



# Announcements by Paragon Funds Management Ltd as Responsible Entity of Paragon Fund ARSN161 565 920 on 2<sup>nd</sup> December 2016

## I. Implementation of the Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2015 Regime.

ASIC has recently granted relief to allow Paragon Funds Management Ltd (Paragon) and other responsible entities of registered managed investment schemes to make changes to their constitutions without obtaining approval from Unit Holders, where the changes are for the implementation of the Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2015, the new tax regime for managed investment trusts referred to as the AMIT regime.

Paragon intends to rely on the ASIC relief to make changes to Paragon Fund's (Fund) constitution.

These changes to the constitution will allow Paragon to elect into the new AMIT regime. If Paragon elects into the AMIT regime, it will be permitted to, among other matters, change the way it distributes Fund income. At present, the Fund's net income is allocated to each Unit Holder annually based on their proportionate share of the Fund. This whole-of-fund approach results in the profits and losses of all classes of units being netted off to determine the Fund's overall taxable income which is, in turn, allocated and distributed each year, based on a Unit Holder's present entitlement.

Under the AMIT regime, Paragon will be able to, for income tax purposes, attribute amounts of taxable income, exempt income, non-assessable non-exempt income, tax offsets and credits to Unit Holders in accordance with their interests as set out in the constitution. This means that Paragon will, for example, be able to attribute amounts of income to one class of Unit Holders on a different basis to another class of Unit Holders, provided that the treatment is fair and reasonable.

Further, if Paragon notes a discrepancy between the amounts actually attributed to Unit Holders for an income year and the amounts that should have been attributed, Paragon will be able to reconcile the discrepancy by using the *unders and overs* allowance provisions in the regime.

ASIC has asked all responsible entities that intend to change their constitutions with respect to AMIT changes, to publish a prominent notice on their website explaining that they intend to change the

constitution, and summarise the reasons for this and the effect of the changes. The notice must also state that the responsible entity will change the scheme's constitution in the way it has identified unless it receives a request to call and hold a meeting from Unit Holders with at least 5% of the votes that could be cast on a special resolution.

In order to satisfy ourselves that all Unit Holders are made aware of this change, Paragon has elected to send this notice by email to all Unit Holders.

Reasons for the change:

The purpose of the AMIT regime is to provide some flexibility when making distributions to Unit Holders. The current regime taxes Unit Holders on allocated tax amounts like discount capital gains, foreign sourced income, amounts that are subject to dividend, interest or royalty withholding tax and tax offsets and not necessarily on cash distributed or fund income. The new AMIT regime will allow Paragon to determine the way tax amounts are attributed to Unit Holders.

Paragon believes that it is in its Unit Holders' interest for the Fund to elect to apply the new AMIT regime because:

- the new regime is clear and certain about the tax amounts allocated to Unit Holders, in contrast to the *present entitlement* regime;
- allowing Paragon to reconcile *unders and overs* in the years in which they are discovered, as opposed to the existing law which requires Paragon to amend previous years' tax returns and notify Unit Holders of the amendments, if any, will help the Fund and Unit Holders to prepare their tax returns efficiently and reduce paperwork and revisiting old tax returns;
- the deemed fixed trust status and Unit Holders being treated as having vested and indefeasible interests in the income and capital of the new regime throughout the income year will generally make it easier to satisfy:
  - the trust loss rules requirements for carrying forward trust losses;
  - the franking credit rules which allow Paragon distribute franking credits; and
  - eligibility for CGT scrip-for-scrip rollover relief.

This regime will also enable Paragon to develop different classes of Unit Holders with different rights within a single Fund and allow it to take into account the interests of investors, should Paragon determine it to be appropriate or advantageous to its investors to do so.

There will also be a fairer cost base adjustment for Unit Holders' interests, with both up and down adjustments, and the elimination of some of the uncertainties concerning the treatment of tax deferred distributions, if applicable.

Unit Holders will be advised prior to any actual changes made that are as a result of adopting the AMIT regime, and where the changes are material, Paragon will revise the Fund's product disclosure statement.

Opportunity to request a meeting:

Unit Holders have at least 7 days from the date of this notice to request a meeting. If Paragon does not receive a request from Unit Holders with at least 5% of the votes that could be cast on a special resolution, by close of business on Tuesday 13<sup>th</sup> December, it will amend the constitution on the terms set out in the table on the next page.

