

# IDPS GUIDE

## Glennon Capital Australian Shares Portfolio

Non-Unitised Portfolio Disclosure Document for IDPS Investors dated 22 December 2011.  
The Portfolio Manager is Glennon Capital Pty Ltd.

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## Non-Unitised Portfolio

<b>Non-Unitised Portfolio</b>	Glennon Capital Australian Shares Portfolio
<b>Code</b>	GLE003
<b>Inception date</b>	5/08/2010
<b>Manager</b>	Glennon Capital Pty Ltd (AFSL 338567, ABN 84 137 219 866)
<b>Benchmark</b>	S&P/ASX All Ordinaries Accumulation Index
<b>Designed for</b>	The Glennon Capital Australian Shares Portfolio should suit investors looking for broad market exposure with added value from active management of overall market exposure and from stock selection amongst mid & small companies.
<b>Investment objective</b>	The objective of the Glennon Capital Australian Shares Portfolio is to outperform the S&P/ASX All Ordinaries Index by 3% per annum over 3 year rolling periods and the UBS Bank Bill Index over the long term.
<b>Investment strategy</b>	Refer to Glennon Capital's Australian Shares Portfolio investment strategy below.
<b>Investment universe</b>	Listed Australian securities. The Non-Unitised Portfolio does not invest in derivatives.
<b>Typical number of stocks</b>	Stock Count: typically 80 to 100 stocks
<b>Asset allocation ranges</b>	Australian shares: 90% - 100% Cash: 0% - 10%
<b>Investment management fee</b>	0.57% p.a. including GST
<b>Performance fee</b>	16.50% (inc GST) of outperformance of the S&P/ASX All Ordinaries Accumulation Index

# Glennon Capital

Glennon Capital was established in 2008 as an independent specialist Australian share investment manager. We offer niche investment products for institutional, professional, sophisticated and high net worth clients. Our products are also available through a select group of independent financial advisers and financial planning dealer groups.

We undertake our own independent and innovative research. This gives us investment insights that are unique. This is a result of the depth and quality of our research, leading us to investment ideas earlier than the broader market.

We have extensive experience in investing, helping us navigate financial markets and avoid the hazards that trap unwary investors. Our depth of experience provides us with detailed knowledge of listed companies, management, industries and the way they interact, to minimise risk and allow us to make better investment decisions.



No matter how attractive an investment prospect sounds we need to be convinced about the quality of the investment we are making. We only invest in quality companies. We apply quality filters to ensure we are not investing in low quality companies.

We co-invest with our clients to ensure alignment of interests and the best possible investment outcome. This keeps investing at the forefront of what we do. We take a long-term view and aim to build long-term partnerships with our clients. That is why we limit the level of funds we manage.

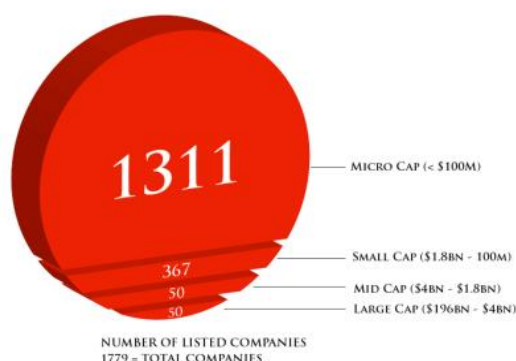
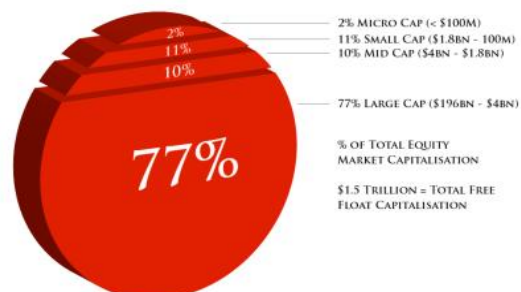
Small listed companies are not as closely followed by analysts as large companies and do not have the same degree of disclosure and transparency as larger companies. That means there are more opportunities for discovering hidden value in smaller companies. We

focus on finding value in small and micro- cap companies that are less efficiently priced.

Glennon Capital has a proprietary research system that provides a framework to guide us in making better investment decisions. Unique, 'off-the-shelf' tools do not exist for managing the specific informational requirements of small cap investing. We systematically gather information on businesses and industries and we continually crosscheck and seek new information that may not be fully appreciated by the market.

