

The Investment Principles and Shareholder Guidelines

This document seeks to clearly set out the investment principles by which EGP Fund No. 1 Pty Ltd will operate. If anything is unclear, please contact before subscribing, this document is not intended as advice.

- **The rules set out below apply to the A-Shares in EGP Fund No. 1 Pty Ltd. There is at the time of writing, a B-Share, which is non-fee paying. This stock is issued primarily to the direct-family of the investment manager, and charitable organisations. There may be occasion in future to issue the non-fee-paying stock to other persons or organisations, at the managers discretion. The investment manager also reserves the right to issue other classes of shares in the future which may have different fee structures. If you subscribe for A-Shares the rules below apply to you.**
- To operate efficiently some guidelines and a clear outline of the investment principles must be provided.
- The 'Mission' of EGP Fund No. 1 Pty Ltd is "To steward the funds entrusted to us with absolute integrity and superior risk adjusted returns"
- The dream was always to provide a purely fee for performance based investment opportunity into a market lacking such products. In our view, managing money alone shouldn't entitle you to a fee. Earning a fee should require success, as determined by out-performing a pre-determined benchmark; only by so doing should money managers earn an appropriate fee. Our targeted performance will be 3-5% out-performance of our chosen benchmark (S&P/ASX 200 Franking Credit Adjusted Annual Total Return Index Tax-Exempt). We do not guarantee out-performance, but you will have the knowledge that we earn nothing for our efforts without such out-performance.
- EGP Capital (Eternal Growth Partners Pty Ltd trading as EGP Capital) will be investment manager for EGP Fund No. 1 Pty Ltd. All valuations and investment decisions are solely the responsibility of the investment manager EGP Capital. My family and I own and control EGP Capital. At this time of writing (28/02/17) my Wife and I have over 90% of our net worth in the fund. I disclose this fact to indicate my personal interests will be aligned with your best interests as a shareholder.
- With a view to achieving the mission, we will operate on a very lean basis. We have no paid staff, and virtually no overheads. We have recently taken a small office space in Sydney CBD, which will add a few basis points of cost to our structure. Primary source of contact with shareholders will be via the website and e-mail. Administrative costs in excess of 0.25% of average Funds Under Management (FUM) will be reimbursed by the investment manager (EGP Capital). Since inception, such costs have averaged less than 0.10% annually.
- I believe we can operate in this administratively simple way indefinitely. Investors will be notified of any change to the structure in advance.
- There is no annual management fee. Fees will be earned only based on a total of 20% of the out-performance of our selected benchmark. Calculated share-price will include all underlying gains and losses in invested funds, all interest earned and all franking credits accrued. The fees however will generally be taken in the form of Bonus Shares issued to the investment manager based on audited closing prices on June 30th each year.

- The share price will always be expressed to four decimal places. By way of example, if the share price (i.e. underlying assets divided by issued capital) for EGP Fund No. 1 starts the financial year (July 1st) at \$2.0000 and ends it (June 30th) at \$2.3000 and the benchmark over the same time period improves from 52000.00 points to 57200.00, then EGP Fund No. 1 will have outperformed by 5%, or 10.0 cents per share. Under the 20% of out-performance scheme, 2.0 cents per share would be payable in performance-fees, meaning the starting share price to begin the next financial year would be \$2.2800. These fees will be converted into bonus shares and added to the holdings of the investment manager, EGP Capital. If we under-perform, no fee is payable.
- Likewise, no fee will be payable in the event of a decline over the period in the price of EGP Fund No. 1 Pty Ltd. This means that even if the benchmark declines by 20% and the value of EGP Fund No. 1 Pty Ltd declines by only 5%, you will pay no fee (even though this would be an outstanding protection of your assets in a declining market)
- Regarding franking credits and dividends, it is our intention to pay a single annual dividend, towards the end of the financial year, targeting the last business day in May (so investors can get the pre-paid tax back in their pocket as soon as possible). All shares will be subject to our dividend reinvestment plan (DRP) unless the individual investor informs us of a preference for a cash dividend. Each year we will pay out the franking credits to the nearest full cent available. So if, for example, we have 3.1 cents per share in franking credits, and a share price of say \$2.0000 on dividend date, then we will issue a 7c fully franked dividend to all shareholders (with 3c franking credit attached). The ex-distribution price per share will be \$1.9000 (7c div + 3c FC). It is at this price that shares will be reinvested.
- We will post twice monthly updates on the company website: www.egpcapital.com.au comparing performance to our benchmark.
- We will operate initially as a Pty Ltd company (EGP Fund No. 1 Pty Ltd). Depending on business growth, other structures will be considered going forward.
- We operate as a company to manage our taxation obligations in the most effective way. It is our intention as a buy and hold investor to minimise crystallised capital gains, minimising the income generated and therefore annual taxation obligations. It is likely once we have a sufficiently broad mix of investors from different income levels, that we will also run a bonus share plan (BSP) alongside the DRP, so that higher income investors can opt out of receiving the dividends and instead have their earnings as bonus shares which will add to their original cost base.
- EGP Fund No. 1 is intended to be a highly concentrated, very high conviction fund. We will generally allocate at least 20% of our equity asset to our single highest conviction selection. Since inception we have never held less than 50% in our 4 highest conviction selections. We expect to rarely hold any more than 25 individual issues. We likewise expect it is unlikely we will ever hold less than 10. We point this out because in investing with us, you need to be aware we will be always doing our utmost to beat our benchmark. By focusing heavily on those holdings we believe are most deeply undervalued, we believe we will best be able to achieve our aims.

