfund Growth OBSR**

**SMARTfund Aggressive Growth OBSR**

**SMARTfund Thistledown Income Fund**

Dated and valid at 29 September 2011

SMARTfund Administration Limited, 6 Broad Street Place, London EC2M 7JH

Prepared in accordance with the rules contained in the COLL Sourcebook which forms part of the FSA Handbook of Rules and Guidance

Copies of this Prospectus have been sent to the FSA and the Trustee

SMARTfund Administration Limited, the manager of the SMARTfund Advantage, is the person responsible for the information contained in this Prospectus. To the best of its knowledge and belief (having taken all reasonable care to ensure that such is the case) the information contained herein does not contain any untrue or misleading statements or omit any matters required by the COLL Sourcebook to be included in it and SMARTfund Administration Limited accepts responsibility accordingly.



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No person has been authorised by the Manager to give any information or to make any representations in connection with the offering of Units other than those contained in the Prospectus and, if given or made, such information or representations must not be relied on as having been made by the Manager. The delivery of this Prospectus (whether or not accompanied by any reports) or the issue of Units shall not, under any circumstances, create any implication that the affairs of the SMARTfund Advantage have not changed since the date hereof.

The distribution of this Prospectus and the offering of Units in certain jurisdictions may be restricted. Persons into whose possession this Prospectus comes are required by the Manager to inform themselves about and to observe any such restrictions. This Prospectus does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorised or to any person to whom it is unlawful to make such offer or solicitation.

Potential investors should not treat the contents of this Prospectus as advice relating to legal, taxation, investment or any other matters and are recommended to consult their own professional advisers concerning the acquisition, holding or disposal of Units.

The provisions of the Trust Deed are binding on each of the Unit holders, a summary of which are included in this Prospectus, and a copy of the Trust Deed is available on request.

This Prospectus has been issued for the purpose of section 21 of the Financial Services and Markets Act 2000 by SMARTfund Administration Limited.

The distribution of this Prospectus in certain jurisdictions may require that this Prospectus is translated into the official language of those countries. Should any inconsistency arise between the translated version and the English version, the English version will prevail.

This Prospectus is based on information, law and practice at the date of this Prospectus. The Manager cannot be bound by an out of date prospectus when it has issued a new prospectus and investors should check with SMARTfund Administration Limited that this is the most recently published prospectus.

## **1 Management and Administration**

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### **1.1 Regulatory Status**

The Manager and the Trustee are authorised and regulated by the FSA of 25, The North Colonnade, Canary Wharf, London E14 5HS.

### **1.2 The Manager**

The Manager of the SMARTfund Advantage is SMARTfund Administration Limited, which is a private company limited by shares, incorporated in England and Wales on 4 December 2006 with registered number 6016828. The Manager is authorised by FSA to manage the SMARTfund Advantage (authorisation number 463566). The Manager's ultimate holding company is Præmium Limited, a company incorporated in Australia and listed on the Australian Stock Exchange.

The issued capital of the Manager is 2 million ordinary shares of £1 each all of which are fully paid.

The Manager's registered and head office address is: 6 Broad Street Place London EC2M 7JH.

The Manager is also the manager and operator of the following schemes (each of which is an authorised unit trust):

SA Informed SMARTfund  
SA Sequel SMARTfund

The Manager's postal address is:

SMARTfund Administration Ltd  
PO Box 60294  
Floor 6, London  
EC2P 2DL

### **1.3 Directors of the Manager**

The directors of the Manager are:

Mr David Bernard Kosta Harrison  
Mr Roland Gordon Ward  
Mr John Martin  
Mr Arthur Naoumidis  
Mr Gary Wilson

Messrs John Martin and Gary Wilson are also directors of the following companies which are of significance to the business of the SMARTfund Advantage:

Præmium Limited  
Præmium Portfolio Services Limited  
SMARTfund Nominees Limited

Mr Arthur Naoumidis is also a director of the following companies which are of significance to the business of the SMARTfund Advantage:

United Kingdom:

Præmium Limited  
Præmium Portfolio Services Limited

Australia:

Præmium Limited  
Præmium Australia Pty Ltd

The Manager is responsible for managing and administering the Trust's affairs in compliance with the COLL Sourcebook. The Manager may delegate its management and administration functions, but not responsibility, to third parties, including associates, subject to the rules in the COLL Sourcebook.

## 1.4 Investment Advisers

The Manager has engaged the services of an Investment Adviser in relation to each Sub-Fund as follows:

<b>Sub-Fund:</b>	<b>Investment Adviser</b>
SMARTfund Defensive OBSR	OBSR Advisory Services Limited
SMARTfund Cautious OBSR	OBSR Advisory Services Limited
SMARTfund Balanced OBSR	OBSR Advisory Services Limited
SMARTfund Growth OBSR	OBSR Advisory Services Limited
SMARTfund Aggressive Growth OBSR	OBSR Advisory Services Limited
SMARTfund Thistleddown Income Fund	Thistleddown Investment Management Limited

Under its contract with the Manager, each Investment Adviser has agreed to provide an investment model for the relevant Sub-Fund and to exercise the function of the management of the Scheme Property of the relevant Sub-Fund by keeping those investment models under review. Where permitted by the Regulations, the Manager will follow the investment model provided when acquiring assets to hold in a Sub-Fund's portfolio. When the Manager executes acquisitions or disposals of precise numbers of any assets held in a Sub-Fund's portfolio it will do so to give effect to the investment decisions of the Investment Adviser according to its current investment model to the extent compatible with the value of dealings in Units (investments and withdrawals) to be effected, the "bottom up" approach intrinsic to schemes offered with the benefits of the SMARTfund Platform (as described in paragraph 2.3 below), as well as the applicable investment and borrowing policy and powers. The Manager may terminate the appointment of an Investment Adviser should the FSA request it to do so or if the Trustee agrees it is in the best interests of Unit holders in the relevant Sub-Fund. The Manager has not delegated its role as operator and authorised fund manager of SMARTfund Advantage and no Investment Adviser has authority to deal on behalf of the Manager. However, the investment management of the Scheme Property is carried out through the provision and updating of investment models under the Manager's agreements with each Investment Adviser. The Manager remains responsible to the Unit holders and the FSA for the management of the Scheme Property under the Regulations.

OBSR Advisory Services Limited is a company incorporated in England and Wales (company number 3447879) and authorised and regulated by the FSA (firm reference number 466703). The Old Broad Street Research group of companies, known as "OBSR", is an independently owned consultancy business that specialises in providing forward looking investment research and product analysis to financial intermediaries, life offices and investment houses. OBSR also supplies qualitative investment analysis supported by quantitative information leading to fund ratings and product panels across the retail life, pension, investment and savings markets.

The Manager has agreed to pay to OBSR certain fees and charges including a percentage of funds under management. OBSR is not remunerated out of the Scheme Property but is paid by the Manager out of its own resources (including the remuneration it receives for managing the fund as described in paragraph 7 below).

Thistleddown Investment Management Ltd ("Thistleddown") is a company incorporated in England and Wales (company number 07003514) and authorised and regulated by the FSA (firm reference number 510041). Thistleddown is an independently owned investment management firm that uses a value investment approach that it believes has the best chance of producing above market returns over time. The firm's principals, who have worked in financial markets for over 20 years, have a substantial personal investment in the funds managed by Thistleddown, including the SMARTfund Thistleddown Income Fund. As such, they have a strong interest in common with investors in the SMARTfund Thistleddown Income Fund.

Thistleddown will be remunerated out of the Scheme Property of the SMARTfund Thistleddown Income Fund at the rates set out in Appendix 1 and as further described in paragraph 7 below. Thistleddown will not be paid out of the Manager's own resources.

## 1.5 The Trustee

The Trustee of the SMARTfund Advantage is HSBC Bank plc, a company incorporated in England and Wales by a Deed of Settlement in 1836, registered as an unlimited company in 1873 under Companies Act 1862 and re-registered as a company limited by shares in 1880 under the Companies Act 1863-1872.

Registered and Principal Office: 8 Canada Square, London, E14 5HQ

Principal Business Activity: Banking and financial services

Ultimate Holding Company: HSBC Holdings plc, incorporated in England and Wales

The Trustee is required to carry out the duties specified in the COLL Sourcebook. The Trustee is, therefore, responsible for the safekeeping of all the Scheme Property (other than tangible moveable property) and has a duty to take reasonable care to ensure that the SMARTfund Advantage is managed in accordance with the Trust Deed and the provisions of the COLL Sourcebook relating to the pricing of, and dealing in, Units and relating to the income and the investment and borrowing powers of the SMARTfund Advantage.

The Trustee is entitled to receive remuneration out of the Scheme Property for its services, as explained in paragraph 7.7 below. The Trustee is under no obligation to account to the Manager, the SMARTfund Advantage or the Unit holders for any profits or benefits it makes or receives that are made or derived from or in connection with its role as trustee.

## 1.6 Registrar

The Manager is also the Registrar of the SMARTfund Advantage. The register of Unit holders and any relevant plan register may be inspected at the Manager's office at 6 Broad Street Place, London EC2M 7JH during normal business hours.

## 1.7 Auditors

The Auditors of the SMARTfund Advantage are:

BDO LLP  
55 Baker Street  
London  
W1U 7EU  
United Kingdom

## 1.8 Conflicts of Interest

The Manager and other companies within the Præmium group may, from time to time, act as managers, investment managers or advisers to other funds or sub-funds which follow similar investment objectives to those of the SMARTfund Advantage or any of the Sub-Funds. It is therefore possible that the Manager may in the course of its business have potential conflicts of interest with the SMARTfund Advantage. In such an event, the Manager will, however, have regard to its general obligations to act in the best interests of the SMARTfund Advantage so far as practicable, having regard to its obligations to other clients, when undertaking any investment business where potential conflicts of interest may arise.

The Trustee may act as the depositary of open-ended investment companies and as trustee or custodian of other collective investment schemes.

The Trust Deed provides that the Manager must indemnify the Trustee against all losses arising as a consequence of the Trustee's reliance, directly or indirectly, on any information provided by the Manager to the Trustee in connection with the performance of its duties as Trustee of the SMARTfund Advantage (for example, information provided by the Manager from the technology platform it uses to operate the SMARTfund Advantage). The indemnity does not apply to losses arising out of the negligence, wilful default or fraud of the Trustee in performing its duties under the Trust Deed.

## **2 Constitution, Objectives and Operation of the SMARTfund Advantage and its Sub-Funds**

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### **2.1 Constitution and Status**

The SMARTfund Advantage is an authorised unit trust scheme classified as a Non-UCITS Retail Scheme and structured as an umbrella scheme under the COLL Sourcebook. The SMARTfund Advantage was established by a trust deed entered into between the Manager and the Trustee dated 31 March 2008 and was authorised by the FSA on 31 March 2008. It has an unlimited duration.

Details of each of the Sub-Funds are given in Appendix 1.

The base currency of the SMARTfund Advantage is Pounds Sterling or such other currency or currencies as shall be the lawful currency of the UK.

Unit holders are not liable for the debts of the SMARTfund Advantage.

Units in the SMARTfund Advantage may be marketed in other Member States and in countries outside the European Union and European Economic Area, subject to the Regulations, and any regulatory constraints in those countries, if the Manager so decides.

### **2.2 Investment Objectives and Policy**

The SMARTfund Advantage consists of separate Sub-Funds, each of which has its own investment objective and policy. The names of the Sub-Funds and the details of the investment objectives and policies of each Sub-Fund are set out in Appendix 1.

Each fund aims to provide one of the following:

- capital stability,
- capital growth, or
- income, or
- a combination of income and capital growth.

The Sub-Funds are all designed and managed so as to be suitable investments for both private and professional investors seeking exposure to the UK managed investment and stock market. Investors should read the risk warnings set out in section 15 below.

Investment of the assets of the SMARTfund Advantage must comply with the COLL Sourcebook and the investment objective and policy of the relevant Sub-Fund.

The eligible securities markets and eligible derivatives markets on which the SMARTfund Advantage may invest are set out in Appendix 3.

### **2.3 Operation**

#### **General features of the SMARTfund Advantage**

The SMARTfund Advantage is available to investors who have appointed Nominated Representatives and uses an investment platform that enables it to deliver some unique features to investors – particularly in terms of the transparency and accuracy of reporting. The following information is important. It will assist investors and their advisers to understand how the SMARTfund Advantage differs from other collective investment schemes.

The investment process is based on an investment model for each Sub-Fund applied separately to each Unit holder's investment in that Sub-Fund of the SMARTfund Advantage. This "bottom up" approach operates by each investor in the SMARTfund Advantage subscribing cash which is invested in accordance with the investment model for his chosen Sub-Fund by buying a whole number of securities for that Sub-Fund which are notionally allocated to that investor for that Sub-Fund together with a notional allocation of an amount of cash in accordance with the intended cash float in that investment model. The Manager will need to round up or down the number of shares actually purchased for the Sub-Fund and allocated in this way as compared to

the holding in the investment model to a whole number of shares. This rounding to whole numbers of shares will result in a relatively small increase or decrease in the amount of cash notionally allocated in accordance with the intended cash float in the investment model. Accordingly, all investors in each Sub-Fund will have a notional portfolio (including cash) allocated to them with each notional portfolio matching, as far as possible, the investment model (including its intended cash float) for the relevant Sub-Fund.

An innovative feature of the SMARTfund Advantage is that each investor (or co-investors where the investment is made in joint names) will hold a separate Class of Units in each Sub-Fund in which they are invested. This is to enable the Manager to provide transparent reporting. Further, as the investor's primary interest will be in the total value of their investment in Sub-Funds of the SMARTfund Advantage, it has been designed so that each investor has a single Unit in his Class so that the SMARTfund Advantage will report to the value of the holding in each Sub-Fund more transparently than if investors needed to keep track of both the number of Units held, as well as their fluctuating value, as in other authorised funds.

When an investor subscribes for a Unit, the Unit issued to him will on issue have the same value (that is, price) as the value of the initial subscription made (less initial charges, if applicable). The value or price of each Unit is calculated at each Valuation Point by reference to a Proportion Account maintained for its Unit Class. Accordingly, securities (and a pro-rata share of dealing costs incurred by the Sub-Fund) will have been allocated together with cash as described above and reflected in the relevant Proportion Account by the first Valuation Point after the issue of a Unit. The securities and cash notionally allocated to each investor through the Proportion Account for his Class at each Valuation Point will reflect as closely as possible the investment model as it is at that point, given that only whole numbers of shares are allocated to each Proportion Account. Investors will be able to add further monies to their Unit, or withdraw monies from their Unit either by cashing in the whole or part of their investment.

The notional allocations of securities and cash to Unit Classes by entries in the corresponding Proportion Accounts are updated before each Valuation Point as required to reflect the Rebalancing of the Sub-Fund and are managed in such a way as to ensure, as far as practicable, that all Unit Classes of a Sub-Fund all hold the same proportions of any particular asset or security.

Investors should be aware that, despite these innovative features, the SMARTfund Advantage remains a traditional authorised unit trust scheme in structure, so investors do not have a direct interest in the investments notionally allocated to their Unit Class, but rather are legally entitled to redeem their Unit(s) in cash. The cash amount will directly reflect, however, the value of the securities and cash notionally allocated to their Unit Class.

#### **Online access to information**

Unit holders are provided with secure online access through their Account and the SMARTfund Platform to view the value of their Unit(s).

For purposes of transparency and reporting, Unit holders will be able to use their Account and the SMARTfund Platform to 'see through' to the entries that make up the Proportion Account(s) relevant to their investment(s) and how the value of their Units is determined. The information that is available includes details about investments held in, income received by and other transactions affecting the relevant Unit Classes. Whilst each Unit holder will be able to view the detailed entries that relate to Unit Class(es) in which they are invested, the Proportion Accounts are memorandum accounts and the allocation is only ever notional. No Unit holder is ever entitled to any assets recorded in a Proportion Account.

#### **Adviser Charging**

The sophisticated administration platform and 'bottom up approach' adopted by the SMARTfund Advantage provides transparency and accuracy in respect to the calculation of fees which allows the Manager to set the level of its remuneration individually for each and every Unit Holder by including a component of its charges to

the SMARTfund Advantage that is set by reference to a percentage that is agreed separately between each Unit holder and their Nominated Representative.

As is the case with many funds, the Manager has arrangements in place with certain authorised advisers and other intermediaries for the distribution of the SMARTfund Advantage. However, unlike other funds, the Manager has agreed that it will pay to Nominated Representatives an amount determined pursuant to an agreement between the Nominated Representative and their client (the Unit holder).

The Annual Management Charge for each class of Unit is made up of several components – the Manager's Annual Base Charge (or annual Base Charge) and the adviser charging component (if any). The Manager's annual Base Charge is a percentage fixed for each class of Unit in a Sub-Fund. It is fixed at the percentage rate set out in Appendix 1 or such lower rate as is specified in the applicable online application form as published by the Manager's systems and signed by the Unit holder. The adviser charging component (or ACC) is a percentage, which may be nil, agreed between the Unit holder and their Nominated Representative as specified on the application form. The Manager will pay an amount equal to the ACC to the Unit holder's Nominated Representative after it receives payment in respect of its Annual Management Charge. In some cases, for example where the adviser receives a fee from the Unit holder in connection with the services provided by the adviser that is paid in another way, the ACC may be NIL. In other cases, the investor and their Nominated Representative are free to agree a ACC to be included as a component of the Manager's Annual Management Charge which is charged by reference to the value of funds under management. The Manager does not influence the rate of the ACC but reflects the amount of ACC specified on the relevant application form in the level of its AMC for the Units concerned and agrees to pay an equivalent amount to the Nominated Representative. The rates and values of the Manager's charges and all their components (including the ACC) is reflected in the relevant Proportion Accounts and fully disclosed to the Unit holder concerned (as described in Section 6.5 on page 17).