## Investment philosophy

We believe the market shows varying degrees of inefficiency. We add value by concentrating our research efforts in areas where inefficiencies are greatest. Larger companies tend to have better information flows and as a result, their price tends to more accurately reflect publicly available information. On the other hand, smaller companies are not subject to the same level of coverage and scrutiny, providing us with greater opportunities to find value.



There are more opportunities in smaller companies because they are far greater in number and there are structural inefficiencies in terms of the information readily available to investors.

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In light of the inefficiencies in the market we employ a rigorous process to seek out information enabling us to make better investment decisions. This process of seeking additional hidden information is often referred to as Mosaic Theory. Such information may be insignificant in isolation, but more revealing when combined with other insights. It requires a disciplined approach and a system to ensure that the appropriate due diligence has been done.

## Investment strategy

Our Australian Shares Portfolio strategy combines a passive core of the top 50 listed companies where we believe that the market is efficient when it comes to, that is to say that it is highly likely that all publicly available information is reflected in stock prices. The exposure of the Australian Shares Portfolio to the individual largest 50 Australian companies is managed passively by using similar assets and weightings as the benchmark index. The overall allocation between large companies, cash and mid & small companies is managed actively according to our view of short-term market valuation and long term prospects for the economy. Exposure to mid & small companies is managed actively as we believe we can demonstrate an edge in picking individual stocks as the market is less efficient. The portfolio can have up to 50% invested in cash.

Glennon Capital takes a long-term approach to investing. We employ a rigorous research approach to discover mid and smaller companies that are under the radar of the mainstream investment community. We also apply that same research approach to valuing the intrinsic or long term value of a business. This allows us to take advantage of short term swings in market sentiment which allows us to buy quality companies when they trade below their intrinsic valuation. This results in a portfolio with a contrarian bias when the market is at extremes in value and one which may be expected to outperform in subsequent periods. A valuation driven approach will also result in relatively defensive positioning when markets are trading significantly above intrinsic value.

## Risks

This summary is a guide only and is not an exhaustive list of all the risks.

### Diversification risk

Lack of diversification across asset classes (for example shares, property, cash, fixed interest) over your entire portfolio of investments may result in more volatility of your portfolio return.

### Market risk

Movements in a market sector, due (for example) to interest rate movements, or economic factors may have a negative impact on your investment and/or on the returns generated by your investment. Market values may be volatile and loss of capital may occur.

### Global risk

International factors such as exchange rate fluctuations and movements in international stock markets may affect the value of your investment if they are priced in foreign currency. Additionally, these investments may not be hedged effectively or hedged at all from exchange rate fluctuations.

### Sector risk

Risk associated with a particular industry's specific products or services due (for example) to changes in consumer demand or commodity prices.

### Liquidity risk

We may be unable to sell underlying investments in a timely manner, for example illiquid Securities that are rarely traded on the ASX or are restricted or suspended from trading may not be able to be sold, or property trusts where the underlying property asset requires a considerable amount of time to sell.

### Specific asset risk

Risks associated with specific assets, for example certain managed funds may use leverage, undertake short selling or invest in sophisticated financial products (i.e. derivatives, futures, foreign exchange contracts and options), and such use may potentially cause losses that are large in proportion to the money invested in them. Before selecting any managed funds as part of your Investment Strategy, you must read the relevant product disclosure document which will provide more details.

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## Inflation risk

Your investments may not keep pace with inflation so that over time your money has less purchasing power.

## How Glennon Capital Manages risk

Glennon Capital is unable to eliminate all investment risk, but does analyse, manage and aim to reduce the impact of risks by actively monitoring investment markets and portfolios and throughout the use of carefully considered investment guidelines.

## Performance fees (for actively managed non-unitised portfolios)

### Investment Performance Fee

Some Managers may charge a performance fee in addition to the investment management fee, as an additional incentive for the Manager to outperform the Non-unitised Portfolio's Benchmark. Performance fees relate to the outperformance of the Non-Unitised Portfolio in relation to the relevant Benchmark and will generally be paid to the relevant Manager. Please refer to the relevant Non-Unitised Portfolio disclosure documents provided to you by your Adviser for more information including the performance fee % which is used to calculate the \$ amount of performance fee to be deducted from your Account.

### Benchmark

Each Manager sets an appropriate Benchmark for the Non-Unitised Portfolio so that performance can be measured in relation to this Benchmark. For example, the "S&P/ASX 200" may be a Benchmark for an Australian shares fund. HUB24 obtains data on these indices from Standard and Poor's including performance data, and we use this to determine the Non-Unitised Portfolio Benchmark return % each day.

