

# Colonial First State Wholesale Guaranteed Mortgage Fund

## Product Disclosure Statement

**This Product Disclosure Statement is only for use by investors investing through a master trust, IDPS or wrap account.**

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The name and contact details of the responsible entity are:

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### What is a managed fund?

A managed fund is a unit trust that pools the money of many individual investors. This pool of money is managed by the responsible entity and used to buy assets according to the investment objective of the fund. The investment objective of the Colonial First State Wholesale Guaranteed Mortgage Fund is shown on the next page.

When you invest in a unit trust, you are allocated a number of 'units' based on the entry unit price at the time you invest. Your units represent the value of your investment, which will change over time.

### What are the features of the Guaranteed Mortgage Fund?

These days, your time is one of your most important assets. Taking advantage of a team of investment professionals helps you to make the most of your time, and importantly your money. Some of the benefits of the fund include:

- **Competitive fees** – our fees are competitive and easy to understand. There are no entry or exit fees for the fund and the management fee is lower than the comparative retail funds.
- **Reinvest distributions** – increase your returns by reinvesting the investment earnings. This

compounding effect means that a small improvement in your investment returns can make a big difference over time.

- **Regular communication** – you will also receive regular communication to keep you informed about your investment.
- **Award-winning service** – we pride ourselves on our history of delivering superior performance, efficient administration and client service which has been recognised by a number of peer and industry awards.

### What is an IDPS?

#### What is an indirect investor?

The term IDPS stands for 'investor directed portfolio service'. An IDPS is an investment and reporting service operated by an operator, and is a generic term for a master trust or wrap account, or a nominee or custody service. People who invest through an IDPS are indirect investors.

#### What happens when I invest through a master trust, wrap account or IDPS?

When you invest via a master trust, IDPS or wrap account you are investing indirectly in this Fund and as such you do not become a unitholder in the Fund, but the master trust, IDPS or wrap account operator is the unitholder and the term 'unitholder' as used in this PDS refers to those entities. You will not receive reports or other documentation from Colonial First State in respect of this Fund. Instead, these will be provided to the master trust, wrap account or IDPS operator, who is the unitholder. Issues relating to your investment in this Fund should be directed through the master trust, wrap account or IDPS operator.

Investments in the Colonial First State Wholesale Guaranteed Mortgage Fund ('the fund') are offered and managed by Colonial First State Investments Limited (referred to in this Product Disclosure Statement (PDS) as 'Colonial First State', 'Colonial First State Investments', 'the responsible entity', 'we', 'our', or 'us').

Colonial First State is a subsidiary of the Commonwealth Bank of Australia. The Commonwealth Bank of Australia and its subsidiaries do not guarantee, except for the guarantee set out below, the performance of the fund or any particular rate of return from the fund. Investments in the fund are not deposits or other liabilities of Commonwealth Bank of Australia or its subsidiaries and investment-type products are subject to investment risk including loss of income and capital invested. With the exception of specific guarantees provided by Colonial First State Group Limited ABN 52 004 405 556 (Guarantor), no member of the Commonwealth Bank of Australia or its subsidiaries guarantees the repayment of income and principal from the fund.

The issue of this PDS is authorised solely by Colonial First State. Apart from Colonial First State neither the Commonwealth Bank of Australia nor any of its subsidiaries are responsible for any statement or information contained in this PDS.

The information contained in this PDS is general information only and does not take into account your individual objectives, financial situation or needs. You should assess whether the information is appropriate for you and consider talking to a financial adviser before making an investment decision. You should read this PDS carefully before investing in the fund.

# Colonial First State Wholesale Guaranteed Mortgage Fund

## About this fund

The Colonial First State Wholesale Guaranteed Mortgage Fund is an unlisted unit trust with no entry or exit fees, which usually distributes income monthly to investors. The fund does not borrow so borrowing liabilities are not material. We suggest a minimum investment timeframe of one year for this fund.

The responsible entity for the fund is Colonial First State Investments Limited.

## What is the objective of the fund?

The fund aims to provide a consistent monthly income by investing in Australian mortgages and cash, while protecting capital through a guarantee.