**If you wish to request a meeting, please email your request to [client.services@paragonfunds.com.au](mailto:client.services@paragonfunds.com.au) no later than close of business on Tuesday 13<sup>th</sup> December.**

The following table sets out the effect of the changes to the Paragon Fund constitution with reference to Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016 (and supporting legislation):

<b>Constitution Clause</b>	<b>Effect of the Amendment</b>
<b>Clause 1.1 Definitions</b>	<p>Adds new definitions to include the new AMIT tax regime:</p> <p><b>AMIT</b> means the Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016 (and supporting legislation).</p> <p><b>Attribution</b> has the meaning given by AMIT.</p>
<b>Clause 3.4 Classes of Units</b>	This adds a clause to reflect that Paragon may elect to apply the Attribution regime under AMIT to particular Units or a Class of Units.
<b>Clause 6.12 Determination of Income and Capital</b>	This clause has been amended to make it subject to any decisions made by Paragon on the application of AMIT to Units or Classes of Units.
<b>Clause 7.5 Withdrawals</b>	This clause has been made subject to any decisions made by Paragon on the application of AMIT to Units or Classes of Units and consequent adjustments.
<b>Clause 11.6 Present Entitlement</b>	This clause has been made subject to any adjustments made as a result of AMIT.
<b>Clause 12 AMIT</b>	<p>This clause provides that where has elected to apply AMIT, it may attribute income to Units or a Class of Units at its discretion in accordance with the requirements of the law and apply the constitution so as to give effect to AMIT, making such adjustments as are necessary to:</p> <ul style="list-style-type: none"> <li>• adjust unit prices and fees and costs;</li> <li>• retain additional cash;</li> <li>• allocate taxable income;</li> <li>• determine where tax liabilities are to be allocated;</li> <li>• determine that income is capital; and</li> <li>• retain cash to meet any tax liabilities.</li> </ul>
<b>Clause 13 Powers of the Responsible Entity</b>	<p>This clause has been amended to allow Paragon to take such action as is necessary to give effect to AMIT including:</p> <p>notifying the ATO of its election to treat Units or a Class of Units under AMIT;</p> <ul style="list-style-type: none"> <li>• making attributions to Unit Holders, provided such attributions do not affect the rights to the and capital of the Fund in such a way as to materially diminish their rights;</li> <li>• applying the treatment under AMIT where taxable income is over or under the amount notified to Unit Holders;</li> <li>• making adjustments to the cost base when the taxable distribution exceeds the cash distribution; and</li> <li>• issuing member statements with such revisions as are necessary.</li> </ul>
<b>Clause 15 – Remuneration &amp; Expenses</b>	Clause 15 and the Expenses Schedule have been amended to allow Paragon to pay, on behalf of the Fund, any or all costs and expenses incurred in connection with applying AMIT to Units or a Class of Units in the Fund.

## **II. Fund Name Change from Paragon Fund to Paragon Australian Long/Short Fund**

Paragon has elected to change the name of the Fund to make it more prescriptive and provide a clearer representation of the actual strategy of the Fund. Lodgement of change of name from Paragon Fund to Paragon Australian Long/Short Fund will take effect within the next few days.

This will not change how the Fund is being managed in any way.

The name change has been reflected as an amendment to the constitution, as elected by the Responsible Entity, and does not require approval from Unit Holders.

## **III. Change from Monthly to Daily Pricing and Liquidity**

Paragon is pleased to announce that the Fund is moving from monthly to daily pricing and liquidity. As a result of this change, effective from 1 January 2017, Unit prices of the Fund will be struck on a daily basis, and applications and redemptions will be permitted daily.

Daily inflows and outflows from the Fund will not impact on the investment activities of the Fund. The Fund Managers currently manage the Fund with a level of liquidity that enables Paragon to make this change without any adverse impact on the Fund.

The constitution has been amended where relevant to permit this change and does not require approval from Unit Holders.

## **IV. Reduction of MER fee from 0.5% to 0.25% pa capped**

Paragon is also pleased to announce that the Management Expense Recovery fee charged to the Fund will be reduced from 0.5% to 0.25% pa capped from 1 January 2017. Paragon is permitted to recover all usual fund expenditure incurred specifically for running the Fund. This is recovered by way of an expense recovery fee, which Paragon has elected to reduce to 0.25% pa.

It is important to remind Unit Holders that the rate charged can be changed at the discretion of the responsible entity, as disclosed in the latest PDS. Unit Holders will be given notice of any such changes.

### **Questions on any of our announcements?**

*If you have any enquiries in relation these announcements, please do not hesitate to contact Hillier Deniz, our CFO, on (03) 9652 2503 or 0439 767 115.*