We calculate the Non-Unitised Portfolio performance by measuring the daily returns on a notional amount (\$10,000,000) invested in accordance to the Manager's instructions (i.e. in the Securities that make up the Non-Unitised Portfolio using the weights as advised by the Manager).

This identifies the Value Added (defined below) by the Manager compared to its Benchmark, without being

distorted by the timing of contributions and withdrawals, and the timing and settlement of trades, all of which can vary for each investor. In this manner the same value added % is charged to each investor in a particular Non-Unitised Portfolio. The % return each day is termed the Non-Unitised Portfolio return %.

Note that dividends are assumed to be reinvested in the Non-Unitised Portfolio in the form of cash. The Manager must regularly rebalance the Non-unitised Portfolio to redistribute any cash weight among Securities as it sees fit. The Non-Unitised Portfolio weights will have in the meantime moved from the original set of weights due to price movements and (possibly) other corporate actions – this is referred to as a "floating Non-unitised Portfolio".

### Calculation method

The Performance Fee is calculated as a set percentage applied to the Value Added by the Manager, so the higher the Value Added the higher the Performance Fee as the Manager shares the outperformance with the investor.

The fee is removed from the Account cash reserves at the end of each month (or on prior to full withdrawal from the Non-Unitised Portfolio).

Value Added is a dollar amount and is defined as Value Added % x your Non-Unitised Portfolio value, where Value Added % = (Non-Unitised Portfolio return % less the Non-Unitised Portfolio Benchmark return %) for that day.

Performance is calculated for the Non-Unitised Portfolio and the Benchmark in exactly the same way to identify the Value Added %.

The Value Added dollar amount is accumulated daily so that at the end of a given month, if the cumulative Value Added is greater than \$0 then a Performance Fee is payable on the Cumulative Value Added \$ x the Manager's performance Fee %, at which time the Cumulative Value Added is set to \$0. If the Cumulative Value Added is less than \$0 then a Performance Fee is not payable and the cumulative underperformance amount carries forward to the next month and must be made up before any outperformance fee can be charged.

### Example

If at the end of the previous month the cumulative outperformance was negative or -\$1,000 (i.e. a cumulative underperformance) and this month's

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outperformance is \$1,500 then the cumulative outperformance is \$500. If the Manager charged a performance fee % of 25% then  $25\% \times \$500 = \$125$  would be the performance fee for that month.

Say at the end of the previous month the cumulative outperformance was positive \$1,000 and a performance fee was charged of  $25\% \times \$1,000 = \$250$ , then the cumulative outperformance is reset to \$0. If this month's outperformance is \$1,500 then the cumulative outperformance is  $\$0 + \$1,500$  and another performance fee is due of  $25\% \times \$1,500 = \$375$ .

The performance of the Manager's Non-Unitised Portfolio will usually differ to your actual Non- unitised Portfolio for many reasons including:

- cashflows – the timing of capital contributions into and out of your Non-Unitised Portfolio – the Manager's Non-Unitised Portfolio makes no allowance for capital contributions or withdrawals
- your Non-Unitised Portfolio will not be identical to the Manager's Non-Unitised Portfolio, and (minor) rounding adjustments and minimum trade sizes – the notional amount invested in the Manager's Non-Unitised Portfolio is assumed to start at \$10,000,000 which may be different to your actual Account size.

## Important information

This document is intended only for purposes of providing an overview of the key features of the Non-Unitised Portfolio available via the IDPS Service operated by HUB24 Custodial Services Ltd (ABN 94 073 633 664, AFS licence No. 239 122) ("the Operator"). The information contained in this document is not intended to be a definitive statement on the subject matter nor an endorsement that this Non-Unitised Portfolio is appropriate for you and should not be relied upon in making a decision to invest in this Service.

Financial commentary contained within this document is provided by Glennon Capital Pty Ltd (AFS Licence No. 338567), who is the Portfolio Manager of this Portfolio. Glennon Capital does not guarantee the performance of the Portfolio, the repayment of capital or any particular rate of return.

You must read the IDPS Guide and the Financial Services Guide for this IDPS Service available from your Adviser, in particular, in relation to the risks associated with, and the amounts that may be payable for using, this Service. You must speak to your Adviser and obtain your own independent financial, legal or tax advice before considering whether an investment in this Non-Unitised Portfolio and this Service is suitable for you.

Refer to the IDPS Guide for a general overview of the general risks associated with investing in this Non-Unitised Portfolio via this Service.

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The Benchmark referred to above is a registered trademark unconnected with the Operator, its related parties or associates or the Manager.

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