## Investments

Fixed interest	50-70%
Cash	30-50%

- All mortgages that are not variable rate loans will be hedged so the fund is not locked into any fixed rate exposure.
- Mortgages are primarily 'interest only', usually with a term of three years. The maximum term of any individual mortgage is five years.
- We apply strict lending criteria that require full evaluation of the borrower's ability to service and repay the loan.
- Mortgages are intended to be spread across a range of assets (including office, residential, retail and commercial properties) to increase the diversification of the portfolio.
- This fund will not invest in mortgages that involve:
  - speculative or high risk ventures
  - construction finance, or
  - specialised property.
- All mortgages are secured against completed properties, not development properties.
- No more than 10% of the total value of the fund is to be invested with any single borrower.
- The fund does not purchase securities that give rise to material currency risk and therefore no currency hedging is undertaken.

## Performance

Year ended	Distribution	Growth	Total
31.07.99	—	—	—
31.07.00	—	—	—
31.07.01	5.62%	0.09%	5.71%
31.07.02	4.24%	0.11%	4.35%
31.07.03	4.99%	0.04%	5.03%
<b>Average pa</b>	<b>4.95%</b>	<b>0.08%</b>	<b>5.03%</b>
Fund start date	16 September 1999		
Value of \$10,000 invested at start date to 31.7.03	\$12,130		
Fund size as at 31.7.03	\$67.5 million		

These figures represent past returns only and are not an indication of future returns.

## Details about the guarantee

The Guarantor of the Wholesale Guaranteed Mortgage Fund is Colonial First State Group Limited, a member of the Commonwealth Bank Group. The net assets of the Guarantor as at 30 June 2003 (unaudited) were \$1,650.12 million. The deed evidencing the guarantee is dated 10 August 1999.

The guarantee has two key elements:

- a guarantee designed to ensure that the amount you invest and income generated by the investments in the fund will be returned to you when due
- a guarantee that all principal and interest due under any mortgage will be paid to the fund.

Other features of the guarantee include:

- the Guarantor has imposed certain restrictions as to the type of mortgages that may be accepted into the fund, the liquidity to be maintained in the fund, and the manner in which the liquidity is invested
- the Guarantor may, at any time, limit the amount of future investments into the fund. If this occurred we would close the fund to new investment once the size of the fund reached that point
- the Guarantor can cease to provide the guarantee if it first gives a minimum of 12 months notice to us. If this did occur, we would immediately advise you
- the guarantee will immediately cease to have effect if Colonial First State retires, is removed or is replaced as responsible entity of the fund
- the Guarantor receives a fee for provision of the guarantee which is met by us out of the fees we receive.

If you wish to view the guarantee please contact us on 13 13 36.

## How does Colonial First State manage money?

### 1. We are an active fund manager

This means we make investment decisions based on our continual assessment of which specific assets are likely to maximise wealth creation over time. Our approach contrasts with that of passive investment managers, who look only to replicate particular market indices.

Market indices, or 'benchmarks' as they are often called, are not a measure of good investments; rather they reflect an average of all investments making up the relevant index – both good and bad. We believe that the dynamic nature of investment markets enables us to add value through our active approach and, as such, we aim to achieve investment returns above those of relevant market indices.

In applying our active approach, we select investments which we believe offer the strongest prospects on a medium-to-long-term view.

# Colonial First State Wholesale Guaranteed Mortgage Fund

## 2. We adopt a disciplined methodology for managing money

This means that we continuously monitor and control various investment risks. As a professional investment manager, our role is not to avoid risk, but rather to understand the relationship between risk and return and to manage risk appropriately.

Our disciplined methodology also means that we do not apply short-term predictions to our decision-making process. We focus on the medium-to-long term. We recognise that in the short term two factors influence the direction and extent of market movements:

- fundamental factors, that we regularly analyse and that include leading economic indicators, supply and demand influences, political issues and taxation considerations, and
- sentiment, which can dominate fundamental factors in the short term and may manifest in highly emotive and 'herd-like' behaviour among investors.

Fundamental factors are useful in assessing a particular market's medium-to-long-term investment prospects. However, because of the role that sentiment plays, we believe that making short-term predictions can lead to undisciplined and irrational investment decisions. We believe that it is extremely difficult to accurately or systematically predict sentiment, due to the emotive factors involved.

## 3. We employ quality people

Colonial First State is regarded as one of Australia's largest and most reputable investment managers. Consequently we are able to attract and retain the highest quality personnel.

We have always worked on the basis that investment management is a balance between art and science. The 'science' is the proven investment process that provides the basis for decision-making, and the 'art' is the judgement that invariably delivers competitive advantage. Our business has been built on people who exercise good judgement and are acknowledged as leaders in their respective fields of expertise.