More information about how the adviser charging component (ACC) of the Manager's fee is determined and charged can be found on page 22. The ACC (if any) is paid by the Manager to the Unit holder's Nominated Representative. It is not charged to the fund.

### **Pooling efficiencies**

The Manager will arrange for dealing in the assets of each Sub-Fund in order to implement the investment model for the relevant Sub-Fund. On each Business Day, dealing will occur on an aggregate net basis across all Sub-Funds within the SMARTfund Advantage to take advantage of scale and netting opportunities.

In order to minimise the amount of brokerage paid, and subject always to its obligations to ensure best execution under the requirements of COBS, the Manager will generally use a single execution only broker. However, other brokers may be used if market conditions and stock-specific factors warrant it.

The brokers may include a member of the HSBC group which would be a related entity to the Trustee. The Trustee is not involved in any way in the selection or appointment of brokers. The Manager may change brokers at any time.

In the normal course of events the trading requirement for an individual stock on any Business Day is aggregated across all Sub-Funds and transacted as a single net trade as described above. However, from time to time, the Manager may initiate further trades directly in any of the securities held in the Sub-Fund(s). These further trades may attract differing rates of commissions and charges and may result in multiple trades in the same stock on the same day.

## **3 Buying, Selling and Switching Units, Increasing and Reducing an Investment**

### **3.1 Buying, Selling or Switching Units**

Units in each Sub-Fund may be bought, sold or Switched and a corresponding investment increased or decreased on any Business Day provided that a dealing request is received by the Manager before the Cut Off Point (which is 2.30 pm each

Business Day). The Manager may vary the Cut Off Point at its discretion. Dealings for valid requests received by the Cut Off Point will be effected at prices calculated at the next Valuation Point.

Instructions to buy, sell or Switch Units must be made using an appropriate application or instruction form which is initially completed online and, where a signature is required, then printed for signing by the applicant. Where the law permits, the Manager may (but is not required to) effect transfers of title to Units on the authority of an electronic communication which passes security measures no less stringent than those employed for a Unit holder to access their secure online Account.

The Manager will, as principal, request the creation of Units for immediate transfer to investors. In its dealings in Units, the Manager is dealing as principal. The Manager does not actively seek to make a profit from dealing in Units as principal, but does so in order to facilitate the efficient management of the SMARTfund Advantage. The Manager is not accountable to Unit holders for any profit it makes from dealing in Units as principal.

English law governs all deals in Units. Units will not currently be sold or issued in any currency other than pounds sterling.

### **3.2 Anti-Money Laundering**

Under current laws the Manager is required to undertake procedures and controls to combat money laundering. Investors and potential investors may therefore be asked to provide proof of identity. This may be at the time of investment or at any other time that the Manager determines that it is necessary to confirm the identity of the investor or potential investor. The verification of identity may involve the Manager requesting information from third parties or the provision by the Unit holder of such documents as may be requested by the Manager. All such information obtained for verification of identity will be used for that purpose and no other.

Instructions will be accepted and Units will only be dealt in subject to satisfactory completion of identification procedures pursuant to the Money Laundering Regulations and, where appropriate, receipt of cleared funds.

If the Manager is unable to verify the identity of an investor the requested transaction may be refused, reversed or cancelled.

### **3.3 Buying Units Procedure**

Units may be bought through a professional adviser or other appropriate intermediary who is a Nominated Representative. Any such intermediary who recommends an investment in the SMARTfund Advantage to Unit holders may be entitled to receive commission from the Manager and/or amounts in respect of adviser charging. An ongoing commission, based on the value of Units held may also be paid to qualifying intermediaries. In addition, the Manager may from time to time make arrangements to allow Units to be bought through other communication media. Whilst the Manager reserves the right to pay additional amounts or provide additional benefits to intermediaries for distribution of the SMARTfund Advantage, the amount paid by the Manager to a Unit holder's Nominated Representative in respect of adviser charging (the ACC) will be at the rate stipulated on the initial application form signed by the Unit holder, unless the ACC and therefore the AMC for the Unit holder(s) concerned is varied in accordance with the processes set out in this Prospectus or otherwise pursuant to the Regulations.

Applications for Units will only be processed if accompanied by the full price payable and are subject to satisfactory completion of identification procedures pursuant to the Money Laundering Regulations. Currently the Manager can only accept cheques drawn on a UK bank account or, where the relevant application form issued by the Manager expressly permits, direct debit or bank transfers made through Bankers Automated Clearing Services (BACS) as payment for Units.

The Manager reserves the right to accept other means of payment and to reject any application in whole or part where empowered to do so by the Regulations.

Valid applications to purchase Units in the SMARTfund Advantage will be processed at

the Unit price calculated, in accordance with the Regulations, at the next Valuation Point following acceptance of the application and receipt by the Manager of the price payable in cleared funds, except in the case where dealing in the SMARTfund Advantage has been suspended as set out in paragraph 3.15.

Investors will be issued a Unit only after cleared monies have been received. Unless and until cleared funds are received for the monies payable as described the Manager will not complete its processing of the application without prejudice to its right to obtain any compensation for any loss it has directly or indirectly suffered as a result of the failure or delay of the investor to make settlement.

An instruction for the making of investments given in writing or on a signed application form generated from the SMARTfund Platform or given by an electronic means expressly approved by the Manager for the purpose is a legally binding contract when accepted by the Manager. Applications to purchase once made are, except in the case where cancellation rights are applied, irrevocable. However, subject to its obligations under the Regulations, the Manager has the right to reject, on reasonable grounds relating to the circumstances of the applicant, any application for Units in whole or part, and in this event the Manager will return any money sent, or the balance of such monies, at the risk of the applicant.

When an investor first acquires a Unit in any of the Sub-Funds and becomes a Unit holder the Manager will open an Account for that Unit holder which they will be able to access online and view details of their investment and a variety of investment reports. The information available to a Unit holder is more fully described in Section 6.5 on page 19. The Account is updated as appropriate to confirm additional investments by the Unit holder or partial or total redemptions or switches and to reflect the impact of the transactions on the Proportion Accounts relating to the relevant Unit Classes.

### **3.4 Confirmations the Buyer will receive**

A confirmation giving details of the price of Unit(s) bought will be issued no later than the end of the Business Day following the Valuation Point by reference to which the price is determined, together with, where appropriate, a notice of the applicant's right to cancel.

### **3.5 Title to Units**

Certificates are not issued to Unit holders. Contract notes, and where appropriate cancellation notices, will be provided to investors in accordance with the applicable regulations.

Ownership of Units will be evidenced by the entry of names of holders on that Register. Tax vouchers in respect of periodic distributions on Units will show the number of Units held by the recipient.

Registration of Units can only be completed by the Manager upon receipt of any required registration details. These details may be supplied in writing to the Manager or by returning to the Manager the properly completed registration form and copy of the confirmation.

### **3.6 Right to Cancel**

Where appropriate, investors will receive notice of their right to cancel an order to subscribe for Units at any time during the 14 days after the date on which they receive a cancellation notice from the Manager. If an investor wishes to exercise the right to cancel, they must return a signed instruction to the Manager by post. Investors should note that exercising their rights to cancel does not necessarily mean that they will receive back the amount that they invested. The amount to be returned will be either the amount invested or, if the price of a Unit has fallen, an amount based on a Unit price calculated after the Manager receives the cancellation notice from the investor.

### **3.7 Minimum Investment & Holdings**

Each Sub-Fund may have a minimum investment amount and/or a minimum holding

value. Investment may be made by means of regular savings with a minimum monthly investment. The minimum amounts applicable to each Sub-Fund are specified in Appendix 1.

The Manager may at its absolute discretion accept investments and/or holdings lower than the minimum amounts.

### **3.8 Redemptions and Redemption Procedure**

Every Unit holder is entitled on any Business Day to redeem its Units, which shall be purchased by the Manager dealing as principal. Whenever a Unit holder redeems their Unit (or a fraction of it) the Manager will arrange for the cancellation of the Unit (or fraction) purchased by it and redeemed by the Unit holder.

Unit holders may redeem Units by submitting a duly executed deed of transfer together with the purchase contract note.

Valid instructions to the Manager to redeem Units will be processed at the Unit price calculated in accordance with the Regulations at the next Valuation Point following receipt of the instruction, except in the case where dealing has been suspended as set out in paragraph 3.9.

An instruction to the Manager to redeem Units, although irrevocable, may not be settled by the Manager if the redemption represents Units where the money due on the earlier purchase of those Units has not yet been received or if insufficient documentation or anti-money laundering information has been received by the Manager.

When all or part of a Unit is sold, funds will be paid to the Unit holder by transfer to the Unit holder's nominated bank account (net of any applicable charges levied by the Unit holder's bank) no more than four Business Days after the Valuation Point at which the price is determined or, if later, the receipt by the Manager of the relevant completed withdrawal/Account closing instructions (or other sufficient written instructions). Instructions to make payments to third parties (other than intermediaries associated with the redemption) will not normally be accepted. Cheques will not be generally provided except in exceptional circumstances, but may be undertaken at the Manager's absolute discretion.

#### **Confirmations a redeeming Unit holder will receive**

A confirmation giving details of the fraction and price of a Unit redeemed will be sent to the redeeming Unit holder (or the first named Unit holder, in the case of joint Unit holders) together with (if sufficient written instructions have not already been given) a form of renunciation for completion and execution by the Unit holder (or, in the case of a joint holding, by all the joint Unit holders) no later than the end of the Business Day following the later of the request to redeem Units or the Valuation Point by reference to which the price is determined.

#### **Minimum redemptions**

All or part of a Unit holder's holding may be redeemed (see Additional Investments and Partial Redemptions) but the Manager reserves the right to refuse a partial redemption request if either: a) the value of the Units to be redeemed is less than the minimum stated in respect of the Sub-Fund in question; or b) a redemption of the amount requested would bring the value of the Unit holder's holding in that Sub-Fund below the minimum holding value for that Sub-Fund.

Each Sub-Fund may have a minimum permitted redemption amount and a minimum holding amount. The minimum amounts applicable to each Sub-Fund are specified in Appendix 1.

The Manager may use its discretion to refuse a partial redemption at any time. Failure to do so immediately after a relevant redemption, Switch or transfer does not remove this right.

The Manager may, at its absolute discretion, accept redemptions lower than the minimum amounts.

### Deferred Redemptions

In times of high volumes of redemptions (where redemptions of Units exceed 10% of a Sub-Fund's value), to protect the interests of continuing Unit holders, the Manager may defer redemptions at a particular Valuation Point to the next Valuation Point. Subject to sufficient liquidity being raised at the next Valuation Point all deals relating to the earlier Valuation Point will be completed before those relating to the later Valuation Point are considered.

### Restrictions and Compulsory Transfer and Redemption

The Manager may from time to time impose such restrictions as it may think necessary for the purpose of ensuring that no Units are held by any person in breach of the law or governmental regulation (or any interpretation of a law or regulation by a competent authority) of any country or territory. In this connection, the Manager may, subject to the Regulations, inter alia, reject in its absolute discretion any application for the sale, purchase or Switching of any Unit.

The distribution of this Prospectus and the offering of Units to persons resident in or nationals of or citizens of jurisdictions outside the UK or who are nominees of, custodians or trustees for, citizens or nationals of other countries may be affected by the laws of the relevant jurisdictions. Unit holders should inform themselves about and observe all applicable legal requirements. It is the responsibility of each Unit holder to satisfy himself as to the full observance of the laws and regulatory requirements of the relevant jurisdiction, including obtaining any governmental, exchange control or other consents which may be required, or compliance with other necessary formalities needing to be observed and payment of any issue, transfer or other taxes or duties due in such jurisdiction. Any affected Unit holder will be responsible for any such issue, transfer or other taxes or payments by whomsoever payable and the SMARTfund Advantage (and any person acting on behalf of it) shall be fully indemnified and held harmless by such Unit holder for any such issue, transfer or other taxes or duties as the SMARTfund Advantage (and any person acting on behalf of it) may be required to pay.

If it comes to the notice of the Manager that any Units ("affected Units") are held directly or beneficially in breach of any law or governmental regulation (or any interpretation of a law or regulation by a competent authority) of any country or territory, which would (or would if other Units were acquired or held in like circumstances) result in the SMARTfund Advantage incurring any liability to taxation which the SMARTfund Advantage would not be able to recoup itself or suffering any other adverse consequence (including a requirement to register under any securities or investment or similar laws or governmental regulations of any country or territory) or by virtue of which the Unit holder(s) in question is/are not qualified to hold such Units or if it reasonably believes this to be the case, the Manager may give notice to the Unit holder(s) of the affected Units requiring the transfer of such affected Unit to a person who is qualified or entitled to own them or that a request in writing be given for the withdrawal of their entire investment represented by the affected Units (by redemption, cancellation or otherwise of such affected Units). If any Unit holder upon whom such a notice is served does not within thirty days after the date of such notice transfer his affected Units to a person qualified to own them or submit such a written request for withdrawal to the Manager or establish to the satisfaction of the Manager (whose judgement is final and binding) that he or the beneficial owner is qualified and entitled to own the affected Units, he shall be deemed upon the expiration of that thirty day period to have given a request in writing for the redemption or cancellation (at the absolute discretion of the Manager) of all the affected Units pursuant to the Regulations.

If a Unit holder becomes aware that they are holding or own an affected Unit they must forthwith, unless they have already received a notice as set out above, either transfer all their affected Units to a person qualified to own them or submit a request in writing to the Manager for the withdrawal of their entire investment represented by the affected Units (by redemption, cancellation or otherwise).

If any affected Units are redeemed or cancelled the redemption or cancellation will be effected in accordance with the Regulations.

### **In specie Redemptions**

If a Unit holder wishes to realise some or all of their investment in a Sub-Fund the Manager may, on the request of the Unit holder or where it considers the deal to be substantial in relation to the total size of the Sub-Fund concerned or in some way advantageous or detrimental to the Sub-Fund or otherwise at its absolute discretion, arrange that in place of payment in cash, the Trustee transfers Scheme Property to the Unit holder.

For this purpose, the Manager may consider a deal to be substantial if the relevant value to be redeemed constitutes 5% (or a lesser or higher percentage if considered appropriate) of the value of the relevant Sub-Fund.

Before the redemption proceeds of the Units become payable, the Manager must give written notice to the Unit holder that the relevant property or the proceeds of sale of the relevant property will be transferred to that Unit holder so that the Unit holder can require the net proceeds of redemption rather than the relevant property if he so desires.

The Trustee must also be satisfied that the transfer of the Scheme Property concerned would not be likely to result in any material prejudice to the interests of other Unit holders.

The Manager will select the property to be transferred or sold in consultation with the Trustee. They must ensure that the selection is made with a view to achieving no more advantage or disadvantage to the Unit holder requesting the redemption than to the continuing Unit holders.

It is important for Unit holders to be aware that notwithstanding the notional allocation of assets recorded in the Proportion Account linked to the Class of their Unit they have no entitlement to those assets and no right to require any distribution in specie of those assets on liquidation of their investment. The power to effect redemptions in specie as described above is a discretionary right of the Manager to perform its obligations to pay the redemption price of Units in kind rather than in cash.

### **3.9 Suspension of Dealings**

The Manager may, with the prior agreement of the Trustee, or the Trustee may require the Manager to, temporarily suspend dealing in Units if the Manager (or the Trustee) is of the opinion that, due to exceptional circumstances, there is good and sufficient reason to do so, having regard to the interests of Unit holders or potential Unit holders. Any such suspension may only continue for as long as it is justified having regard to the interests of Unit holders. All Unit holders will be notified as soon as practicable after any suspension commences. Unit holders will also be able to keep themselves informed during any period of suspension with regularly updated information accessible via the SA Advantage SMARTfund website accessible at <http://www.SMARTfund.co.uk/>. During a period of suspension, the Manager may agree to deal in Units in which case all deals accepted during, and outstanding prior to, the suspension will be effected at a price calculated at the first Valuation Point after resumption of dealing in Units.

Re-calculation of valuations will commence on the Business Day immediately following the end of the period of suspension at the first relevant Valuation Point.

### **3.10 Switching**

A Unit holder may exchange all or part of their investment in one Sub-Fund for an investment in another Sub-Fund of the SMARTfund Advantage provided that in doing so the Unit holder maintains at least the minimum holding in each of the Sub-Funds that they wish to invest or continue to invest in and the amount 'Switched' is not less than either the Minimum Withdrawal Amount from the Sub-Fund 'Switched from' or the Minimum Investment Amount in the Sub-Fund 'Switched to'. If a partial Switch would result in a Unit holder holding less than the minimum holding in either of the Sub-Funds concerned, the Manager may convert the whole of that Unit holder's investment into the new Sub-Fund or refuse to effect that partial Switch. An exchange of Units in one Sub-Fund for Units in any other will be treated as a redemption and

sale and will be a realisation for the purposes of capital gains tax. See "Taxation" at section 8. The Manager may at its absolute discretion make a charge on each Switch of an investment in one Sub-Fund for an investment in another and the application of any such charge will be reflected in the value of the new Unit. At present, the Manager makes no charge for Switching between Sub-Funds.

