

Notice to Unitholders

REGARDING PROPOSED MODIFICATION OF THE CONSTITUTIONS FOR SCHEMES OPERATED BY IML

ATTRIBUTION MANAGED INVESTMENT TRUST REGIME

1 JUNE 2017

1. Overview

Investors Mutual Limited (**IML**), in its capacity as responsible entity of the registered schemes set out below (**Schemes**) gives notice that it proposes to make amendments to the Constitutions of the Schemes to enable the Schemes to elect to opt-in to the new Attribution Managed Investment Trust regime (**AMIT Regime**) from **1 July 2017**.

The Schemes impacted by this notice are the following:

- (a) Investors Mutual Australian Share Fund, ARSN 093 182 695;
- (b) Investors Mutual Equity Income Fund, ARSN 107 095 438;
- (c) Investors Mutual All Industrials Share Fund, ARSN 093 182 195;
- (d) Investors Mutual Concentrated Australian Share Fund, ARSN 145 759 879;
- (e) Investors Mutual Future Leaders Fund, ARSN 093 182 828;
- (f) Investors Mutual Australian Smaller Companies Fund, ARSN 093 182 471; and
- (g) Investors Mutual Small Cap Fund, ARSN 122 918 496,

each of the above a **Scheme** and together the **Schemes**.

2. What is the purpose of this notice?

The purpose of this notice is to inform Unitholders in the Schemes that:

- (a) As at the date of this Notice, IML is intending to opt-in to the AMIT Regime in respect of each Scheme for the financial year commencing on 1 July 2017 (and for subsequent financial years);
- (b) IML proposes to make amendments to the constitutions of the Schemes (**Constitution/s**) pursuant to notional section 601GCA of Corporations Act¹ to enable the Schemes to opt-into the AMIT Regime (**Proposed Amendments**);
- (c) IML will modify the Constitution of each Scheme to give effect to the Proposed Amendments on or after **10 June 2017**, unless it receives written requests, by 5pm (Sydney time) on **9 June 2017** from Unitholders with at least 5% of the votes that may be cast, to call and arrange to hold a meeting of the relevant Scheme's Unitholders. This meeting would be convened to consider and vote on a special resolution to amend the Constitution to introduce the Proposed Amendments. Please see section 6 below.

¹ As inserted by ASIC Corporations (Attribution Managed Investment Trusts) Instrument 2016/489.

3. What is the AMIT regime?

A new tax regime for managed investments trusts has recently come into effect under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. Under the current tax regime, the net income of a Scheme is allocated to Unitholders based on the relevant Unitholder's proportionate share of the income of the Scheme to which they are "presently entitled".

Under the AMIT Regime, Unitholders will be taxed on the taxable income that is "attributed" to them by a Scheme on a "fair and reasonable" basis. In short, this alternative method allows a Scheme to attribute an amount of taxable income to a Unitholder that is greater than the actual cash paid to that Unitholder. In this circumstance, the AMIT Regime ensures an upward costs base adjustment to Units (for the amount attributed in excess of cash) to minimise the risk of any double taxation in the hands of Unitholders.

IML (in its capacity as Responsible Entity of each Scheme) must make an election to opt-in to the AMIT Regime before the regime can be applied to the Schemes.

4. Why is IML proposing to opt-in to the AMIT regime?

IML considers that electing to opt-in to the AMIT Regime will result in more equitable and fair tax outcomes for the Unitholders of each Scheme, for the following key reasons:

- (a) **Codification and certainty:** The AMIT Regime is largely based on current industry practice and would treat AMITs as flow-through vehicles similar to the current non-AMIT taxation regime for managed investment trusts (such as the Schemes). However, the AMIT Regime codifies existing industry practice (which is largely unsupported by legislation), and the new provisions seek to provide substantially more certainty and flexibility for dealing with income derived by the AMIT and taxation treatment of Unitholders in the AMIT.
- (b) **Flow through on attribution basis:** The AMIT regime provides the ability for the Schemes to 'flow through' taxable income to Unitholders on an "attribution basis", and for that taxable income to retain its character for tax purposes as it flows through each Scheme.
- (c) **Minimise risk of double taxation:** The regime gives the ability to minimise the current potential for double taxation which arises where there is a difference between the taxable income of the relevant Scheme and the amount of income distributed to Unitholders. This is because the AMIT Regime allows cost base adjustments to be made where distributions are greater or less than the amount on which the investor is assessed for taxation purposes.
- (d) **Efficiency and treatment of "unders" and "overs":** The AMIT Regime facilitates the carrying forward of certain under-estimations and over-estimations of taxable income allocated to Unitholders (referred to as "unders" and "overs") and reconciling them in the year they are discovered by adjusting a Unitholder's entitlement to income in that year.
- (e) **Fixed trust certainty:** Under the AMIT Regime, each Scheme is deemed to be a "fixed trust" further enabling IML to carry forward and utilise tax losses in future income years and flow through franking credits to Unitholders where net income is derived.