## Understanding investment risk

In an investment context, risk has traditionally been thought of as the variability in short-term returns and the potential to lose your capital. However, risk can also be considered as the likelihood that your investment goals will not be met.

Investments that provide the potential for higher returns tend to produce more variable returns in the short term. These investments are generally described as more risky as there is a higher chance of capital loss, but they can give you a better chance of achieving your long-term goals.

Investments that provide more stable returns and less chance of capital loss are considered to be less risky, but may not provide sufficient long-term returns for you to achieve your investment goals.

## Managing risk through diversification

Diversification is an effective risk management strategy involving spreading your money across different investments to smooth out returns. So, if a specific investment is performing poorly, another investment may be experiencing better returns to offset this performance. Ways of diversifying are:

- within an asset class, for example, by investing in a number of different shares or properties
- across asset classes by investing in more than one main asset class – cash, fixed interest, shares and property.

## What are the specific returns and risks that apply to mortgage funds?

A portfolio of high quality mortgages offers investors an income stream in the form of interest payments made by borrowers. This income stream will rise and fall depending on changes in the level of interest rates in the economy. Generally speaking, interest rate fluctuations usually create only moderate variations in year-to-year returns from a mortgage fund.

Mortgage interest rates are typically set as an extra margin over and above money market interest rates (such as bank bills of exchange). This is a 'risk/return trade-off', because mortgage investments do carry some risk of loss to the investor compared to highly rated money market investments.

## What is the risk of capital loss with a guaranteed mortgage fund?

For mortgage funds that carry a guarantee, the primary risk to the investor is limited to the risk that the guarantee provider (known as the 'guarantor') will not be able to honour the guarantee.

# Colonial First State Wholesale Guaranteed Mortgage Fund

## Fees

This table outlines the fees that you may be charged from the fund. These fees do not include any fees that may be charged by a master trust, IDPS or wrap operator. These fees may be deducted from the unitholder's account balance or from the returns on your investment or the fund as a whole. You should read all the information about fees carefully before investing.

	Amount <sup>1</sup>	How and when paid
<b>Ongoing fee</b>	1.15% pa	The management fee is paid monthly and expressed as a percentage of the total gross assets of the fund. It is deducted directly from the fund and is reflected within the unit price.
<b>■ Management fee</b> This is the ongoing administration and investment management fee.		

<sup>1</sup> All figures disclosed include the net effect of GST.

## Important additional information

### Management Expense Ratio (MER)

The MER shows you the cost of using a managed fund compared to investing directly. It is calculated by dividing the total management fees and expenses (but not transaction costs) by the average fund size over the period.

### Dollar fee example

The table below shows the approximate dollar effect that the MER can have on your account each year.

The actual fee you will pay will change each year depending on your individual circumstances and the performance of the fund. The table assumes an account balance of \$10,000 and uses the annualised MER for 2003.

### Increases or alterations to the fees

We may vary the fees specified above at any time at our absolute discretion. If the variation is an increase in a fee or charge we will give you 30 days advance written notice.

The Constitution of the fund provides for a maximum management fee (excluding custody fee) of 3% pa.

### Differential fees

Fees for certain large, sophisticated or professional investors may be negotiated and may differ from the fees shown in this PDS. Such an issue would be subject to compliance with legal requirements and any applicable Australian Securities and Investment Commission (ASIC) relief.

### Transaction costs

Transaction costs such as brokerage paid to mortgage organisers, government taxes/duties/levies, bank charges and account transaction charges are paid from the fund.

There is no current buy/sell spread differential for the Wholesale Guaranteed Mortgage Fund.

### Ongoing operating expenses

The Constitution for the fund allows for the ongoing operating expenses (such as a custody fee of up to 1.00%, registry, audit, taxation advice, use of an external consultant, PDS, accounts, stationery, postage and compliance committee expenses) to be paid directly from the fund.

Until further notice we will pay such amounts. The Constitution does not place any limit on the amount of the ongoing operating expenses that can be paid from the fund. If these fee arrangements change we will advise the unitholders in advance.

Fund	MER	MER	MER	Example dollar fee (pa)
	Year ended 30 June 2001	Year ended 30 June 2002	Year ended 30 June 2003	for \$10,000 invested Year ended 30 June 2003
Wholesale Guaranteed Mortgage Fund	1.13%	1.13%	1.14%	\$114

These figures are inclusive of the net effect of GST.