A Holder wishing to Switch all or a fraction of their Unit may give a notice (an "exchange notice") to the Manager in such form as the Manager may prescribe from time to time of his desire to convert some or all of his Unit into a Unit of a different Class in a different series (which "Switched to" Unit may be in another Sub-Fund). A single exchange notice must only relate to a single Class of "Switched from" Unit. The general provisions on procedures relating to redemption and issue of Units will apply equally to a Switch. If an exchange notice is accepted, at the relevant Valuation Point, the Manager will arrange for the conversion by transferring such number (or fraction) of the "Switched to" Units as would result from the immediate application of the proceeds of redemption of the "Switched from" Unit (or fraction) for the purchase, at the same Valuation Point, of "Switched to" Units (or fractions of them). Switching instructions must be received by the Manager before the Cut Off Point on a Business Day to be dealt with at the prices at the Valuation Point on that Business Day, or such other Valuation Point as the Manager, at the request of the Unit holder giving the instruction, may agree. Switching requests received after a Cut Off Point will be held over until the next day which is a Business Day.

A Unit holder Switching all or part of their investment in one Sub-Fund for an investment in another Sub-Fund of the SMARTfund Advantage will not be given a right by law to withdraw from the transaction after the Cut Off Point immediately following receipt by the Manager of the instruction to Switch.

### 3.11 Additional Investments and Partial Redemptions

As a consequence of the SMARTfund Advantage's unique methodology of issuing and maintaining at each Valuation Point only one Unit in each and every Class, each Unit is capable of being divided into fractions to enable additional investments and partial redemptions to be made by Unit holders. Each time a Unit holder makes an additional investment, the relevant Unit is sub-divided into fractions and a further fraction of the Unit issued to that Unit holder, following which the fractions are consolidated back into a single Unit.

Each time a Unit holder requests a partial redemption or Switch, the relevant Unit is sub-divided into fractions and one or more of the fractions of that Unit redeemed, following which the remaining fractions are consolidated back into a single Unit.

The procedures for additional investments and partial redemptions follow those for Issues and Redemptions.

## 4 Units

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### 4.1 Details and Types of Units

Each participant in the SMARTfund Advantage holds a Unit in each Sub-Fund in which they are invested.

Each Unit entitles its holder to participate in the property of the applicable Sub-Fund (and the income from that property) in proportion to the value of undivided shares in that Sub-Fund represented by that Unit (which is calculated by that Unit's Proportion Account). The rights represented by Units are those of a beneficial interest under a trust. Units do not carry any preferential or pre-emptive rights to acquire further Units.

The Trust Deed allows for one or more series of Classes of Unit to be issued in the SMARTfund Advantage. Each Unit in a Class will be held by a single person or co-owned by a number of people who hold the Unit jointly. Where 2 or more persons are registered as Holders, however, the Manager and Trustee shall give notices, take instructions from and otherwise deal with the person named first in the Register to the exclusion of all others. Each Class represents an undivided share of the property of a

Sub-Fund. The proportionate interests of each Class in the assets and income of a Sub-Fund is determined as provided for in the Trust Deed using the Proportion Accounts as described below.

Each Class will be individually numbered to identify the SMARTfund Advantage, the applicable Sub-Fund and the relevant Account.

All Units are capable of being subdivided into fractions of Units at any time and the Manager may, at its discretion, split and/or consolidate Units in the same Class at any time.

Each Unit holder or joint Unit holder in a Sub-Fund will hold one Unit. All Unit holders participating in a Sub-Fund will hold unique Units, issued in a unique Class, each of which forms part of a single series of Unit Classes in that Sub-Fund. The Manager will administer and otherwise deal with each unique Unit Class in the same series in the same way. As a practical consequence, the only difference between each Unit Class in a series will be its specific Annual Management Charge (comprised of its variable components – the annual Base Charge and the ACC) and its related Proportion Account (and, as only one Unit will be in issue in any Class at any Valuation Point, the price of its single Unit) and the Manager will accordingly treat all Units in the same series of Classes as forming a single Class of Unit, as far as is compatible with the Trust Deed, the Regulations and with reflecting the Annual Management Charge (including the ACCs individually agreed between each Unit holder and their Nominated Representative). Each Class in a Sub-Fund is entitled to participate in the same way (according to its proportion) in the profits arising in respect of, and in the proceeds of, the winding up of the SMARTfund Advantage or termination of a relevant Sub-Fund.

#### **4.2 All Units are Income Units**

Each of the Sub-Funds will issue one series of up to one million Classes of Income Units. Additional Classes and series of Classes may be created in accordance with the Regulations. On the introduction of any new Class (not forming part of an existing series of Classes) or new series, either a revised Prospectus or a Supplemental Prospectus will be prepared, setting out the details of each Class or series.

If there is more than one series of Classes available for issue at any time, investors must identify the series of Class for which they wish to subscribe. The Manager will, on accepting an application from a new investor in a Sub-Fund, at the next Valuation Point of a Unit create a new Class in the relevant series. At present there is only one series of Class of Unit (a series of income Units) available for investment.

The Manager reserves the right to issue more than one Class of Unit to an investor where requested to do so by the investor concerned. Where it does so, such an investor will be a Unit holder in respect of each of the Classes of Unit held.

The Manager will arrange for the issue of a Unit at the next Valuation Point at a price equal to the total amount of the relevant subscription monies paid by the Unit holder (less any initial charges), and invest such monies alongside the existing assets of the SMARTfund Advantage in accordance with the investment policy and objectives of the Sub-Fund to which the Unit relates.

#### **4.3 What is the nature of Unit holders' rights?**

The rights represented by a Unit are those of a beneficial interest under a trust. Unit holders' entitlement to participate in the assets less any liabilities, and the income less any expenses, of each of the Sub-Funds is in proportion to the value of each of their respective Unit(s) as compared to the total value of all Units relating to the relevant Sub-Funds.

### **5 Proportion Accounts**

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#### **5.1 What is a Proportion Account?**

A "Proportion Account" will be maintained for each Class of Unit. In order to calculate the Unit price of a Class, the Manager will determine the proportionate interest of that Class in the assets and income of a Sub-Fund as its "allocated share". Unit holders should note, however, that the Proportion Accounts are memorandum accounts

maintained for the purpose of calculating for each Class of Unit its undivided share of the Scheme Property and accordingly the Unit prices at each Valuation Point only. They do not represent debts from the SMARTfund Advantage to Unit holders or the other way round.

There will be credited to a Proportion Account:

- The subscription money for the issue of the Unit (or fraction) of the relevant Class;
- That Class's allocated share of the assets (by present value) acquired by the relevant Sub-Fund using those subscription monies and any assets later acquired in substitution for them;
- Income and distributions deriving from assets credited to the Proportion Account;
- Any notional tax benefit as referred to below;
- Any other amount determined by the Manager as appropriate to ensure that so far as practicable each Proportion Account has credited to it its allocated share of the assets of the relevant Sub-Fund and generally that the interests of each Class of Unit holder is treated fairly.

There will be debited to a Proportion Account:

- Any initial charges or dilution levy made (if any);
- Any redemption payment for the cancellation of a fraction of the Unit of the relevant Class;
- The price paid for assets acquired by the relevant Sub-Fund using the subscription monies credited to the Proportion Account;
- All costs, charges and expenses incurred in acquiring or disposing of any assets credited to the Proportion Account or otherwise incurred solely in respect of the relevant Class;
- The proceeds of any assets previously notionally credited to the Proportion Account which are disposed of by the relevant Sub-Fund;
- All distributions of income made to Unit holders of the relevant Class;
- Any stamp duty reserve tax charge/provision attributable to the relevant Class;
- Any notional tax liability as referred to below;
- Any other amount determined by the Manager as appropriate to ensure that so far as practicable each Proportion Account has debited to it its share of the costs, charges and expenses attributable to the assets of the relevant Sub-Fund and the management of them and generally that the interests of each Class of Unit holder is treated fairly.
- Any tax liability in respect of the Fund and any tax benefit received or receivable in respect of the Fund will be allocated between Classes in order to achieve, so far as possible, the same result as would have been achieved if each Class were itself a Fund so as not materially to prejudice any Class. The allocation will be carried out by the Manager after consultation with the Company's auditors.

In determining the balances on the Proportion Accounts (and accordingly calculating the prices of the Unit in issue in each Class) all such adjustments shall be made as are necessary to ensure that on every occasion on which debits or credits are made to the Proportion Accounts the securities and other investments that comprise each Sub-Fund are fully allocated amongst the Proportion Accounts that relate to it; and that no asset, liability or amount is counted more than once.

## **5.2 What is the relationship between the Proportion Accounts and the Sub-Fund?**

As is the case with other unit trusts, the investment management is based on a model portfolio of investments (including cash) and the percentages in which the investments

and cash would be held. However, unlike conventional unit trusts the SMARTfund Advantage's portfolio of investments is created 'from the bottom up' in the following way.

When an investor buys a Unit, the Manager uses the newly subscribed monies, less any initial charges and together with all the other assets of the Sub-Fund, to acquire investments in accordance with the investment model of the relevant Sub-Fund retaining the balance (net of dealing charges) in cash in accordance with that investment model.

Those assets and the balancing cash are part of the property of the Sub-Fund and the Proportion Accounts are updated with the appropriate debits and credits to reflect the transactions. In this way a Proportion Account is established and maintained for the purpose of each separate Class of Units.

The Proportion Accounts are updated on each Business Day to reflect:

- changes in the investment models governing the Sub-Funds as well as any changes in particular holdings of stocks that may be necessary to maintain the percentages of stocks notionally credited to each Proportion Account as near as possible to the percentages in the investment model prescribed for the relevant Sub-Fund by the Manager; and
- increases or decreases in the value of investments in the relevant Class of Units.

At any one time, the precise percentages of assets notionally credited to a Proportion Account may not be exactly the same as the percentages for those stocks in all other Proportion Accounts relating to the same Sub-Fund. This is because assets are always notionally allocated in whole numbers and rounding differences, though not material, will consequentially follow. However, to the extent that a Proportion Account is under or over represented (albeit immaterially) in an particular notional holding (as compared to the Sub-Fund as a whole) there will be a balancing under or over representative weighting in the notional cash holding allocated to that Proportion Account. If a company in which the Sub-Fund has a holding makes a bonus issue of shares, the Manager will notionally distribute the bonus issue to the Proportion Accounts in proportion, by notionally allocating whole numbers of shares to each Proportion Account so that each Proportion Account holds as closely as possible to the proportions held by the Sub-Fund. Any remainder will be notionally allocated in such a way to try to ensure that the discrepancies between Proportion Account holdings are minimized to the greatest extent possible (so the differences will be applied to the Proportion Accounts that will be least affected by the difference). If after this process one or more Proportion Accounts do not conform to the to the investment model, the Manager will, in accordance with the Investment Strategy defined in Appendix 1, seek to acquire additional assets to ensure that the respective percentage weightings of holdings in every Proportion Account reflects the respective percentage weightings of holdings the Sub-Fund as nearly as possible.

The sole purpose of the Proportion Account is to calculate for each Class of Unit its undivided share of the property of the SMARTfund Advantage and accordingly the Unit prices at each Valuation Point. Unit holders do not have any direct beneficial interest in the assets credited to any Proportion Account.

### **5.3 What information about Proportion Accounts is available to Unit Holders?**

The detail of how Proportion Accounts are made up will be fully disclosed to relevant Unit holders as described in Section 10 on page 21. This transparency allows Unit holders to look through and see which of the Sub-Fund's assets have been notionally allocated to the Proportion Account(s) used for the purpose of valuing their investment. In addition, the Proportion Accounts ensure that there is accuracy and transparency in the way that all gains, losses, expenses and accruals are reported and recorded, and again, this information can be viewed online by the relevant Unit holders.

Although detailed information is available to Unit holders about the assets allocated to each Account relevant to their Unit holding, they should note that this level of detail is

provided for information only and does not directly relate to the investments held by them.

## 5.4 Distribution of Income

The Sub-Funds are required to distribute income in accordance with the applicable law and the Regulations. The annual accounting period ends each year on 3 November (the accounting reference date) with daily interim distribution periods. The amount of income attributable to each Unit will be determined by reference to the Proportion Account relating to that Unit's Class and the income (if any) attributable to the securities notionally allocated to it. Income in respect of each Unit in respect of each interim and final accounting period is transferred from the Income Account to a Distribution Account on each Business Day at the Valuation Point by reference to the income, if any, attributable to the relevant Proportion Account net of accrued fees and taxes. The income is paid to Unit holders on the 15<sup>th</sup> day of the 3<sup>rd</sup> calendar month after the end of the calendar month in which the end of the relevant accounting period (interim or annual) falls if that day is a Business Day but, if it is not, then on the Business Day closest to it.

Distributions payable to the holders of Units will be paid to the first named Unit holder's nominated bank account. Unit holders may elect to have distributions reinvested rather than paid to them. If a distribution remains unclaimed for a period of six years after it has become due, it will be forfeited and will revert to the relevant Sub-Fund (or, if that no longer exists, to the SMARTfund Advantage). Applications to claim distributions that have not been paid should be made to the Manager before this six year period has elapsed.

Following each annual accounting date, any final distributions will be declared by the Manager following preparation of accounts for the SMARTfund Advantage and each of its Sub-Funds.

Using the online system, Unit holders will be able to look through to see the dividends declared by the entities in which investments are held by the Sub-Fund and notionally allocated to the Proportion Account for the Class of their Unit as those underlying securities 'go ex', and also see what distributions have been made up to that date on the Unit(s) they hold and that remain to be paid to them at the end of the 15<sup>th</sup> day of the 4<sup>th</sup> month after the distribution is made if that day is a Business Day but, if it is not, then on the Business Day closest to it, together with any further distributions made on the relevant Unit(s).

## 6 Valuations and Publication of Prices

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### 6.1 Valuations

The assets comprising the Scheme Property are all valued, the net value of each of the Sub-Funds is determined and all Units are priced at each Valuation Point – which for the purposes of the SMARTfund Advantage is 5.00 pm on each Business Day – to determine a single price for every Unit by reference to the relevant Sub-Fund. Details of how the net value of each Sub-Fund is calculated are set out in Appendix 3. The aggregate value of each Class of Unit relating to each Sub-Fund is also then reconciled each Business Day with the value of that Sub-Fund. If it is not possible to obtain a valuation for the whole or part of a Sub-Fund, or in exceptional circumstances where the Manager and Trustee decide there is good and sufficient reason, the Valuation Point may be moved to such a time as the Manager in consultation with the Trustee considers appropriate. In which event, the Manager will publish details of the change on the Manager's website immediately afterwards. If, in the opinion of the Manager, the valuations or prices obtained are unreliable or no recent trading price exists or does not reflect the Manager's best estimate of the value of the Scheme Property and/or the Units, the Manager may substitute a value that, in the Manager's opinion is in accordance with "fair value pricing" – as described below.

Fair Value Pricing:

Where the Manager has reasonable grounds to believe that:

- (a) no reliable price exists for a security or unit/share in a collective investment scheme at a Valuation Point; or
- (b) the most recent price available does not reflect the Manager's best estimate of the value of the security or unit/share in a collective investment scheme at the Valuation Point

it can value an investment at a price which, in its opinion, reflects a fair and reasonable price for that investment (the fair value price).

The circumstances which may give rise to a fair value price being used include:

- (a) no recent trade in the security concerned; or
- (b) suspension of dealings in an underlying collective investment scheme; or
- (c) the occurrence of a significant event since the most recent closure of the market where the price of the security is taken.

In determining whether to use such a fair value price, the Manager will include in his consideration but need not be limited to:

- (a) the type of fund;
- (b) the securities involved;
- (c) whether the underlying collective investment schemes may already have applied fair value pricing;
- (d) the basis and reliability of the alternative price used; and
- (e) the Manager's policy on the valuation of Scheme Property as disclosed in this Prospectus.

The Manager reserves the right to revalue any or all of the Sub-Funds at any time.

## **6.2 How is a Class of Units (and therefore, each Unit) valued / priced?**

For the purpose of pricing each Unit and determining its value, the Manager maintains a Proportion Account for each Class of Unit in issue. The securities and other investments that comprise each Sub-Fund are fully allocated amongst the Proportion Accounts that relate to it (and so that no asset, liability or amount is counted more than once) and are recorded using the same values as for the valuation of each Sub-Fund at the Valuation Point. The balance on each of the Proportion Accounts is then determined at each Valuation Point reflecting the values of the assets notionally allocated to them after accounting for accrued costs, taxes, fees and outgoings in accordance with the Trust Deed and the Units will be priced at that Valuation Point based on that valuation in accordance with the Trust Deed and the Regulations.

Additional investments in and partial withdrawals from their Class of Unit made by a Unit holder are reflected by the relevant credits and debits to the Proportion Account for that Class. In addition, all income, liabilities, fees and expenses attributable to or to be borne by that Sub-Fund are similarly notionally allocated to the Proportion Accounts relating to that Sub-Fund. The effect is, in essence, that for Unit pricing purposes the aggregate balance on all the separate Proportion Accounts that relate to a Sub-Fund is the value of that Sub-Fund.

The price of each Unit will be published in the Account in which it is held. Each Unit holder can access the Unit price of their Unit(s) at any time by logging onto their online Account using the Internet.

All instructions for investing in or withdrawing from a Sub-Fund will be executed at the price calculated at the Valuation Point after receipt of the instruction. The Manager has elected that all deals are transacted on a forward pricing basis.

The Manager will, on completion of each valuation, make available to the Trustee of the price of Units of each Class of each Sub-Fund and the amount of any dilution levy made in respect of the purchase or withdrawals of Units.

### 6.3 Dilution

Immediately following the issue of a new Unit (and where a Unit holder increases the value of their Unit by making a further investment in a Sub-Fund) the relevant Proportion Account will be debited with a notional but precise allocation of the price paid by the Sub-Fund for the assets acquired or held by the relevant Sub-Fund and then credited to that Proportion Account. The dealing and other costs incurred by the Sub-Fund in acquiring those assets will also be notionally allocated to that Proportion Account.