As the AMIT Regime has only recently been enacted, it is possible that there may be some uncertainty on how it operates in the initial years.

5. What are the proposed amendments to the constitutions, and why are the changes necessary?

IML is proposing to vary the Constitutions to allow the Schemes to be effectively and efficiently operated under the AMIT Regime. The terms of the Constitutions of each Scheme are not currently adequate to facilitate enter into the AMIT Regime.

IML will make these amendments on or prior to 1 July 2017 so that IML may opt-in to the AMIT Regime for the financial year ending on 30 June 2018. The proposed amendments are summarised at a high level below. These changes are necessary for, or incidental to, the Schemes being operated under the AMIT Regime, and therefore are required in order for the Schemes to potentially take advantage of the benefits set out above.

Proposed amendment	Description of the amendment
Adoption into the AMIT Regime	A new provision will be inserted into the Constitutions giving IML a specific power to make an irrevocable election for the Schemes to opt-in to and to operate pursuant to the AMIT Regime.
Income and capital distributions and accumulation, attribution	<p>New provision of attribution mechanism in accordance with new AMIT rules including method of calculation for relevant assessable components of income or gains, after deductions for expenses.</p> <p>Existing provisions for determining distributable income on present entitlement basis to be retained and will apply for financial years to which AMIT Regime does not apply.</p> <p>New provision to give flexibility to defer distribution of the distributable income for financial years to which the AMIT Regime applies to a later distribution period in the same financial year, or to accumulate and not distribute the distributable cash.</p> <p>New provision to specifically allow for classes of income to be accounted for by IML, and a general rule regarding the allocation of costs and expenses to the different classes.</p> <p>New provisions to allow for attribution of components of taxable income to unitholders incorporating AMIT Regime requirements, such as "fair and reasonable basis" for attributions.</p> <p>A clause allowing an error (i.e. an "under" or "over") in calculating taxable income for one income year (that is discovered in a later income year) to result in an "under" or "over" in the discovery year.</p> <p>A clause allowing the Schemes to issue preference Units that are treated like debt for income tax purposes.</p>
New powers and protections	<p>New provisions giving IML specific power to elect to opt-in to the AMIT Regime and powers otherwise necessary or desirable to operate the Schemes under the AMIT Regime.</p> <p>New provisions giving IML specific powers which are expected to be necessary for the Schemes to operate under the AMIT regime, including determining taxable income components, making attributions to Unitholders and issuing member statements ("AMMAs") for that purpose.</p> <p>New provisions clarifying that IML will not be liable in respect of, or as a consequence of, the proper exercise of powers provided to it for the purposes of the AMIT Regime.</p>

Proposed amendment	Description of the amendment
	New provisions seeking to give IML the right to be specifically indemnified (including potentially by Unitholders and former Unitholders) in relation to tax and related costs, expenses or liabilities incurred by IML as responsible entity.
Other	Other incidental changes will be made to: <ul style="list-style-type: none"> • Facilitate the proposed amendments described above, for example to include specific definitions relevant to the AMIT Regime. • Give IML the power to do all things necessary, desirable or expedient to properly administer and operate the Schemes as an AMIT under the AMIT Regime.

6. What do I need to do?

Unitholders of the Schemes should review and take note of the proposed amendments to the Constitutions. While each unitholder may have their own considerations as to whether a Scheme’s election into the AMIT Regime would be beneficial for them, any decision to enter into the AMIT Regime on behalf of each Scheme will be made by IML in accordance with its duties to each Scheme as a whole. **IML does not provide financial or taxation advice to its Unitholders. Accordingly, Unitholders should obtain independent tax advice to discuss any implications the proposed amendments may have on their own circumstances.**

Please be aware that IML will proceed to amend the Constitution of each Scheme as proposed on or after the date which is **7 days from the date of this Notice**, unless IML receives the required number of requests from Unitholders in the relevant Scheme to convene a meeting to vote on the proposed amendments.

7. Who do I contact if I wish to respond to this notice?

Unitholders are not required to respond to this notice. However, if you object to the Proposed Amendments and wish to request a meeting of Unitholders to vote on the Proposed Amendments, the request must be made in writing and sent to the attention of the Company Secretary trading@iml.com.au by **5:00pm (Sydney time) on 9 June 2017**. Any request must include the Unitholder’s full name, the relevant Scheme that you are invested in, and your Account Number. The request must clearly state that you wish to call a vote of Unitholders in the relevant Scheme in relation to the AMIT Regime changes. If a meeting is required, Unitholders in the relevant Scheme will be advised of the meeting details and voting process.

8. What if I have any queries?

If you have any questions about this notice, please contact your financial or tax adviser, or contact IML on 1300 551 132.

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