# Colonial First State Wholesale Guaranteed Mortgage Fund

## Commissions and other payments

The adviser selling you this product may receive payment ('remuneration') for the sale from the operator of the master trust or wrap account offering this fund. Details of this remuneration will be in the offer document for the master trust or wrap account and the Financial Services Guide (or Advisory Services Guide) and Statement of Advice which your adviser may give you.

We may pay listing fees to the operators of some master trusts and wrap accounts that offer the fund on their investment menus. Those operators may also receive remuneration in a variety of ways for the provision of services (eg by receiving marketing support payments). If this amount is paid, it is paid by us and is not an extra amount paid from the fund and nor is it an amount unitholders pay.

## What are the taxation implications?

The Australian taxation system is complex and different investors have different circumstances; you should consider seeking professional taxation advice before investing in the fund.

## How do I invest?

To invest into this fund, complete the documents which the master trust, wrap account or IDPS operator requires. You do not need to complete any of our forms.

## How do I make withdrawals from my investment?

Withdrawals are normally processed within seven working days of receiving a request from the master trust, wrap account or IDPS operator. Longer periods may apply from time to time. In extraordinary circumstances we may suspend withdrawals.

## How do I receive income?

Distributions are calculated on 30 June, and the last Sunday of all other months as they fall due, and are normally paid to the master trust, wrap account or IDPS operator within 14 days. In exceptional circumstances we may vary the distribution frequency without notice.

## How are unit prices calculated?

The unit price is calculated by taking the total value of all of a fund's assets on a particular day, adjusting for any liabilities and then dividing the net fund value by the total number of units held by all investors on that day. Although a unitholder's unit balance in a fund will stay constant (unless there is a transaction on the account), the unit price will change daily according to changes in the net fair value of the investment portfolio or the total number of units issued for the fund.

## Our responsibilities to you

The Constitution establishes the fund and sets out the rules. Together with this document and the law, it governs our relationship with the unitholder. You can inspect a copy of the Constitution at ASIC or our head office or we will provide you with a copy free of charge. This PDS sets out the material provisions of the Constitution.

The Constitution limits our need to compensate the unitholder if things go wrong - generally, if we comply with our duties, then we do not need to compensate the unitholder unless the law so requires.

The Constitution also contains a provision that it alone is the source of our relationship with the unitholder and not any other laws (except of course those laws we can't exclude). We must have unitholder approval to changes to the constitution which are adverse to the rights of investors.

## How is my personal information dealt with?

We do not normally receive any personal information about you when you invest in the fund.

For details on the collection, storage and use of your personal information, please contact your IDPS operator. If we do receive any of your personal information we will deal with it in accordance with our Privacy Policy.

For a copy of our Privacy Policy Statement please visit our website at [colonialfirststate.com.au](http://colonialfirststate.com.au) or call us on 13 13 36.

## Is there a cooling-off period?

A 14-day 'cooling-off period' will apply to your investment in the fund in certain circumstances. If, during the 14-day cooling-off period, you decide that the investment does not meet your needs, then simply advise your IDPS operator in writing.

The 14 days start when your transaction confirmation is received by the IDPS operator or five days after your units are issued, whichever is earlier. We will refund your investment, reduced or increased for market movements. We will also deduct any tax or duty incurred and a reasonable amount for transaction and administration costs. As a result the amount returned to you may be less than your original investment.

Under normal circumstances refunds are made within seven working days of your IDPS operator notifying us. For more information, please call our Investor Service Centre on 13 13 36.

# Colonial First State Wholesale Guaranteed Mortgage Fund

## What happens if I make a complaint?

If you are investing through an IDPS then enquiries and complaints should be directed to the IDPS operator.

If you have an enquiry or complaint and want to contact us directly, please telephone us on 13 13 36. If you require further assistance, then direct your written enquiry or complaint to the Dispute Resolution Officer at our head office address or you can email us at [contactus@colonialfirststate.com.au](mailto:contactus@colonialfirststate.com.au).

If you feel that your complaint has not been adequately addressed, we are a member of the Financial Industry Complaints Service (FICS). FICS' address is 31 Queen Street, Melbourne Victoria 3000 and the toll free telephone number is 1800 335 405.

## Are labour standards or environmental, social or ethical considerations taken into account?

Colonial First State does not explicitly take labour standards or environmental, social or ethical considerations into account when making investment decisions. However, these factors may be taken indirectly into account in the assessment of the sustainability of earnings of the borrowers and their ability to service their financial obligations under the loan agreements.