In the same way, where a Unit holder reduces the value of their investment in a Sub-Fund by making a partial redemption of their Unit in that Sub-Fund the relevant Proportion Account will be debited with a notional but precise allocation of the dealing and other costs incurred by the Sub-Fund in realising assets held by the Sub-Fund that before the partial redemption of that Unit holder's investment had been notionally allocated to that Proportion Account. In these circumstances "costs" will include indirect costs (if any) suffered by the Sub-Fund where there is a difference between the mid-market valuation of the relevant assets used in determining the redemption price of the relevant Unit and the price actually obtained for those assets by the Sub-Fund.

The allocation of the price paid by the relevant Sub-Fund and associated dealing and other costs in this way following investments and partial redemptions by a Unit holder will avoid Unit holders suffering any dilutive effects of investment and partial redemptions by other Unit holders.

Where a full redemption is made by a Unit holder it is not anticipated that there will be any dilutive effect suffered by the remaining Unit holders either as the cash resources required to satisfy the redemption request will normally be generated by the ordinary course investment management of the SMARTfund Advantage. In some circumstances, however, it may be appropriate for the Manager to make a "dilution levy" as the term is defined by the Regulations. Although it does not currently envisage doing so, the Manager retains absolute discretion on whether and when to make a dilution levy.

The need to make a dilution levy will depend on the volume of investments and withdrawals by Unit holders (creation and or redemptions of Units) and the size of the Sub-Fund. The Manager may make a discretionary dilution levy if, in its opinion, the remaining Unit holders might otherwise be adversely affected. In particular, a dilution levy may be made in the following circumstances:

- (a) If a Sub-Fund experiences large volumes of redemptions relative to its size;
- (b) On "large deals" in Units (being any that exceed £500,000 or, if smaller, 1% of the size of the Sub-Fund); and
- (c) In any other case where the Manager is of the opinion that the interests of Unit holders would be adversely affected if no dilution levy were made.

As the future need to make any dilution levy under the Manager's discretionary power is directly related to the particular in-flows and out-flows of Unit holders' investment in the Sub-Funds and the size of the relevant Sub-Fund at the time it is not possible to accurately predict whether dilution will occur at any future point or how frequently the Manager would need to exercise their power to make such a dilution levy. The Manager believes that, based on future projections of values and numbers of Units and the nature of the Sub-Funds, only in exceptional circumstances would it make a dilution levy. Based on future projections the estimated rate of dilution levy, if it were to be made, is 0.25%.

The Manager would only exercise its discretionary power in a fair manner to reduce any effects of dilution (as defined in the Regulations) that materially prejudice any Unit Class. If and when making such a dilution levy the Manager would do so by reference to the costs of dealing in the underlying investments of the Sub-Fund (including any dealing spreads) and its reasonable estimate of the difference between the Unit price that would have been determined without applying the dilution levy and the Unit price that would have been determined if the Sub-Fund's assets were valued

on the best available market offer basis less dealing costs.

## 6.4 Publication of Prices

### Publication of prices to Unit holders

A Unit holder's interest in the assets of a Sub-Fund is determined by reference to the ratio that the value of their Unit in that Sub-Fund bears to the aggregate value of all the Units that relate to that Sub-Fund.

The most recent value of each Unit holder's interest in each Sub-Fund (i.e. the value of each of their Class of Unit) is available to that Unit holder daily online through their secure Account on the SMARTfund Advantage website accessible at <http://www.SMARTfund.co.uk/>. The redemption price of any Unit last notified to the Trustee is also available from the Manager on request by the relevant Unit holder. In order to clearly report to each Unit holder the value of their investment in each Sub-Fund, the Manager will consolidate a Unit holder's holding of Units of any Class into a single Unit of that Class immediately after an additional investment in or a partial redemption of any such Unit by that Unit holder.

Units and investments in the SMARTfund Advantage and its Sub-Funds are not listed or dealt in on any investment exchange.

### Publication of prices to persons who are not Unit holders

For prospective investors who are considering making an investment in the SMARTfund Advantage, as each Class of Unit in each Sub-Fund is created and uniquely priced for the Unit holder concerned on the basis of the Proportion Accounts maintained for that Class and as each Class of Unit will only be held by a single person (or persons holding the Units jointly but of whom the Trustee and Manager need only deal with the first named on the register), the price at which Units can be purchased cannot be quoted and published in the usual way. If you are not adding to an existing investment the price of the single Unit that you would first acquire in a Sub-Fund is the amount of your initial subscription money (from which any initial charges are deducted).

The Manager will provide information about the performance of each of the Sub-Funds to the public by publishing on its website (<http://www.SMARTfund.co.uk/>) each Business Day the value of a notional Unit in each Sub-Fund as at the last Valuation Point. That notional Unit will be the same as a notional Unit holder would hold if they had invested the minimum investment amount permitted for the relevant Sub-Fund on the date on which Units in that Sub-Fund were first issued, the annual Base Charge is as specified in Appendix 1 and they had agreed a nil rate of adviser charging (ACC) with their Nominated Representative. In addition, interested persons will also be able to access additional performance information including comparisons against a relevant index and historical values.

## 6.5 Investor Reporting – what information do Unit holders receive?

All investor reporting is available daily online to each Unit holder through their secure online Account on the SMARTfund Advantage website accessible at <http://www.SMARTfund.co.uk/>.

In addition Unit holders (or in the case of joint holders, the first named Unit holder) will be sent copies of the short reports relating to each of the Sub-Funds in which they are invested by email and may also elect to be sent copies of the annual and half-yearly long reports by email.

The information available online to a Unit holder through their secure online Account will include:

- An Investor account which:
  - Lists the Sub-Funds in which the Unit holder is invested, including the amount invested and the value of each Unit held;
  - Provides access to the history of all investments and withdrawals made by the Unit holder;

- Lists distributions made and paid by each Sub-Fund in respect to each Unit held by that Unit holder, together with any information regarding tax credits relating to those distributions (including income allocations made in the current calendar quarter but which remain to be paid); and
- Historic prices and distribution information for each Unit held (or previously held) by that Unit holder.
- The Proportion Account relating to each Class of Unit in which the Unit holder is invested which includes details of:
  - The assets notionally allocated to that/those Proportion Account(s);
  - Distribution and dividend details for the underlying securities and other assets of the relevant Sub-Fund(s) as notionally allocated to each such Proportion Account (either, aggregated across all Accounts relevant to their Units or by Sub-Fund);
  - Each transaction made in respect of those Proportion Accounts including all associated fees and charges, for example Brokerage paid by the Sub-Fund and notionally allocated to a relevant Proportion Account (Note – if a blackout applies, these details may be as at an earlier date);
- The AMC for each Class of Unit (including a breakdown of its various components); and
- The current and historical prices of each of the holder's Units.

The Unit prices quoted online in these reports will represent the price as at the most recent Valuation Point (being 5.00 pm on each Business Day). The Manager will, other than in exceptional circumstances, publish prices by 10am on the Business Day following each Valuation Point).

***Please note, in some circumstances, such as when trading is being conducted in respect of the assets of a Sub-Fund or where the Manager considers that there is a risk that market sensitive information could be released as a consequence of the release of 'see through' access to data in the Proportion Accounts, the 'see through' stock holding will not be visible for the period of the trading or longer at the absolute discretion of the Manager. Instead, Unit holders will be able to identify the securities allocated to the relevant Proportion Accounts as at an earlier date. This 'blackout' will not affect the accuracy of the valuations provided for Units held.***

In addition interested persons will be able to access, from the Manager's website, information about the historical performance of each Sub-Fund. The Manager will provide this information by reference to the performance of a 'representative Unit' which will be the same as a notional Unit holder would hold if they had invested at the inception of each Sub-Fund an amount equal to the minimum investment amount and had agreed a nil rate of ACC with their Nominated Representative.

Investors may grant third parties (for example, their professional financial adviser) online access to the same information.

## 6.6 Confirmations of transactions

Confirmations of dealings in Units will be given to investors in accordance with the requirements of the law and Regulations from time to time. Any written confirmations – for example contract notes, cancellation notices and any written statements and reports required by law and regulation to be provided to Unit holders - will be sent by the Manager by post or by email in accordance with the regulations to Unit holders (or in the case where Units are held jointly to the first named Unit holder). No Unit certificates will be issued in relation to any investment in any Sub-Fund. In addition to any written confirmations required by law, Unit holders will have access to a range of investor reports and information available to them online as described above for confirmation of transactions involving their Units and the SMARTfund Advantage.

## 7 Fees & Expenses

### 7.1 General

The Manager and the Trustee are entitled to be reimbursed from the SMARTfund Advantage for all expenses that they properly incur or become liable for in connection with administering the SMARTfund Advantage and to be remunerated out of Scheme Property all as set out in this section 7.

All fees, expenses, duties and charges attributable to a Unit holder or payable out of Scheme Property are set out in this section 7.

### 7.2 What sorts of expenses may be paid out of the SMARTfund Advantage?

The SMARTfund Advantage may pay out of Scheme Property any liabilities arising on the unitisation, amalgamation or reconstruction as more fully detailed in the Regulations.

The SMARTfund Advantage may also pay out of Scheme Property charges and expenses incurred by the SMARTfund Advantage, which will include the following:

- broker's commission, fiscal charges and other disbursements which are necessary to be incurred in effecting transactions for the Sub-Fund;
- the fees and expenses payable to the Manager (which will include the fees and expenses and other amounts payable by the Manager to third parties such as any adviser charging (ACC) paid to Nominated Representatives) and to the Trustee and to those charged with the functions of administration and registration;
- expenses incurred in acquiring and disposing of investments;
- expenses incurred in producing, distributing and dispatching income and other payments to Unit holders;
- expenses of the SMARTfund Advantage in connection with the fees of the auditors and tax, legal and other professional advisers of the SMARTfund Advantage;
- costs of convening and holding meetings of Unit holders and of associated documentation (including meetings of Unit holders in relation to any particular Sub-Fund, or any particular Class of such Unit holders) and costs incurred in respect of a meeting of Unit holders convened on a requisition by Unit holders, not including the Manager or Associate of the Manager;
- costs of publishing and circulating details of valuations and prices;
- costs of preparing, and printing this Prospectus and the Simplified Prospectus and publishing periodic updates or changes to any prospectus or simplified prospectus;
- costs of preparing, printing and distributing reports, accounts, and the Trust Deed, publishing prices and any costs incurred as a result of periodic updates and any other administrative expenses;
- any costs incurred in modifying the Trust Deed, including costs incurred in respect of meetings of Unit holders convened for purposes which include the purpose of modifying the Trust Deed, where the modification is:
  - necessary to implement, or necessary as a direct consequence of, any change in the law (including changes in the Regulations), or
  - expedient having regard to any change in the law made by or under any fiscal enactment and which the Manager and the Trustee agree is in the interest of Unit holders, or
  - to remove from the Trust Deed obsolete provisions;
- any other expenses incurred in modifying the documentation required to be maintained on behalf of the Sub-Funds;

- any liabilities arising on the unitisation, amalgamation or reconstruction of any of the Sub-Funds;
- and any costs incurred as a result of periodic updates of or changes to the Prospectus, Simplified Prospectus of the Sub-Fund and Trust Deed and any other administrative expenses;
- certain liabilities on amalgamation or reconstruction arising where the property of a body corporate or another collective investment scheme is transferred to the Trustee in consideration for the issue of shares to the shareholders in that body or to participants in that other scheme in accordance with the Regulations;
- taxation and duties payable in respect of the Scheme Property of the SMARTfund Advantage, the Trust Deed or the issue of Units;
- interest on and charges incurred in connection with borrowings (if any);
- interest and charges incurred in connection with stock lending arrangements or repo contracts entered into in connection with the efficient management of a Sub-Fund;
- fees of the FSA and the corresponding periodic fees of any regulatory authority in a country or territory outside the United Kingdom in which investment in any Sub-Fund of the SMARTfund Advantage is or may be lawfully marketed;
- fees and expenses associated with administration of the Funds, pricing of the Units and valuation of the assets of the Sub-Funds;
- any payments otherwise due by virtue of changes to the Regulations;
- any payments otherwise due by virtue of the COLL Sourcebook or any other part of the Regulations; and
- any applicable VAT payable on the expenses and charges paid out of Scheme Property.

### 7.3 Manager's Remuneration

The Manager is remunerated from a periodic charge. From the remuneration it receives the Manager pays the investment adviser(s) it engages. The Manager may also make payments to certain intermediaries as well as Financial Advisers who are authorised distributors of the SMARTfund Advantage and who are nominated by investors out of its fees.

The Manager's periodic charge or total annual management charge (often referred to as the "AMC") is the sum of the following components:

- The Manager's Base Charge; and
- The Adviser Charging component of the AMC (the "ACC")

The maximum amount of the AMC to which the Manager is entitled for each Sub-Fund is set out in Appendix 1 of the Prospectus.

The Manager may, in its absolute discretion, waive or discount all or part of its charges as they relate to one or more Classes. However, the charges may only be increased in accordance with the Regulations and after the Manager has made a revised Prospectus available showing the new maximum rate of charge and its commencement date.

Set out below is an explanation of each of the components of the AMC:

#### 7.3.1 The Manager's Base Charge

This represents the component of the AMC that is retained by the Manager as consideration for its activities as Manager of the fund and out of which it pays those expenses it incurs in connection with the operation and distribution of the fund.

The Manager's annual Base Charge is a percentage fixed for each class of Unit in a

Sub-Fund. It is fixed at the percentage rate set out in Appendix 1 or such lower rate as is specified in the applicable online application form as published by the Manager's systems and signed by the Unit holder.

### 7.3.2 The Adviser Charging component of the AMC ("ACC")

This represents the component of the AMC that is paid by the Manager to the Nominated Representatives (usually Independent Financial Advisers) who provide advice and other services to the Unit holders. The ACC is a percentage rate agreed between the Unit holder and their Nominated Representative and, until varied as described below, is as specified on the initial application form for a Class of Unit.

Each Unit Class can have a unique ACC which can be nil or any other positive percentage agreed between the Unit holder and their Nominated Representative.

Subject to the terms of their appointment as distributors of the SMARTfund Advantage, the Manager has agreed with intermediaries who are authorised to negotiate the ACC with Unit holders and agrees with Unit holders that it will remit an amount equal to the ACC to those Nominated Representatives appointed by Unit holders from the AMC it receives.

The Manager will change the ACC for a particular Class of Unit if the relevant Unit holder and the relevant Nominated Representative both agree and provide written confirmation of their agreement to the Manager and any applicable notice period required by the Regulations has elapsed. The Manager will change the Nominated Representative to whom payments are made in respect of ACC for any Class of Unit if the relevant Unit holder and both the relevant Nominated Representatives agree and provide written confirmation of their agreement to the Manager.

In certain exceptional circumstances (such as the insolvency or de-authorisation by the FSA of a Nominated Representative) the Manager may cease to remit amounts to the relevant Nominated Representative in respect of the ACC until a substitute has been appointed in accordance with its agreement with that Nominated Representative and may retain any such amounts for its own account. In such an event or in any other circumstances where the Unit holder has no active Nominated Representative appointed the Manager reserves the right, exercisable on notice and otherwise in accordance with the regulations, to include an additional or increased component of its AMC until a rate of ACC has been agreed with a new Nominated Representative and the AMC adjusted in accordance with the Regulations.

### 7.3.3 Calculation of the AMC

The AMC is calculated as a percentage of the net asset value of the assets held in each Sub-Fund at each Valuation Point. The charge shall accrue from day to day and shall be payable on the last Business Day of each month. The AMC shall be debited to the relevant Sub-Fund as appropriate and paid from the income of that Sub-Fund. If there is insufficient income to cover the expenses, they will be charged to capital and the capital value of the Sub-Fund will be reduced accordingly. In addition the charges attributable to each Class of Unit will then be reflected in the information provided to each Investor and reflected in the price of that Unit.

The Manager may, at its absolute discretion, pay some of the Manager's fee to IFA Networks or other intermediaries who distribute the SMARTfund Advantage or to investors that are 'wholesale clients' (including eligible counterparties and professional clients, as defined in the Regulations). The amounts paid in such circumstances may be in addition to the amounts that the Manager has agreed to pay in respect of ACC as described above.

### 7.4 Initial Charge

Under the terms of the Trust Deed, the Manager is entitled to make a charge on the issue of Units and subsequent investments by Unit holders (that is, on making investments to increase the capital value of a Unit). Under the terms of the Trust Deed, the Manager is entitled to make a charge on the issue of Units and subsequent

investments by Unit holders (that is, on making investments to increase the capital value of a Unit). The Initial Charge for each Sub-Fund will be the aggregate of the initial Base Charge and the ACC (if any) to be applied in respect of the Initial Charge. The initial Base Charge component of the Initial Charge is set out in Appendix 1 or such lower rate as is specified in the applicable online application form as published by the Manager's systems and signed by the Unit holder and the initial ACC component (if any) of the initial charge is the amount agreed between a Unit Holder and their Nominated Representative as specified on the relevant application form. The Manager agrees that it will pay the relevant Nominated Representatives amounts equivalent to the initial ACC in respect of investments made by Unit holders.

### 7.5 Switching Charge

Under the terms of the Trust Deed, the Manager is entitled to make a charge when Unit holders Switch from one Sub-Fund to another Sub-Fund (that is, redeeming their investment in one Sub-Fund and transferring the proceeds to increase their investment in another Sub-Fund).