- ❑ All investors need be aware investing in shares involves inherent risk. Investors in EGP Fund No. 1 Pty Ltd have investment risk capped to their total contribution.
- ❑ Those who want to contact me are also welcome to do so any time on 0418 278 298, or at Tony@eternalgrowthpartners.com
- ❑ The fund will have its assets externally audited annually at the June 30 Balance Date confirming per share valuation. The audit will be sent to all current shareholders by email in .pdf format.
- ❑ As the fund will periodically hold interests in some less liquid issues, in order to ensure a fair price, guarding against a sharp spike or decline in the price of an illiquid issue (on audit date), the audited closing price will be the average of the closing price over the last 3 trading closes. For example, if the price of a stock we hold trades as follows – 30c, 31c, 29c, the basis of calculation for NTA at the close of this period will be 30c. The purpose of this is to protect entering and exiting investors. Our auditors may also make a price determination if they feel the closing price misrepresents fair value. This may occur for example where a take-over offer (or other corporate event) is made in the days leading up to the closing date and the underlying price does not yet reflect the new information (for example if the stock is in trading halt).
- ❑ Investors will be able to enter or exit the fund at the end of every month. Subscriptions made throughout each month will be issued shares at the price calculated by the investment manager at close of trade on the last trading day of the month.
- ❑ For redemptions, written notice is required at any time before the trading close of the month. For those redeeming funds of greater than \$250,000, 10 business days' notice is required. Redemptions in excess of \$250,000 received later than 10 business days before the close of the month will be redeemed at the closing price of the following month. Any proposed withdrawal of shares that would result in the shareholder retaining less than the current minimum initial investment will be subject to full liquidation.
- ❑ Minimum initial subscription is \$20,000 or more in increments of \$1,000. Additional subscriptions can be in any increment of \$1,000.
- ❑ By completing the share application form at the bottom of this document, you can subscribe for shares as per the dates detailed above.
- ❑ **As the fund only takes fees once annually based on the 30 June closing price each year, the only way to incur a fee outside of this period is to withdraw on other than the 30 June date, at which point the performance fee earned to date (should the fund be out-performing in the period) on the redeemed shares will be incurred.**
- ❑ A redemption form will be available on the website or by e-mail request.
- ❑ Any variations to these Investment Principles will be e-mailed to all shareholders alerting them to the altered guidelines.
- ❑ This "Investment Guidelines and Shareholder Principles" does not represent advice, or a solicitation to purchase shares, anyone with questions or concerns should discuss with their accountant or financial advisor.

Erik A. (Tony) Hansen
 Company Secretary & Chief Investment Officer
 EGP Fund No. 1 Pty Ltd



EGP Fund No. 1 Pty Ltd ACN 149 046 051
 Suite 2, Level 11, 37 Bligh Street, Sydney, NSW, 2000
 Phone: 0418 278 298
 Email: applications@egpcapital.com.au
 Web: www.egpcapital.com.au

Share Application Form

To the Directors,

I hereby apply for A-shares in EGP Fund No. 1 Pty Ltd (Initial subscription must be at least \$20,000 and increments of \$1,000 thereafter) at the per share price as determined by external audit at the next available issue date.

I lodge full application monies \$_____

I AGREE to be bound by the "Investor Principles and Shareholder Guidelines" as set out in the preceding pages and HEREBY AUTHORISE the Directors to register me as the holder of the Shares allotted to me.

Signed: Date:

NAME:

ADDRESS:

POSTAL ADDRESS (if different from above):

PHONE: (h)..... (w)..... (m).....

EMAIL:

TAX FILE NUMBER: (You do not have to provide this, but if not provided, all distributions will be taxed at the top marginal rate – currently 46.5%)

AUSTRALIAN COMPANY NUMBER (ACN):..... (for investments made under company structures or via a trustee company)

Preferred Contact Option:

PAYMENT OPTIONS:

1. **Cheque (Please attach and return by mail);**
2. **BPay – Macquarie Bank - Biller Code: 667022**
Customer Reference No.: 962767968 or
3. **Direct Deposit** **BANK DETAILS:**

Account Name:

BSB/Account Number: /.....

To account description: EGP Fund No. 1 Pty Ltd **182-512 962767968**

From account description: Your name, as detailed in this Share Application Form, which you send to us.

A share-holding confirmation will be e-mailed as soon as practicable after your subscription is registered with ASIC.