## Does the fund use derivatives?

The fund may use financial derivatives such as futures, options and forward rate agreements. We may do this as an alternative to direct purchases or sales in order to manage risk, and not for speculation or leverage.

Our use of financial derivatives will not cause us to exceed our stated investment ranges.

## What are our reporting requirements?

As disclosing entities under the Corporations Act, the fund is subject to regular reporting and disclosure obligations. Copies of documents we lodge with ASIC to fulfil these obligations may be obtained from, or inspected at, an ASIC office.

You also have a right to request a copy of certain documents from us when they become available, and we must send you a copy (free of charge) as soon as practicable and in any event within five days. Your request will be fulfilled in the way you choose – by email, fax or post, or you can collect it from our offices. The documents are:

- the annual financial report for the fund most recently lodged with ASIC, and
- any half-year financial report lodged with ASIC and any continuous disclosure notice given for the fund after the lodgement of the annual financial report for that fund and before the date of this PDS.

## Are there any other benefits to Colonial First State?

The fund receives banking and treasury-related services from the Commonwealth Bank Group of companies in the normal course of business and pays normal commercial fees for them. We may derive monetary or administrative benefits from the Commonwealth Bank of Australia or other members of the Commonwealth Bank Group as a consequence of maintaining the fund's bank accounts with the Commonwealth Bank of Australia.

## Can an Investor Directed Portfolio Service use this PDS?

Where the Colonial First State Wholesale Guaranteed Mortgage Fund PDS is included on an authorised investment list for an Investor Directed Portfolio Service (IDPS), this PDS may be used by an investor wishing to give the IDPS operator a direction to invest in the fund.

Where an investor does instruct an IDPS operator to invest in this fund the investor will not be a unitholder in the fund. The IDPS operator will hold the units and any rights attaching to the units will be exercisable by the IDPS operator. If you are investing in an IDPS it is important that you read this PDS in that context.

Colonial First state will notify the operators of relevant IDPSs as soon as is reasonably practicable if a supplementary or replacement PDS is issued.

# Colonial First State Wholesale Guaranteed Mortgage Fund

## About Colonial First State

Colonial First State is one of Australia's leading investment managers and since establishing operations in 1988 we have built a reputation for performance and service. The Colonial First State Group currently manages more than \$90 billion globally.

Colonial First State is a wholly owned subsidiary of the Commonwealth Bank of Australia – which is one of the largest and oldest financial services institutions in Australia.

We believe that a long-term, valuable relationship with both our investors and their advisers can only be built on a foundation of trust and honesty. Our clients deserve access to full and understandable information in order to make wise investment decisions. So, throughout all communications, we aim to be straight talking and transparent.

We pride ourselves on our history of delivering superior performance, efficient administration, award-winning client service and competitive fees.

These have been recognised by a number of peer and industry awards including:

- winner of Personal Investor Magazine's overall Fund Manager of the Year Award 2002
- a three-time winner of Money Management's overall Fund Manager of the Year Award
- four Gold medals in Personal Investor Magazine Awards 2001
- 1st place in Australian 2000 Teleservice and Call Centre Association Awards and a finalist for the past four years
- 1st place in both the 2001 and 2002 ASSIRT Service Awards – Best Fund Manager.

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The responsible entity may change any of the terms and conditions in the PDS with, in the case of material changes, 30 days notice to investors.

If you are printing an electronic copy of this PDS you must print all pages. If you make this PDS available to another person, you must give them the entire electronic file or printout. A paper copy of this PDS (and any supplementary documents) can also be obtained free of charge on request by calling our Investor Service Centre on 13 13 36 or by contacting your financial adviser.

The offer made in this PDS is available only to persons receiving this PDS within Australia. The offer may, at the discretion of Colonial First State, be made in New Zealand at a later date during the term of this PDS. Applications from outside Australia and New Zealand will not be accepted.

If Colonial First State elects to make the offer in New Zealand, it will be available only to persons who have received a New Zealand investment statement in New Zealand and have completed the application form attached to that investment statement to make their initial investment.

### Interests of the directors of the responsible entity

Directors may receive a salary as employees of the Commonwealth Bank Group and from time to time may hold interest in shares in the Commonwealth Bank of Australia or investments in the fund. This PDS has been authorised by our directors.