At present, the Manager does not make such a charge and has no current intention to do so. The Manager may introduce a Switch charge only in accordance with the Regulations and after the Manager has made available a revised Prospectus showing the new rate of charge and its commencement date. Such a charge would only apply to Switches occurring after the date of its introduction.

### 7.6 Redemption Fees

Under the terms of the Trust Deed, the Manager is entitled to make a charge on the redemption of Units (that is, on withdrawals by Unit holders of their investment in a Sub-Fund). **At present, it does not make such a charge and has no current intention to do so.**

The Manager may introduce a redemption fee or vary the rate or method of calculation of any such withdrawal fee only in accordance with the Regulations and after the Manager has made available a revised Prospectus showing the new rate of charge and its commencement date. Such a charge would only apply to investments after the date of its introduction.

### 7.7 Trustee's Remuneration

In relation to those Sub-Funds for which OBSR is the Investment Adviser, the Trustee is remunerated by the Manager out of the Manager's Annual Management Charge.

In relation to sub-funds for which Thistledown is the Investment Adviser, the Trustee is remunerated in respect of its services out of the property of the Sub-Funds concerned. The Trustee is currently paid 2 bps per Sub-Fund for which Thistledown is the Investment Adviser. A minimum fee of £12,000 per annum per Sub-Fund will apply to these Sub-Funds to be reviewed after 12 months.

The Trustee's fee is calculated, accrued and paid in the same manner as the Manager's Annual Management Charge.

### 7.8 Custodian's Remuneration

The Trustee also acts as custodian and accordingly makes transaction charges and custody charges.

In relation to those Sub-Funds for which OBSR is the Investment Adviser, these charges will be paid by the Manager out of the Manager's Annual Management Charge.

In relation to those Sub-Funds for which Thistledown is the Investment Adviser, these charges will be paid out of the property of the Sub-Funds concerned and are of such amounts as may be agreed by the Manager and the Trustee from time to time. Transaction charges vary from country to country in which the transaction is effected. Details of the ranges of charges based on geographic area are given below ("Activity fee"). Custody charges vary according to geographic location and market value of the

holdings (calculated in the same manner as for the Manager's periodic charge). Similar details of the ranges of charges are set out below ("Safekeeping fee").

<b>Geographic area:</b>	<b>Safekeeping fee (BPS per annum)</b>	<b>Activity fee</b>
United Kingdom (CREST transaction)	0.40	£7.50
United Kingdom (non-CREST transaction)	0.50	£45.00

## 7.9 Administrator and Registrar Fees

The Manager is responsible for maintaining the register of Unit holders and their Unit(s). The Manager is also responsible for maintaining any relevant sub-plan registers as well as for providing other administration services. Currently, no charges will be made for administration and registrar services in connection with the creation and redemption in the ordinary course.

Any administrator or registrar's fees will only be imposed in accordance with the Regulations and after the Manager has made available a revised Prospectus showing the new charges, their rates and commencement dates.

## 7.10 Allocation of fees generally

All the above fees, expenses, duties and charges payable out of Scheme Property will be charged to the Sub-Fund in respect of which they were incurred. Where a fee, expense, duty or charge is not considered to be attributable to any one Sub-Fund, the expense will normally be allocated to all Sub-Funds pro rata to the value of each Sub-Fund, although the Manager has absolute discretion to allocate these fees and expenses in a manner that it considers fair to Unit holders generally.

Where the Manager determines appropriate fees, expenses, duties and charges will be allocated to the Units(s) to which they relate.

- Expenses of the SMARTfund Advantage are allocated between the Proportion Accounts in accordance with the Trust Deed. In general, if a transaction in the underlying asset of the SMARTfund Advantage affects a Proportion Account, then any charges associated with that transaction will be allocated to the affected Proportion Accounts pro rata to their respective notional participation in that transaction. Other expenses of the SMARTfund Advantage that are not transaction based are notionally allocated between Proportion Accounts pro rata to their respective values on a daily basis. This method of charging is required by the Trust Deed and is part of the process of maintaining the Proportion Accounts each Business Day.

Expenses will be accounted for in accordance with the following policy:

- expenses will first be deducted from income generated by the relevant Sub-Fund and then if this is insufficient from capital.
- each Sub-Fund will have a minimum cash balance (and accordingly each Proportion Account will also have a minimum notional cash balance allocated to it). The amount of that cash is determined by reference to a percentage that is determined by the Manager from time to time;
- where expenses are deducted from capital they will be paid from the relevant Sub-Fund's cash balance;
- if as a consequence of the payment of expenses the cash balance of a Sub-Fund falls below the applicable minimum, the Sub-Fund will be Rebalanced (by the Manager realising other assets in a manner consistent with the investment model for the Sub-Fund) to return its cash holding to at least the applicable minimum. The payment of expenses, any consequent rebalancing transactions and their impact on the cash balance of the Sub-Funds will be reflected in the notional allocations of expenses, assets and cash to all affected Proportion Accounts;

- Where expenses are deducted from capital this policy may result in capital erosion or constrained capital growth.

## 8 Taxation

### 8.1 General

The comments below are intended as a general guide to the tax position of the SMARTfund Advantage and investors under current UK law and HM Revenue & Customs practice, both of which may change during the course of their investment and therefore cannot be relied on. The comments deal only with the investors (Unit holders) who are resident in the UK for tax purposes, except as stated, who hold the investment as an investment (and not as assets to be realised in the course of a trade) and who are its beneficial owners.

Unit holders and potential investors who are in any doubt about the tax consequences of investing or who may be subject to tax in a jurisdiction other than the UK should consult their professional advisers.

### 8.2 Taxation of the Sub-Fund

#### Tax on Income for Equity Sub-Funds

The Sub-Funds are subject to corporation tax at a rate equal to the basic rate of income tax, on income, after relief for expenses. Dividends from UK companies are exempt from corporation tax.

#### Stamp Duty Reserve Tax ("SDRT")

SDRT is payable in respect of surrenders of each Class of Unit at the rate of 0.5 per cent of the redemption price, reduced both to reflect the proportion of exempt investments in the Sub-Fund and by applying the proportion of issues to surrenders over the relevant period.

The Regulations empower managers to recover the cost of SDRT either (a) directly as a charge on the Scheme Property or (b) by way of a separate charge to Unit holders at the time of dealing as a provision against SDRT liability. The use of an SDRT provision in this way will have the effect of reducing the proceeds payable to Unit holders on a withdrawal from a Sub-Fund by up to a maximum of 0.5 per cent and/or decreasing the valuation of a Unit by up to a maximum of 0.5 per cent from its value on investment in a Sub-Fund. The Manager has elected to recover the cost of SDRT as a separate charge to relevant Unit holders. The Proportion Account maintained for each Class of Unit will include a provision attributable to the relevant Unit of that Class for the purposes of making this charge and determining the Unit price.

Unit holders wishing to transfer the legal title to any of their Units (including the investment represented by them) should complete a stock transfer form in the normal way including any appropriate stamp duty certificate. In many, but not all, cases transfers will be exempt from SDRT. Where there is no appropriate stamp duty certificate, evidence of another exemption from SDRT should be submitted with the transfer. In the absence of an exemption, SDRT will be chargeable at a rate of up to a maximum of 0.5 per cent of the value of the transfer.

In exceptional cases, however, where other investors may be adversely impacted (typically "large deals" in Units (being any that exceed £500,000 or, if smaller, 1% of the size of the Sub-Fund), or in instances of persistent active trading), the Manager may require the parties to the transaction to pay a provision of up to a maximum of 0.5 per cent for the SDRT before the transaction is registered.

#### Tax on Capital Gains

The Sub-Funds are not subject to UK taxation on capital gains arising on the disposal of their investments (including interest-bearing securities).

### 8.3 Taxation of Unit holders

#### Individual Unit holders – Income Tax

Distributions by the Sub-Funds listed above comprise dividend distributions for UK tax

purposes. An individual Unit holder resident in the UK who receives a distribution will be entitled to a tax credit equivalent to 10 per cent of the aggregate of the distribution and tax credit.

UK resident individuals and certain trusts liable to UK income tax will be taxable on the sum of their distributions and associated tax credits but will be entitled to set the tax credits against their UK income tax liability. Associated tax credits will satisfy the liability to income tax of starting and basic rate tax payers. Higher rate tax payers may have further tax to pay.

All Unit holders will be sent tax vouchers stating the make up of their distributions showing in each case their taxable income and any applicable tax credit.

#### **Individual Unit holders – Capital Gains Tax**

Unit holders who are resident or ordinarily resident in the UK may be liable to UK taxation on capital gains arising from the sale or other disposal of any investment in a Sub-Fund including a whole or partial withdrawal or Switches between Sub-Funds each of which involves the redemption of all or part of a Unit. An exchange of an investment in one Sub-Fund for an investment in another Sub-Fund is treated for regulatory and tax purposes as a redemption of Units and will, for those subject to UK tax, be a realisation for the purposes of capital gains taxation.

Each individual has an annual exemption and capital gains tax is chargeable, on net gains arising during the tax year in excess of that figure.

Individuals who are temporarily neither resident nor ordinarily resident in the UK may also be liable to UK taxation on capital gains, under anti-avoidance legislation.

#### **Corporate Unit holders –Corporation Tax on income**

UK resident corporate Unit holders will not be subject to corporation tax in respect of the element of their dividend distributions representing franked investment income received by the Sub-Fund. Where a Sub-Fund's gross income includes interest or interest distributions or other dividend distributions, part of any distribution it makes to corporation tax payers will be reclassified as an annual payment received by them after deduction of corporation tax at the lower rate, currently 20 per cent. Such Unit holders will be subject to corporation tax on the grossed up amount of the annual payments but will be entitled to a credit for the tax treated as already paid. The maximum amount of corporation tax, if any, that may be reclaimed by corporate Unit holders from HM Revenue & Customs is their portion of the trustees' net liability to corporation tax in respect of the gross income. Details of the proportions of distributions comprising annual payments will be included in the Notes on tax vouchers.

#### **Corporate Unit holders – Corporation Tax on Chargeable Gains**

For UK corporation tax paying Unit holders indexation relief may be available in calculating any gains (but not on losses) on the sale or other disposal of any investment in a Sub-Fund including a whole or partial withdrawal or Switches between Sub-Funds each of which involves the redemption of all or part of a Unit thereby providing compensation for the increases in value due to inflation. Special rules apply to insurance companies and investment trusts.

## **9 Meetings of Unit holders and Rights to Vote**

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Unit holders have participation and voting rights that correspond to their proportionate interest in the SMARTfund Advantage and its Sub-Funds.

A meeting of Unit holders duly convened and held may, by extraordinary resolution require, authorise or approve any act, matter or document in respect of which any such resolution is required or expressly contemplated by the Regulations, but shall not have any other powers.

Unit holders will receive at least 14 days' written notice of any meeting and are entitled to be counted in the quorum and vote at any such meeting either in person or by proxy or in the case of a body corporate by a duly authorised representative. The quorum for a meeting is two Unit holders, present in person or by proxy. If a quorum is not present, then the original meeting can be adjourned to a date and time which is

not less than seven days after the date. If after a reasonable time from the time set for an adjourned meeting there are not two Unit holders present in person or by proxy, the quorum for an adjourned meeting shall be one Unit holder entitled to be counted in a quorum present. At any meeting of Unit holders, an extraordinary resolution put to the vote will be decided on a show of hands unless the Chairman, the Trustee, or at least two Unit holders demand a poll. On a show of hands every Unit holder who (being an individual) is present in person or (being a corporation) is present by its representative properly authorised in that regard, shall have one vote. A Unit holder entitled to more than one vote need not, if he votes, use all his votes or cast all the votes he uses in the same way.

In the case of joint Unit holders, the vote of the most senior who votes, whether in person or by proxy must be accepted to the exclusion of the votes of other joint Unit holders. For this purpose seniority must be determined by the order in which the names stand in the register of Unit holders.

To be passed an extraordinary resolution must be carried by a majority of not less than 75 per cent of the votes cast at a meeting.

“Unit holders” in the context of this section 9 means the persons who were entered on the register of Unit holders at close of business on a date to be determined by the Manager and stated in the notice of meeting that is a reasonable time before the notice of the relevant meeting is sent out. That date will also be the date by reference to which the votes that may be cast at the meeting will be determined.

Where an extraordinary resolution is required to conduct business at a meeting of Unit holders and every Unit holder is prohibited under COLL 4.4.8R(4) from voting, with the written agreement of the Trustee to the process, that extraordinary resolution may instead be passed with the written consent of Unit holders representing 75% of the value of the Sub-Fund(s) concerned.

Whilst it is possible that, in respect of fundamental matters and in accordance with the Trust Deed, meetings of a series of Classes in a Sub-Fund may be convened from time to time, it is not anticipated that any meeting of any individual Class would ever be required because in all respects other than price and the details of the specific Proportion Account relevant to an individual Class, each individual Class has the same rights and entitlements as each other Class in the same series. In certain limited circumstances the Manager is entitled under the Trust Deed to treat all holders of Units in a single series of Classes as if they were one class and will do so where it is so entitled and, for example because of the nature of each Unit holder’s investment being a separate Class, the Regulations would otherwise require large numbers of Unit holder meetings to be convened to consider the same issue.

## 10 Winding-Up Procedure

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The Trustee shall proceed to wind-up the SMARTfund Advantage:

- if the order declaring the SMARTfund Advantage to be an authorised unit trust scheme is revoked; or
- if the Manager or the Trustee requests the FSA to revoke the order declaring the SMARTfund Advantage to be an authorised unit trust scheme and the FSA has agreed (provided no material change in any relevant factor occurs) that on the winding-up of the SMARTfund Advantage, the FSA will accede to that request; or
- on the passing of an extraordinary resolution winding up the SMARTfund Advantage provided the FSA’s prior consent has been obtained by the Manager or Trustee, or
- on the effective date of a duly approved scheme of arrangement which is to result in the SMARTfund Advantage being left with no property.

If any of the events set out above occurs, COLL 6.2 (Dealing), COLL 6.3 (Valuation and Pricing) and COLL 5 (Investment and Borrowing Powers) of the Regulations will cease to apply. The Trustee and Manager shall cease to accept any investment in the SMARTfund Advantage, or create, issue, redeem or cancel Units.

In the case of a scheme of arrangement referred to above, the Trustee shall wind-up the SMARTfund Advantage in accordance with the approved scheme of arrangement.

In any other case, the Trustee shall, as soon as practicable after the SMARTfund Advantage falls to be wound-up, realise the assets of the SMARTfund Advantage and, after paying, or retaining adequate provision for, all liabilities properly payable and retaining provision for the costs of the winding-up, distribute the proceeds to the Unit holders proportionately to the size of their holdings (upon production by them of such evidence, if any, as the Trustee may reasonably require as to their entitlement).

Any unclaimed net proceeds or other cash (including unclaimed distribution payments) held by the Trustee after twelve months from the date the proceeds became payable, shall be paid by the Trustee into Court, although the Trustee will have the right to retain any expenses incurred in making that payment. On completion of the winding-up, the Trustee shall notify FSA in writing of that fact and the Trustee or the Manager shall request FSA to revoke the order of authorisation.

The provisions in this section 10 apply to each Sub-Fund separately as they apply to the SMARTfund Advantage as a whole.

## **11 Risk Warnings**

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Potential investors and Unit holders should regard investments in the various Sub-Funds available in the SMARTfund Advantage as long-term investments. The value of an investment, the future performance of each Sub-Fund and the income from them are not guaranteed and may go down as well as up, which may result in an investor realising an amount which is less than originally invested.

Before you make an investment decision, it is important to identify your investment objectives and the level or risk you are prepared to accept. This may be influenced by factors including (but not limited to):

- the timeframe over which you are expecting a return on your investment and your need for regular income versus longer-term capital growth;
- your level of comfort with volatility in returns;
- the general and specific risks associated with particular Sub-Funds; and
- risks associated with the structure through which your investments are made.

### **11.1 Consult a Financial Adviser**

It is important for investors to obtain personal professional advice about their financial circumstances and needs, as well as the suitability of the SMARTfund Advantage and any Sub-Fund selection before applying to open a SMARTfund Advantage Account or select any Sub-Funds to invest in.

### **11.2 General Risks**

All investments have an inherent level of risk. Investment risk may also result in loss of income or capital invested and possible delays in repayment. You could receive back less than you initially invested and there is no guarantee that you will receive any income.

Past performance is not a guide to future performance.

### **11.3 Sub-Fund Investment Risk**

Share values are volatile and an investment in shares can perform poorly over the short to medium term. All Sub-Funds in the SMARTfund Advantage are expected to have exposure to shares.

Securities of smaller capitalisation companies may, from time to time, and especially in falling markets become less liquid and experience short-term price volatility. They may also be less financially secure than larger more established companies and depend on a small number of key personnel, which increases the risk of a company's failure if a product fails, management changes or there are other adverse

developments.

The Sub-Fund profiles in this prospectus provide general guidance on the types of securities likely to be contained in each Sub-Fund.

#### 11.4 Regulatory Risk

This is the risk that a government or regulator may affect the value of securities that a Sub-Fund invests in by introducing regulatory or tax changes.

#### 11.5 Market Risk

Economic, technological, political or legislative conditions and even market sentiment can (and do) change and this can mean that changes in the value of investment markets can affect the value of the investments in a Sub-Fund.

#### 11.6 Concentrated Portfolio Risk

Portfolios with a small number of different holdings or with a high weighting given to a small number of stocks held in the portfolio may be considered to be "concentrated". The value of a concentrated portfolio may be more volatile than a portfolio with a larger number of more evenly weighted holdings and carries a greater exposure to the performance of those holdings in the portfolio with a high weighting.

#### 11.7 Foreign Investment Risk

Exchange Rate fluctuation can affect the value of Sub-Funds that invest overseas. Investment in emerging markets can be subject to risks not normally associated with developed markets. These risks may include instability of the economies of emerging markets, political uncertainties, illiquidity of the market, dealing difficulties, settlement and custody practices. The Sub-Fund profiles indicate which Sub-Funds are permitted to invest outside the UK.

#### 11.8 Derivative Risk

**A range of financial derivatives, for example futures and options, may be used to implement investment decisions and to manage risk in a Sub-Fund. An investment in derivatives can cause a Sub-Fund to make gains or incur losses. Derivative transactions may also involve the risk (including credit risk) that the counterparty on a transaction will be unable to honour its financial obligation to the SMARTfund Advantage. The Sub-Fund profiles will indicate which Sub-Funds are permitted to use derivatives.**

Although derivatives are permitted for SMARTfund Advantage for investment purposes and derivative transactions may be used for the purposes of hedging or meeting the investment objectives of a Sub-Fund or both, the Manager does not currently intend to use the property of any Sub-Fund to invest in derivatives and forward transactions, other than for the purposes of efficient portfolio management (including hedging) which is not expected to have a detrimental effect on the risk profile of the Sub-Funds.

#### 11.9 Fund Risk

There are risks associated with investing in investment fund vehicles (which include the SMARTfund Advantage) including that the relevant fund could be terminated, fees and charges could change, the manager and/or trustee could be replaced.

Like other collective investment schemes established for the pooling of investments and the efficient management of those investments on behalf of a significant number of participants, there is a risk that in the event that the value of funds under management in the SMARTfund Advantage is not of sufficient size, or if there is a large reduction in value over a short period of time, that the anticipated levels of efficiency may be adversely affected. The Manager has strategies and policies that are designed to reduce this risk. While the Manager cannot guarantee that this risk will be eliminated, the Manager will use its powers (for example its power to impose a dilution levy on redemptions in the event that the Sub-Fund were to reduce substantially in size) for the purpose of maintaining fair treatment of all Unit holders.

Investors in the SMARTfund Advantage will have detailed information made available to them through their Account. This high level of transparency and disclosure is made available through Præmium Limited's proprietary technology. This or equivalent technology may not be available to investors in the SMARTfund Advantage should SMARTfund Administration Limited cease to be the manager of the SMARTfund Advantage.

### **11.10 Tax Risk**

The methods and rates of taxation of the SMARTfund Advantage, its Sub-Funds and of Unit holders as described in section 8 may not apply or be relevant to any particular Unit holder and may change in any event .

### **11.11 Inflation Risk**

Inflation may affect the real value of a Unit holder's savings and investments which may reduce the buying power of the money they have saved and their investments.

## **12 Additional Information**

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### **12.1 Annual and Half-yearly Reports**

Annual Long Reports and Manager's Reports will be published online within four months of each annual accounting period and Half-Yearly Long Reports will be published within two months of each interim accounting period and will also be available free of charge on request from the Manager. Unit holders may also elect to receive copies of the annual and half yearly reports on publication by email.

Short reports will be published in relation to each Sub-Fund after each annual accounting period and interim accounting period in accordance with the Regulations. Each Unit holder will be sent copies of the short reports relating to the Sub-Funds in which they are invested on publication by email.

### **12.2 Accounting Reference Date**

The Accounting Reference Date for the SMARTfund Advantage is 3 November.

### **12.3 No liability to account for profits**

The Manager is not liable to account to any other affected person or to the Unit holders for any profits or benefits it makes or receives that are made or derived from or in connection with dealings in the Units, any transaction in Scheme Property or the supply of services to the SMARTfund Advantage or any of its Sub-Funds.

### **12.4 How can documents relating to the SMARTfund Advantage be viewed or obtained?**

Manager's Reports, the Prospectus and the Trust Deed can be inspected during normal working hours at the Manager's registered office at 6 Broad Street Place, London EC2M 7JH and also at the Trustee's principle business office at Mariner House, Pepys Street, London, EC3N 4DA.

Copies of the latest Interim and Annual Manager's Reports and the Prospectus will be sent on request by email free of charge.

A charge of £50 will be made for hard copies of the Trust Deed of the SMARTfund Advantage. Alternatively, copies may be viewed free of charge at the Manager's registered office as referred to above.

A charge of £20 will be made for replacement copies of contract notes and other documentation which are provided in printed form at the request of Unit holders. Investors and advisers should note that the information provided by Contract Notes can be downloaded without charge using the secure online system.

### **12.5 Changes to the SMARTfund Advantage**

Where any changes are proposed to be made to the SMARTfund Advantage or a Sub-Fund the Manager will assess whether the change is fundamental, significant or

notifiable in accordance with COLL 4.3. If the change is regarded as fundamental, approval of the relevant Unit holders will be required. If the change is regarded as significant, not less than 60 days' prior written notice will be given to relevant Unit holders. If the change is regarded as notifiable, relevant Unit holders will receive appropriate and suitable notice of the change.

Where a fundamental change is proposed that affects all Classes of Unit in any one series in the same way, the approval of the affected series of Classes will be required in a meeting of Unit holders, as if all Classes in the series were of the same Class for that purpose (rather than the approval of each and every Class within the series). This will not affect the rights of any Class of Unit in the event that any proposal affects that Class differently from any other.

## **12.6 Communications**

The Manager may use email and other electronic media to communicate with Unit holders to the extent permitted by the law or the regulations.

## **12.7 Complaints**

Complaints concerning the operation or marketing of the SMARTfund Advantage should in the first instance be referred to the Head of Client Services at the Manager's offices whose address is set out on page 1. If a satisfactory final response has not been obtained the complaint may be referred to the Financial Ombudsman Service at South Quay Plaza, 183 Marsh Wall, London E14 9SR. A copy of the Manager's complaints procedure is available on request, free of charge from the compliance officer at the address on page 1. and from the Manager's website at <http://www.SMARTfund.co.uk/complaintspolicy.html> .

## **12.8 Fewer than two Sub-Funds**

If for a period of 24 consecutive months beginning at any time after the first issue of Units, Units in only one Sub-Fund are in issue, the Manager must take such action as is necessary to change the category of the SMARTfund Advantage or cause Units in respect of more than one Sub-Fund to be in issue. This does not apply if winding up of the SMARTfund Advantage has begun on or before the expiry of the 24 month period.

### 13 Glossary of Terms used in this prospectus

<b>The term:</b>	<b>Means:</b>
<b>ACC</b>	an acronym for the term: "Adviser Charging Component". The Manager's annual management charge and Initial Charge will include a component referred to as the ACC, being a percentage rate (which may be zero) that a Unit holder agrees with their Nominated Representative and initially specifies on their application form and which the Manager will pay to the Nominated Representative
<b>Account</b>	a secure online account maintained by the Manager for each investor whose application to invest in a Sub-Fund is accepted and which provides a mechanism for Account holders to access information about their investments in Sub-Funds (Units). In addition to detailed information about their dealings in Units each Account holder will be able to view investor reports of all their Units on a consolidated basis as if they held a single account in the SMARTfund Advantage as a whole
<b>Annual Management Charge (AMC)</b>	the annual charges made by the Manager for the management of each Sub-Fund, which in respect of each Class of Units is the aggregate of the applicable Base Charge and ACC (if any)
<b>Base Charge</b>	In respect to the Manager's annual management charge or any Initial Charge is the amount stipulated in this prospectus in Appendix 1 relation to a Class of Unit or such lower rate as is specified in the applicable online application form as published by the Manager's systems and signed by the Unit holder being the minimum that the Manager will charge in relation to that Class of Unit
<b>Business Day</b>	any day which is not a Saturday, Sunday or Bank Holiday in England or a day on which the London Stock Exchange is closed
<b>Class</b>	a class of Unit
<b>COBS</b>	the New Conduct of Business sourcebook which forms part of the FSA's Handbook of Rules and Guidance
<b>COLL Sourcebook</b>	the Collective Investment Schemes sourcebook which forms part of the FSA's Handbook of Rules and Guidance
<b>Custodian</b>	HSBC Bank plc
<b>Cut Off Point</b>	the time on each Business Day after which applications for Units, and for sales and purchases of Units that are received by the Manager will be deferred for processing after the next Valuation Point. The Cut Off Point for each of the Sub-Funds is 2.30 pm
<b>FSA</b>	the Financial Services Authority or any other regulatory body which may assume its regulatory responsibilities from time to time
<b>IFA Network</b>	a group or network of financial advisers whether operating as authorised representatives or as independently authorised by the FSA
<b>Income Units</b>	Units that pay distributions to Unit holders
<b>Index Securities</b>	(for the purposes of the investment strategy of a Sub-Fund) securities issued by entities that are included in an Index
<b>Initial Charge</b>	The initial charge made by the Manager on the issue of Units, which in

<b>The term:</b>	<b>Means:</b>
	respect of each Class of Units is the aggregate of the initial Base Charge and the initial ACC (if any)
<b>Manager</b>	the manager of the SMARTfund Advantage which is SMARTfund Administration Limited (company registered number 06016828)
<b>Money Laundering Regulations</b>	laws and regulations relating to money laundering and financial crime that apply from time to time
<b>Nominated Representative</b>	An independent financial adviser or other intermediary, firm or IFA Network authorised by the FSA and approved by the Manager as having in place the arrangements necessary for it to be able to agree ACC with those of its clients who wish to become investors in the SMARTfund Advantage as described in this Prospectus
<b>Non-UCITS</b>	In relation to a retail scheme, a scheme that does not comply with the requirements of the Council Directive of 20 December 1985 on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS) (No 85/611/EEC), as amended.
<b>OBSR</b>	OBSR Advisory Services Limited, a specialist provider of forward looking investment research and product analysis engaged by the Manager as an investment adviser in relation to certain Sub-Funds
<b>Proportion Account</b>	a notional memorandum account maintained in accordance with the Trust Deed for each Class of Unit and used for the purpose of calculating the Unit price for that Class
<b>Prospectus</b>	the prospectus relating to the SMARTfund Advantage as published from time to time
<b>Rebalance</b>	When used in relation to a Sub-Fund - the automatic process generally carried out each Business Day by which the Manager updates the holdings of each Sub-Fund in accordance with the requirements of its investment objectives and any investments and withdrawals made by Unit holders. The consequent transactions are reflected in the Proportion Accounts of all relevant Unit Classes and can be viewed through each affected Unit holder's secure online Account.
<b>Redemption</b>	a whole or partial withdrawal or other disposal of a Unit holder's investment in Units in a Sub-Fund.
<b>Regulations</b>	the FSA's Handbook of Rules and Guidance
<b>Scheme Property</b>	all the property (capital and income) belonging to the SMARTfund Advantage
<b>SDRT</b>	Stamp Duty Reserve Tax
<b>Sub-Fund</b>	a segregated portfolio of securities and other assets forming one of the separate parts of the SMARTfund Advantage
<b>SMARTfund Advantage</b>	the SMARTfund Advantage to which this Prospectus relates
<b>SMARTfund Platform</b>	the SMARTfund website and associated online interface which provides a Unit holder and their Nominated Representative access to certain

<b>The term:</b>	<b>Means:</b>
	information relating to their SMARTfund Advantage Investments
<b>Switching</b>	exchanging all or part of an investment in Units in one Sub-Fund for an investment in Units in another Sub-Fund.
<b>Thistledown</b>	Thistledown Investment Management Ltd (company registered number 07003514), an FSA authorised firm engaged by the Manager as an investment adviser in relation to the SMARTfund Thistledown Income Fund.
<b>Trust Deed</b>	the trust deed constituting the SMARTfund Advantage which was entered into between the Manager and the Trustee and is dated 31 March 2008 as amended from time to time.
<b>Trustee</b>	the trustee of the SMARTfund Advantage which is HSBC Bank plc (company registered number 00014259)
<b>Unit</b>	a unit of a Sub-Fund in the SMARTfund Advantage (which has the rights attaching to it as set out in the Trust Deed and described in this Prospectus) and includes a fraction of a unit.
<b>Unit holder</b>	an investor in the SMARTfund Advantage in who's name an Account is held being a person entered on the register of Unit holders.
<b>Valuation Point</b>	The valuation point fixed by the Manager in accordance with the Regulations for the purposes of valuation, pricing and dealings in relation to the SMARTfund Advantage which is generally 5.00 pm on each Business Day

Terms not defined above and appearing in the Glossary forming part of the Regulations shall be interpreted in a manner consistent with the Regulations.







Sub-Fund Name	SMARTfund Defensive OBSR	SMARTfund Cautious OBSR	SMARTfund Balanced OBSR	SMARTfund Growth OBSR	SMARTfund Aggressive Growth OBSR	SMARTfund Thistle-down Income Fund
	amount as agreed between the investor and their nominated adviser.	amount as agreed between the investor and their nominated adviser.	amount as agreed between the investor and their nominated adviser.	amount as agreed between the investor and their nominated adviser.	amount as agreed between the investor and their nominated adviser.	amount as agreed between the investor and their nominated adviser.
<b>Is there a Performance Fee?</b>	No	No	No	No	No	No
<b>Brief description of the basis on which any Performance Fee is calculated</b>	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable	Not applicable
<b>Benchmark Index</b>	N/A	N/A	N/A	N/A	N/A	N/A
<b>Are Income Units offered?</b>	Yes	Yes	Yes	Yes	Yes	Yes
<b>Are Accumulation Units offered?</b>	No	No	No	No	No	No
<b>Can distributions be automatically reinvested?</b>	Yes	Yes	Yes	Yes	Yes	Yes

## SMARTfund Defensive OBSR

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### Investment Objective

To generate returns through capital growth and income with lower risk of capital loss.

### Investment Policy

To achieve the investment objective, the Sub-Fund will invest in a diversified portfolio of funds and other permitted investments that have a similarly diversified character.

The portfolio will be comprised predominantly of Cash and Fixed Interest Securities funds but will include some funds that have exposure to equities and property.

The Manager will use the services of an Asset Allocation model provider, a specialist in understanding and modelling financial market risk, to identify the mix of asset classes, most appropriate to achieve the investment objective of this sub-fund consistent with a low risk profile. The services of Old Broad Street Research will be deployed to select a range of authorised collective investment schemes which are equity, property, fixed interest and/or cash funds suitable to achieve the asset mix recommended.

In order to provide diversification, the portfolio will be allocated across funds managed by a number of leading investment managers. While the Manager expects the Sub-Fund's portfolio to be invested in cash, collective investment schemes and other funds, the Sub-Fund may hold the full range of investments permitted by Appendix 2 where appropriate to achieve its investment objective. Investments in global shares and funds will not be hedged back to the pound sterling (£).

The Manager must ensure that the Sub-Fund maintains sufficient cash for the purposes of maintaining liquidity. This portion of the Sub-Fund's assets must be represented by cash or similarly liquid assets (which may include money market instruments, deposits or units in collective investment schemes) at all times.

The Sub-Fund's portfolio and mix of asset classes to which it is exposed will be rebalanced from time to time at the absolute discretion of the Manager, not less than once each calendar quarter.

## SMARTfund Cautious OBSR

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### Investment Objective

To provide relatively stable returns over the medium term with the potential for some long-term capital growth.

### Investment Policy

To achieve the investment objective, the Sub-Fund will invest in a diversified portfolio of funds and other permitted investments that have a similarly diversified character.

The portfolio will be comprised predominantly of Cash, Fixed Interest Securities, Equities and Property funds.

The Manager will use the services of an Asset Allocation model provider, a specialist in understanding and modelling financial market risk, to identify the mix of asset classes, most appropriate to achieve the investment objective of this sub-fund consistent with a low to medium risk profile. The services of Old Broad Street Research will be deployed to select a range of authorised collective investment schemes which are fixed income, equities, property, fixed interest and/or cash funds suitable to achieve the asset mix recommended.

In order to provide diversification, the portfolio will be allocated across funds managed by a number of leading investment managers. While the Manager expects the Sub-Fund's portfolio to be invested largely in other funds, the Sub-Fund may hold the full range of investments permitted by Appendix 2 where appropriate to achieve its investment objective. Investments in global shares and funds will not be hedged back to the pound sterling (£).

The Manager must ensure that the Sub-Fund maintains sufficient cash for the purposes of maintaining liquidity. This portion of the sub-fund's assets must be represented by cash or similarly liquid assets (which may include money market instruments, deposits or units in collective investment schemes) at all times.

The Sub-Fund's portfolio and mix of asset classes will be Rebalanced from time to time at the absolute discretion of the Manager, not less than once each calendar quarter.

## SMARTfund Balanced OBSR

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### Investment Objective

To provide a balance of income and capital growth over the medium to long term.

### Investment Policy

To achieve the investment objectives, the Sub-Fund will invest in a diversified portfolio of funds and other permitted investments that have a similarly diversified character.

The portfolio will be comprised predominantly of Cash, Fixed Interest Securities, Equities and Property funds. The allocation of the portfolio will be approximately balanced between, on the one hand, funds investing in growth assets, such as shares and property, to provide the potential for capital growth and, on the other, to funds investing in defensive assets such as fixed interest securities and cash.

The Manager will use the services of an Asset Allocation model provider, a specialist in understanding and modelling financial market risk, to identify the mix of asset classes, most appropriate to achieve the investment objective of this sub-fund consistent with a medium risk profile. The services of Old Broad Street Research will be deployed to select a range of authorised collective investment schemes which are fixed income, equities, property, fixed interest and/or cash funds suitable to achieve the asset mix recommended.

In order to provide diversification, the portfolio will be allocated across a number of funds managed by leading investment managers. While the Manager expects the Sub-Fund's portfolio to be invested largely in other funds, the Sub-Fund may hold the full range of investments permitted by Appendix 2 where appropriate to achieve its investment objective. Investments in global shares and funds will not be hedged back to the pound sterling (£).

The Manager must ensure that the Sub-Fund maintains sufficient cash for the purposes of maintaining liquidity. This portion of the sub-fund's assets must be represented by cash or similarly liquid assets (which may include money market instruments, deposits or units in collective investment schemes) at all times.

The Sub-Fund's portfolio and mix of asset classes will be rebalanced from time to time at the absolute discretion of the Manager, not less than once each calendar quarter.

## SMARTfund Growth OBSR

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### Investment Objective

To provide long term capital growth with less fluctuation of returns than “high growth” investment options.

### Investment Policy

To achieve the investment objectives, the Sub-Fund will invest in a diversified portfolio of funds and other permitted investments that have a similarly diversified character.

The investments will be selected to achieve a mix of growth and defensive assets. A greater proportion of the portfolio will be allocated to funds investing in growth assets, such as shares and property and infrastructure securities, to provide the potential for capital growth than to funds investing in defensive assets such as fixed interest and cash.

The Manager will use the services of an Asset Allocation model provider, a specialist in understanding and modelling financial market risk, to identify the mix of asset classes, most appropriate to achieve the investment objective of this sub-fund consistent with a medium to high risk profile. The services of Old Broad Street Research will be deployed to select a range of authorised collective investment schemes which are fixed income, equities, property, fixed interest and/or cash funds suitable to achieve the asset mix recommended.

In order to provide diversification, the portfolio will be allocated across funds managed by a number of leading investment managers. While the Manager expects the Sub-Fund’s portfolio to be invested largely in other funds, the Sub-Fund may hold the full range of investments permitted by Appendix 2 where appropriate to achieve its investment objective. Investments in global shares and funds will not be hedged back to the pound sterling (£).

The Manager must ensure that the Sub-Fund maintains sufficient cash for the purposes of maintaining liquidity. This portion of the sub-fund’s assets must be represented by cash or similarly liquid assets (which may include money market instruments, deposits or units in collective investment schemes) at all times.

The Sub-Fund’s portfolio and mix of asset classes will be rebalanced from time to time at the absolute discretion of the Manager, not less than once each calendar quarter.

## **SMARTfund Aggressive Growth OBSR**

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### **Investment Objective**

To provide a long term capital growth by investing in growth assets.

### **Investment Policy**

To achieve the investment objectives, the Sub-Fund will invest in a diversified portfolio of funds and other permitted investments that have a similarly diversified character.

The portfolio will be invested in funds investing in growth assets, such as shares and property, to provide the potential for capital growth.

The Manager will use the services of an Asset Allocation model provider, a specialist in understanding and modelling financial market risk, to identify the appropriate mix of asset classes, most appropriate to achieve the investment objective of this sub-fund consistent with a high risk profile. The services of Old Broad Street Research will be deployed to select a range of authorised collective investment schemes which are fixed income, fixed interest, equities, property and/or cash funds suitable to achieve the asset mix recommended.

In order to provide diversification, the portfolio will be allocated across funds managed by a number of leading investment managers. While the Manager expects the Sub-Fund's portfolio to be invested largely in other funds, the Sub-Fund may hold the full range of investments permitted by Appendix 2 where appropriate to achieve its investment objective. Investments in global shares (including emerging market shares) and funds will not be hedged back to the pound sterling (£).

The Manager must ensure that the Sub-Fund maintains sufficient cash for the purposes of maintaining liquidity. This portion of the sub-fund's assets must be represented by cash or similarly liquid assets (which may include money market instruments, deposits or units in collective investment schemes) at all times.

The Sub-Fund's portfolio and mix of asset classes will be rebalanced from time to time at the absolute discretion of the Manager, not less than once each calendar quarter.

## SMARTfund ThistleDown Income Fund

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### Investment Objective

To provide income while investing to provide some capital growth over the medium to long term.

### Investment Policy

To achieve the investment objective, the sub-fund will seek to invest principally in equities. The Fund may also invest in exchange traded funds (ETFs), fixed income securities (bonds) and collective investment schemes (CISs). When selecting equities for the sub-fund's portfolio the Manager will apply a 'value' based policy - including an asset in the portfolio when ThistleDown's analysis and expertise suggests that a total return over the full investment cycle or longer of at least 2% over the total return that could be expected from UK equity investments over the same period (i.e. between 5 and 10 year horizons) is achievable from that asset. Achieving these target returns for each equity investment or for the sub-fund's portfolio as a whole is highly uncertain as equities are volatile assets and are expected to be the principal portfolio investment. The Manager will hold ETFs, bonds, CISs and cash when it cannot identify enough opportunities to achieve a suitable spread of equity investments with the appropriate 'value' characteristics.

The Manager will also seek to reduce investment risk by diversifying the Sub-Fund's investments across industries and countries. It will not consider the size of company or market important to its investment decision provided ThistleDown and it believe the investment helps to diversify risk. Investments in assets denominated in foreign currencies will not be hedged into sterling.

The Manager must ensure that the Sub-Fund maintains sufficient cash for the purposes of maintaining liquidity. This portion of the sub-fund's assets must be represented by cash or similarly liquid assets (which may include money market instruments, deposits or units in collective investment schemes) at all times.

The Sub-Fund's portfolio and mix of asset classes will be rebalanced from time to time at the absolute discretion of the Manager.

## APPENDIX 2

### Investment Management and Borrowing Powers of the Fund

1. General rules of investment
  - 1.1 The property of each Sub-Fund of the SMARTfund Advantage will be invested with the aim of achieving the investment objective of that Sub-Fund but subject to the limits on investment set out in Chapter 5 of the COLL Sourcebook (COLL 5.6) that are applicable to Non-UCITS Retail Schemes. These limits apply to each Sub-Fund as summarised below.
  - 1.2 The Manager's investment policy may mean that at times, where it is considered appropriate, the property of a Sub-Fund will not be fully invested and that prudent levels of liquidity will be maintained.
  - 1.3 The Manager must ensure that, taking account of the investment objectives and policy of a Sub-Fund, the property of a Sub-Fund aims to provide a prudent spread of risk.
  - 1.4 Treatment of obligations
    - (a) Where the COLL Sourcebook allow a transaction to be entered into or an investment to be retained only (for example, investment in warrants and nil and partly paid securities and the general power to accept or underwrite) if possible obligations arising out of the investment transactions or out of the retention would not cause any breach of any limits in COLL 5, it must be assumed that the maximum possible liability of a Sub-Fund under any other of those rules has also to be provided for.
    - (b) Where a rule in the COLL Sourcebook permits an investment transaction to be entered into or an investment to be retained only if that investment transactions, or the retention, or other similar transactions, are covered:
      - (i) it must be assumed that in applying any of those rules, a Sub-Fund must also simultaneously satisfy any other obligation relating to cover; and
      - (ii) no element of cover must be used more than once.
  - 1.5 Transferable Securities
    - (a) A transferable security is an investment falling within article 76 (Shares etc.), article 77 (Instruments creating or acknowledging indebtedness), article 78 (Government and public securities), article 79 (Instruments giving entitlement to investments) and article 80 (Certificate representing certain securities) of the Regulated Activities Order.
    - (b) An investment is not a transferable security if the title to it cannot be transferred, or can be transferred only with the consent of a third party.
    - (c) In applying paragraph (b) to an investment which is issued by a body corporate, and which is an investment falling within article 76 (Shares, etc.) or 77 (Instruments creating or acknowledging indebtedness) of the Regulated Activities Order, the need for any consent on the part of the body corporate issuing such shares or any members or debenture holders of that body corporate may be ignored.
    - (d) An investment is not a transferable security unless the liability of the holder of it to contribute to the debts of the issuer is limited to any amount for the time being unpaid by the holder of it in respect of the investment.

In addition to the general restrictions set out above, the following limits apply to each of the Sub-Funds.

2. Non-UCITS Retail Schemes – general
- 2.1 The Scheme Property of a Sub-Fund must, except where otherwise provided in the COLL Sourcebook, only consist of any or all of:
  - (a) transferable securities;
  - (b) money market instruments;
  - (c) permitted deposits;
  - (d) permitted units in collective investment schemes;
  - (e) permitted derivatives and forward transactions;
  - (f) permitted immovables; and
  - (g) gold.
- 2.2 Transferable securities and money market instruments held within a Sub-Fund must satisfy the requirements for investment by a UCITS scheme set out in COLL 5.2.7AR, 5.2.7CR and 5.2.7ER and:
  - (a) be admitted to or dealt in on an eligible market (as described in paragraph 3) or be recently issued transferrable securities which satisfy the requirements for investment by a UCITS scheme set out in COLL 5.2.8R(3)(e) or be approved money market instruments not admitted to or dealt in on an eligible market which satisfy the requirements for investment by a UCITS scheme set out in COLL 5.2.10AR to 5.2.10CR ; or
  - (b) subject to a limit of 20% in value of the Scheme Property of a Sub-Fund, be transferrable securities which are not within the criteria set out in a) above (this 20% limit is aggregated with a 20% limit on investment in certain money market instruments set out in paragraph 8).
- 2.3 It is not intended that the Sub-Funds will invest directly in immovable property, tangible movable property or gold.
3. Eligible markets regime: purpose
- 3.1 To protect investors the markets on which investments of a Sub-Fund are dealt in or traded on should be of an adequate quality (“eligible”) at the time of acquisition of the investment and until it is sold.
- 3.2 Where a market ceases to be eligible, investments on that market cease to be approved securities and the 20% restriction on investing in non-approved securities applies. Exceeding this limit because a market ceases to be eligible will generally be regarded as an inadvertent breach.
- 3.3 A market is eligible for the purposes of the rules if it is:
  - (a) a regulated market; or
  - (b) a market in an EEA State which is regulated, operates regularly and is open to the public.
- 3.4 A market not falling within paragraph 3.3 is eligible for the purposes of Chapter 5 of the COLL Sourcebook if:
  - (a) the Manager, after consultation and notification with the Trustee decides that market is appropriate for investment of, or dealing in, the Scheme Property having regard to the relevant criteria in the COLL Sourcebook and guidance from the FSA;
  - (b) the market is included in a list in the prospectus; and
  - (c) the Trustee has taken reasonable care to determine that:
    - (i) adequate custody arrangements can be provided for the

- investment dealt in on that market; and
  - (ii) all reasonable steps have been taken by the Manager in deciding whether that market is eligible.
- 3.5 In paragraph 3.4(a) a market must not be considered appropriate unless it is regulated, operates regularly, is recognised as a market or exchange or as a self-regulating organisation by an overseas regulator, is open to the public, is adequately liquid and has adequate arrangements for unimpeded transmission of income and capital to or for the order of investors.
- 3.6 The eligible markets are specified for each Sub-Fund in Appendix 1.
4. Spread: general
- 4.1 This paragraph 4 on spread does not apply to government and public securities.
- 4.2 Not more than 20% in value of the Scheme Property is to consist of deposits with a single body.
- 4.3 Not more than 10% in value of the Scheme Property is to consist of transferable securities or money market instruments issued by any single body, subject to the limits set out in paragraph 19. This limit of 10% is raised to 25% in respect of covered bonds.
- 4.4 In applying paragraph 4.3 certificates representing certain securities are treated as equivalent to the underlying security.
- 4.5 The exposure to any one counterparty in an OTC derivative transaction must not exceed 10% in value of the Scheme Property.
- 4.6 Not more than 35% in value of Scheme Property is to consist of units of any one collective investment scheme.
- 4.7 For the purposes of calculating the limit in 4.5, the exposure in respect of an OTC derivative may be reduced to the extent that collateral is held in respect of it if the collateral meets each of the following conditions:
- (a) is marked-to-market on a daily basis and exceeds the value of the amount at risk;
  - (b) is exposed only to negligible risks (e.g. government bonds of first credit rating or cash) and is liquid;
  - (c) is held by a third party custodian not related to the provider or is legally secured from the consequences of failure of a related party; and
  - (d) can be fully enforced by the Sub-Fund at any time.
- 4.8 For the purposes of calculating the limit in 4.5, OTC derivative positions with the same counterparty may be netted provided that the netting procedures comply with the conditions set out in section 3 (Contractual netting) (Contracts for novation and other netting agreements)) of Annex III to the Banking Consolidation Directive and are based on legally binding agreements.
- 4.9 In applying these rules on spread all derivative transactions are deemed to be free of counterparty risk if they are performed on an exchange where the clearing house meets each of the following conditions:
- (a) is it backed by an appropriate performance guarantee; and
  - (b) it is characterised by daily mark-to-market valuation of the derivative positions and an at least daily margining.
5. Spread: Government and public securities
- 5.1 The above restrictions do not apply to Government and public securities ("such securities"). The restrictions in relation to such securities are set out below.

- 5.2 Where no more than 35% in value of the Scheme Property of a Sub-Fund is invested in such securities issued by any one body, there is no limit on the amount which may be invested in such securities or in such securities issued by any one body or of any one issue.
- 5.3 A Sub-Fund may invest more than 35% in value of the Scheme Property in such securities issued by any one body provided that:
- (a) the Manager has before any such investment is made consulted with the Trustee and as a result considers that the issuer of such securities is one which is appropriate in accordance with the investment objectives of a Sub-Fund;
  - (b) no more than 30% in value of the Scheme Property consists of such securities of any one issue;
  - (c) the Scheme Property includes such securities issued by that or another issuer, of at least six different issues.
- 5.4 In relation to such securities:
- (a) issue, issuer and guarantor include guarantee, guaranteed and guarantor; and
  - (b) an issue differs from another if there is a difference as to repayment date, rate of interest, guarantor or other material terms of the issue.
- 5.5 Not more than 35% in value of Scheme Property is to consist of government and public securities.
6. Investment in collective investment schemes
- 6.1 Each Sub-Fund's investment policy permits investment in units of collective investment schemes.
- 6.2 A Sub-Fund may invest in units in a collective investment scheme (a "second scheme") provided that the investment is permitted under paragraphs 6.3 to 6.7.
- 6.3 The second scheme must be a scheme which:
- (a) complies with the conditions necessary for it to enjoy the rights conferred by the UCITS Directive; or
  - (b) is a Non-UCITS Retail Scheme; or
  - (c) is recognised under the provisions of section 264, 270 or 272 of the Financial Services and Markets Act 2000 (Schemes constituted in other EEA states, Schemes authorised in designated countries or territories and Individually Recognised Schemes);
  - (d) is constituted outside the United Kingdom and the investment and borrowing powers of which are the same or more restrictive than those of a Non-UCITS Retail Scheme; or
  - (e) is a scheme not falling within paragraphs 6.3(a) to 6.3(d) and in respect of which no more than 20% in value of the Scheme Property (including any transferable securities which are not approved securities) is invested.
- 6.4 The second scheme must be a scheme which operates on the principle of the prudent spread of risk.
- 6.5 The second scheme is prohibited from having more than 15% in value of the property of that scheme consisting of units in collective investment schemes;
- 6.6 The participants in the second scheme must be entitled to have their units redeemed in accordance with the scheme at a price related to the net value of the property to which the units relate and determined in accordance with the scheme.
- 6.7 Where the second scheme is an umbrella, the provisions in paragraphs 6.4, 6.5

and 6.6 apply to each Sub-Fund as if it were a separate scheme.

- 6.8 In accordance with 5.6.11R of the COLL Sourcebook (Investment in other group schemes) each of the Sub-Funds may include units in collective investment schemes managed or operated by (or, if it is an open-ended investment has as its authorised corporate director), the Manager or an associate of the Manager.
- 6.9 A Sub-Fund must not invest in or dispose of units in another collective investment scheme (the second scheme), which is managed or operated by (or in the case of an open-ended investment company has as its authorised corporate director), the Manager, or an associate of the Manager, unless:
- (a) there is no charge in respect of the investment in or the disposal of units in the second scheme; or
  - (b) the Manager is under a duty to pay the Sub-Fund by the close of business on the fourth Business Day next after the agreement to buy or to sell the amount referred to in paragraphs 6.9(c) and 6.9(d)
  - (c) on investment, either:
    - (i) any amount by which the consideration paid by the Sub-Fund for the units in the second scheme exceeds the price that would have been paid for the benefit of the second scheme had the units been newly issued or sold by it; or
    - (ii) if such price cannot be ascertained by the Manager, the maximum amount of any charge permitted to be made by the seller of units in the second scheme;
  - (d) on disposal, the amount of any charge made for the account of the authorised fund manager or operator of the second scheme or an associate of any of them in respect of the disposal.
- 6.10 In this paragraph:
- (a) any addition to or deduction from the consideration paid on the acquisition or disposal of units in the second scheme, which is applied for the benefit of the second scheme and is, or is like, a dilution levy or SDRT provision, is to be treated as part of the price of the units and not as part of any charge; and
  - (b) any Switching charge made in respect of an exchange of units in one Sub-Fund or separate part of the second scheme for units in another Sub-Fund or separate part of that scheme is to be included as part of the consideration paid for the units.
  - (c) No Sub-Fund may invest in another Sub-Fund.
7. Investment in nil and partly paid securities
- 7.1 A transferable security on which any sum is unpaid falls within a power of investment only if it is reasonably foreseeable that the amount of any existing and potential call for any sum unpaid could be paid by the Sub-Fund, at the time when payment is required, without contravening the rules in COLL 5.
- 7.2 Subject to the 20% limit on investment in transferrable securities not within the requirements set out in paragraph 2.2 a), a warrant which is an investment falling within article 80 of the Regulated Activities Order (Certificates representing certain securities) and which is akin to an investment falling within article 79 (Instruments giving entitlement to investments) of the Regulated Activities Order may not be included in the Scheme Property unless it is listed on an eligible securities market.
- 7.3 Not more than 5% in value of a Sub-Fund is to consist of warrants.

8. Investment in money market instruments
- 8.1 A Sub-Fund may invest in money market instruments in accordance with the provisions of this Appendix II.
- 8.2 Money market instruments are any of the following investments:
  - (a) a debenture which is issued on terms requiring repayment not later than five years from the date of issue;
  - (b) any government and public security which is issued on terms requiring repayment not later than one year or, if issued by a local authority in the United Kingdom, five years from the date of issue;
  - (c) a warrant which entitles the holder to subscribe for an investment within paragraph 8.2(a) or 8.2(b);
  - (d) a certificate representing certain securities or rights to or interests in investments relating, in either case, to an investment within paragraph 8.2(a) or 8.2(b);
  - (e) an option relating to:
    - (i) an instrument in paragraph 8.2(a) or 8.2(b); or
    - (ii) currency of the United Kingdom or of any other country or territory; or
    - (iii) gold or silver;
  - (f) a future for the sale of:
    - (i) an instrument in paragraph 8.2(a) or 8.2(b); or
    - (ii) currency of the United Kingdom or of any other country or territory; or
    - (iii) gold or silver;
  - (g) a contract for differences by reference to fluctuations in:
    - (i) the value or price of any instrument within any of paragraph 8.2(a) to 8.2(f); or
    - (ii) currency of the United Kingdom or of any other country or territory; or
    - (iii) the rate of interest on loans in any such currency or any index of such rates;
  - (h) an option to acquire or dispose of an instrument within paragraph 8.2(e), 8.2(f) or 8.2(g).
9. Investment in deposits
- 9.1 A Sub-Fund may invest in deposits only with an Approved Bank and which are repayable on demand or have the right to be withdrawn, and maturing in no more than 12 months.
10. Derivatives
- 10.1 Under the COLL Sourcebook derivatives are permitted for Non-UCITS Retail Schemes for investment purposes and derivative transactions may be used for the purposes of hedging or meeting the investment objectives or both. ***The Manager does not currently intend to use the property of any Sub-Fund to invest in derivatives and forward transactions under the COLL Sourcebook, other than for the purposes of efficient portfolio management (including hedging) (see paragraph 18) which is not expected to have a detrimental effect on the risk profile of the Sub-***

**Funds.**

11. Cash and near cash
  - 11.1 Cash and near cash must not be retained in the Scheme Property except to the extent that, where this may reasonably be regarded as necessary in order to enable:
    - (a) the pursuit of a Sub-Fund's investment objectives; or
    - (b) redemption of units; or
    - (c) efficient management of a Sub-Fund in accordance with its investment objectives; or
    - (d) other purposes which may reasonably be regarded as ancillary to the investment objectives of the Sub-Fund.
12. General power to borrow
  - 12.1 The Trustee (on the instructions of the Manager) may, in accordance with this paragraph and paragraph 13, borrow money for the use of the Sub-Fund on terms that the borrowing is to be repayable out of the Scheme Property. This power to borrow is subject to the obligation of the Sub-Fund to comply with any restriction in the instrument constituting the Sub-Fund.
  - 12.2 A Sub-Fund may borrow under paragraph 12.1 only from an Eligible Institution or an Approved Bank.
13. Borrowing limits
  - 13.1 The Manager must ensure that Sub-Fund's borrowing does not, on any Business Day, exceed 10% of the value of the Scheme Property of a Sub-Fund.
  - 13.2 These borrowing restrictions do not apply to "back to back" borrowing for currency hedging purposes.
14. Restrictions on lending of money
  - 14.1 None of the money in the Scheme Property of a Sub-Fund may be lent and, for the purposes of this prohibition, money is lent by a Sub-Fund if it is paid to a person ("the payee") on the basis that it should be repaid, whether or not by the payee.
  - 14.2 Acquiring a debenture is not lending for the purposes of paragraph 14.1; nor is the placing of money on deposit or in a current account.
15. Restrictions on lending of property other than money
  - 15.1 The Scheme Property of a Sub-Fund other than money must not be lent by way of deposit or otherwise.
  - 15.2 Transactions permitted by paragraph 18.5 are not lending for the purposes of paragraph 18.
  - 15.3 None of the Scheme Property may be mortgaged.
16. General power to accept or underwrite placings
  - 16.1 Any power in Chapter 5 of the COLL Sourcebook to invest in transferable securities may be used for the purpose of entering into transactions to which this section applies, subject to compliance with any restriction in the Trust Deed.
  - 16.2 This section applies, subject to paragraph 16.3, to any agreement or understanding:
    - (a) which is an underwriting or sub-underwriting agreement; or
    - (b) which contemplates that securities will or may be issued or subscribed for or acquired for the account of a Sub-Fund.

- 16.3 Paragraph 16.2 does not apply to:
- (a) an option; or
  - (b) a purchase of a transferable security which confers a right;
  - (c) to subscribe for or acquire a transferable security; or
  - (d) to convert one transferable security into another.
- 16.4 The exposure of a Sub-Fund to agreements and understanding within paragraph 16.2 must, on any Business Day:
- (a) be covered in accordance with the requirements of COLL 5.3.3R of the COLL Sourcebook; and
  - (b) be such that, if all possible obligations arising under them had immediately to be met in full, there would be no breach of any limit in Chapter 5 of the COLL Sourcebook.
17. Guarantees and indemnities
- 17.1 The Trustee must not provide any guarantee or indemnity for the account of the Sub-Fund in respect of the obligation of any person.
- 17.2 None of the Scheme Property of a Sub-Fund may be used to discharge any obligation arising under a guarantee or indemnity with respect to the obligation of any person.
- 17.3 Paragraphs 17.1 and 17.2 do not apply in respect of the Sub-Fund to an indemnity or guarantee given for margin requirements where the derivatives or forward transactions are being used in accordance with the rules in Chapter 5 of the COLL Sourcebook, or to an indemnity given to a person winding up a body corporate or other scheme in circumstances where those assets are becoming part of the Scheme Property by way of unitisation.
18. Efficient portfolio management
- 18.1 The Sub-Funds may use property to enter into transactions for the purposes of hedging and use within efficient portfolio management techniques (as set out below).
- 18.2 Permitted transactions for these purposes (excluding stock lending arrangements) are transactions in derivatives (i.e. options, futures forward transactions or contracts for differences) dealt in or traded on an eligible derivatives market; off-exchange options or contracts for differences resembling options; or synthetic futures in certain circumstances. Eligible derivatives markets are those which the Manager after consultation with the Trustee has decided are appropriate for the purpose of investment of or dealing in the Scheme Property with regard to the relevant criteria set out in the COLL Sourcebook and the formal guidance on eligible markets issued by the FSA as amended from time to time.
- 18.3 The eligible derivatives markets for each Sub-Fund are set out in Appendix 3.
- 18.4 Any forward transactions must be with an approved counter-party (Eligible Institutions, money market institutions etc.). a derivatives or forward transaction which would or could lead to delivery of Scheme Property to the Trustee in respect of the Sub-Fund may be entered into only if such Scheme Property can be held by the Sub-Fund, and the Manager reasonably believes that delivery of the property pursuant to the transaction will not lead to a breach of the COLL Sourcebook.
- 18.5 There is no limit on the amount of the Scheme Property which may be used for hedging and efficient portfolio management but the techniques and transactions must relate to transferable securities and approved money market instruments and fulfil the following criteria:

- (a) they are economically appropriate in that they are realised in a cost effective way;
- (b) they are entered into for one or more of the following specific aims:
  - (i) Reduction of risk: This means that, for transactions undertaken to reduce risk or cost (or both), the transaction alone or in combination will diminish a risk or cost of a kind or level which it is sensible to reduce. This allows for the use of the technique of cross-currency hedging in order to switch all or part of the Scheme Property away from a currency the Manager considers unduly prone to risk, to another currency. This aim also permits the use of tactical asset allocation;
  - (ii) Reduction of cost; and
  - (iii) Generation of additional capital or income for the Sub-Fund with a risk level which is consistent with the risk profile of the Sub-Fund and the risk diversification rules laid down in the COLL Sourcebook.

The aims of reduction of risk or cost, together or separately, allow the Manager on a temporary basis to use the technique of tactical asset allocation. Tactical asset allocation permits the Manager to undertake a switch in exposure by use of derivatives, rather than through the sale and purchase of Scheme Property. If a transaction for the Sub-Fund relates to the acquisition or potential acquisition of transferable securities, the Manager must intend that the Sub-Fund should invest in transferable securities within a reasonable time and the Manager must thereafter ensure that, unless the position has itself been closed out, that intention is realised within that reasonable time.

The generation of additional capital or income may arise out of taking advantage of price imperfections or from the receipt of a premium for writing of covered call or covered put options (even if the benefit is obtained at the expense of the chance of yet greater benefit) or pursuant to stocklending arrangements as permitted by the COLL Sourcebook.

18.6 For the purposes of this paragraph 18:

- (a) Efficient portfolio management techniques must not include speculative transactions.
- (b) There is an acceptably low level of risk in any case where the Manager reasonably believes that the Sub-Fund is certain (or certain barring events which are not reasonably foreseeable) to derive a benefit.

18.7 Each efficient portfolio management technique transaction must be fully covered "individually" by the appropriate Scheme Property of the right kind (i.e. in the case of exposure in terms of property, appropriate transferable securities or other property; and, in the case of exposure in terms of money, cash, "near cash", borrowed cash or transferable securities which can be easily sold to realise the appropriate cash). It must also be covered "globally" (i.e. after providing cover for existing efficient portfolio management technique transactions there is adequate cover for another transaction within the Scheme Property, so there can be no gearing). Scheme property and cash can be used only once for cover and, generally, Scheme Property is not available for cover if it is the subject of a stock lending arrangement. The lending transactions in a back to back currency borrowing do not require cover. Each efficient portfolio management technique transaction must be fully covered "individually" by the appropriate Scheme Property of the right kind (i.e. in the case of exposure in terms of property, appropriate transferable securities or other property; and, in the case of exposure in terms of money, cash, "near cash", borrowed cash or transferable securities which can be easily sold to realise the appropriate cash). It must also be covered

“globally” (i.e. after providing cover for existing efficient portfolio management technique transactions there is adequate cover for another transaction within the Scheme Property, so there can be no gearing). Scheme property and cash can be used only once for cover and, generally, Scheme Property is not available for cover if it is the subject of a stock lending arrangement. The lending transactions in a back to back currency borrowing do not require cover.

#### 18.8 Stock lending / Repo Contracts

- (a) As an extension of efficient portfolio management techniques explained above, the Manager or the Trustee at the request of the Manager may enter into certain stock lending arrangements and/or repo contracts in respect of the Sub-Funds. Briefly, stock lending arrangements are those where the Manager or the Trustee delivers securities which are the subject of the transaction under which the lender transfers those securities or securities of the same type and amount, back to the lender at a later date and a repo contract is an agreement between a seller and buyer for the sale of securities, under which the seller agrees to repurchase the securities (or equivalent securities) or the buyer agrees to resell the securities (or equivalent securities) at an agreed date and, usually, stated price. The Manager or the Trustee at the time of delivery receives collateral to cover against the risk of the future redelivery not being satisfactorily completed. There is no limit on the value of the property of the Sub-Fund which may be the subject of stock lending arrangements.
- (b) Such arrangement must always comply with the requirements of the Taxation of Chargeable Gains Act 1992, the requirements of the COLL Sourcebook and the Guidance on Stocklending issued by the FSA as amended from time to time.
- (c) Underwriting and sub-underwriting contracts and placings may also, subject to certain conditions set out in the COLL Sourcebook, be entered into for the account of the Sub-Funds.

#### 19. Schemes replicating an index

- 19.1 The Sub-Funds may invest up to 20% in value of the Scheme Property in shares and debentures which are issued by the same body where the aim of the investment policy of the Sub-Fund as stated in Appendix 1 is to replicate the composition or performance of an index within 19.2.
- 19.2 The index must:
  - (a) have a sufficiently diversified composition;
  - (b) be a representative benchmark for the market to which it refers; and
  - (c) be published in an appropriate manner.
- 19.3 The limit in 19.1 may be raised for a particular Sub-Fund up to 35% in value of the Scheme Property of that Sub-Fund, but only in respect of one body and where justified by exceptional market conditions.
- 19.4 None of the Sub Funds replicate indices.

## APPENDIX 3

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### Eligible Markets

1. Eligible securities markets are eligible for the purposes of the rules if they are a regulated market (as defined in the Rules) or a market in an European Economic Area (EEA) state which is regulated, operates regularly and is open to the public or, following consultation with and notification to the Trustee, the Manager decides that market is appropriate for investment of or dealing in Scheme Property, it is included in a list in the prospectus and the Trustee has taken reasonable care to determine that adequate custody arrangements can be provided for the investment dealt in on that market and all reasonable steps have been taken by the manager in deciding whether that market is eligible.
2. The eligible securities and derivatives markets which the Manager may trade on for each Sub-Fund are:
  - a) London Stock Exchange (LSE);
  - b) Australian Stock Exchange,
  - c) Bolsa Mexicana de Valores (Mexican Stock Exchange)
  - d) Hong Kong Exchange
  - e) Johannesburg Stock Exchange
  - f) Korea Stock Exchange
  - g) New York Stock Exchange
  - h) New Zealand Stock Exchange
  - i) Singapore Exchange
  - j) Tokyo Stock Exchange
  - k) Toronto Stock Exchange
3. The Manager does not currently intend to use Scheme Property to invest in derivatives and forward transactions under the COLL Sourcebook, other than for the purposes of efficient portfolio management techniques.

## APPENDIX 4

### Determination of Net Asset Value

The value of the property of the SMARTfund Advantage or of a Sub-Fund (as the case may be) shall be the value of its assets less the value of its liabilities determined in accordance with the following provisions.

1. All the property (including receivables) is to be included, subject to the provisions in paragraphs 2 to 15 below.
2. Property which is not cash (or other assets dealt with in paragraph 3 below) or a contingent liability transaction shall be valued as follows and the prices used shall (subject as follows) be the most recent prices which it is practicable to obtain:
  - 2.1 units or shares in a collective investment scheme:
    - (a) if a single price for buying and selling units or shares is quoted, at that price; or
    - (b) if separate buying and selling prices are quoted, at the average of the two prices provided the buying price has been reduced by any initial charge included therein and the selling price has been increased by any exit or redemption charge attributable thereto; or
    - (c) if, in the opinion of the Manager, the price obtained is unreliable or no recent traded price is available or if no recent price exists, at a value which, in the opinion of the Manager, is fair and reasonable;
  - 2.2 any other transferable security:
    - (a) if a single price for buying and selling the security is quoted, at that price; or
    - (b) if separate buying and selling prices are quoted, at the average of the two prices; or
    - (c) if, in the opinion of the Manager, the price obtained is unreliable or no recent traded price is available or if no price exists, at a value which, in the opinion of the Manager, is fair and reasonable;
  - 2.3 property other than that described in (a) and (b) above: at a value which, in the opinion of the Manager, represents a fair and reasonable mid-market price.
3. Cash and amounts held in current and deposit accounts and in other time-related deposits shall be valued at their nominal values.
4. Property which is a contingent liability transaction shall be treated as follows:
  - 4.1 if a written option, (and the premium for writing the option has become part of the scheme property), deduct the amount of the net valuation of premium receivable. If the property is an off-exchange derivative the method of valuation shall be agreed between the Manager and the Trustee;
  - 4.2 if an off-exchange future, include at the net value of closing out in accordance with a valuation method agreed between the Manager and the Trustee;
  - 4.3 if any other form of contingent liability transaction, include at the net value of margin on closing out (whether as a positive or negative value). If the property is an off-exchange derivative, the method of valuation shall be agreed between the Manager and the Trustee.
5. In determining the value of the Scheme Property, all instructions given to issue or cancel units shall be assumed to have been carried out (and any cash paid or received) whether or not this is the case.
6. Subject to paragraphs 7 and 8 below, agreements for the unconditional sale or

purchase of property which are in existence but uncompleted shall be assumed to have been completed and all consequential action required to have been taken. Such unconditional agreements need not be taken into account if made shortly before the valuation takes place and, in the opinion of the Manager, their omission shall not materially affect the final net asset amount.

7. Futures or contracts for differences which are not yet due to be performed and unexpired and unexercised written or purchased options shall not be included under paragraph 6.
8. All agreements are to be included under paragraph 6 which are, or ought reasonably to have been, known to the person valuing the property.
9. An estimated amount for anticipated tax liabilities at that point in time including (as applicable and without limitation) capital gains tax, income tax, corporation tax, value added tax, stamp duty, stamp duty reserve tax and any foreign taxes or duties will be deducted.
10. An estimated amount for any liabilities payable out of the property and any tax thereon treating periodic items as accruing from day to day will be deducted.
11. The principal amount of any outstanding borrowings whenever payable and any accrued but unpaid interest on borrowings will be deducted.
12. An estimated amount for accrued claims for tax of whatever nature which the Manager and the Trustee consider likely to be recovered will be added.
13. Any other credits or amounts due to be paid into the property will be added.
14. A sum representing any interest or any income accrued due or deemed to have accrued but not received will be added.
15. Currencies or values in currencies other than base currency shall be converted at the relevant valuation point at a rate of exchange that is not likely to result in any material prejudice to the interests of Unit holders or potential Unit holders.