

Target Market Determination (TMD)

Sequoia Commodities Series 12

21 July 2022

This TMD relates to the product referred to as **Sequoia Commodities Series 12** offered under the Term Sheet Product Disclosure Statement (PDS) dated 21 July 2022 and Master PDS dated 14 August 2017 (together referred to as the “**PDS**”). This product is issued by Sequoia Specialist Investments Pty Ltd (ACN 145 459 936) (“**the Issuer**”) and arranged by Sequoia Asset Management Pty Ltd (ACN 135 907 550, AFSL 341506) (“**the Arranger**”) pursuant to Section 911A(2)(b) of the Corporations Act. Pursuant to Section 911A(2)(b), the Issuer will issue the Units in accordance with the offer made by the Arranger.

| | |
|----------------------------------|---|
| Issuer | Sequoia Specialist Investments Pty Ltd (ACN 145 459 936) The Issuer does not hold an AFSL and relies on the arranger exemption in s911A(2)(b) of the Corporations Act. |
| Arranger | Sequoia Asset Management Pty Ltd (ACN 135 907 550, AFSL 341506) |
| Product | Sequoia Commodities Series 12 is a type of leveraged structured investment. It is issued in the legal form of Units in a Deferred Purchase Agreement (“DPA”) where the amount invested into the Units is funded via a Limited Recourse Loan (“the Loan”). The Units and Loan are offered together under the Term Sheet PDS dated 21 July 2022 and Master PDS dated 14 August 2017. It is not possible to invest into the Units without also taking out the Loan. |
| Date of TMD | 21 July 2022 |
| Overview of this document | This document is a target market determination for the purposes of section 994B of the Corporations Act 2001 (Cth) (Corporations Act) in respect of DPAs issued by us. This document is not a product disclosure statement (PDS) and does not take into account any particular investor’s objective, financial situation or needs. You should refer to our PDS at https://www.sequoiasi.com.au/ and consider obtaining independent financial product advice before deciding to invest in DPAs. |

Target Market for Sequoia Commodities Series 12

Notes relating to Target Market

The investor attributes for which the product is likely to be considered appropriate have been assessed using a Green, Amber and Red rating methodology with appropriate colour coding:

| | | |
|------------------|------------------------------|---------------------------------|
| In Target Market | Potentially in Target Market | Not considered in Target Market |
|------------------|------------------------------|---------------------------------|

In the tables below, Column 1, Investor Attributes, indicates a description of the likely objectives, financial situation and needs of the class of investors that are considering this product. Column 2, TMD indicator, indicates whether an investor meeting the attribute in Column 1 is likely to be in the target market for this product. Column 3 outlines the key Product Attributes.

Generally, an investor is unlikely to be in the target market for the product if one or more their Investor Attributes are a Red rating or three or more of their Investor Attributes are an Amber rating.

An investor (or class of investors) may intend to hold an investment in Sequoia Commodities Series 12 as part of a diversified portfolio. In such circumstances, Sequoia Commodities Series 12 should be assessed against the investor’s attributes **for the relevant portion of the portfolio**, rather than the investor’s portfolio as a whole. For example, an investor may seek to construct a conservative portfolio with a small allocation to growth assets. In this case, it may be likely that a product with a High Risk/Return profile such as Sequoia Commodities Series 12 is consistent with the investor’s objectives for that allocation notwithstanding that the risk/return profile of the investor as a whole is Low or Medium. In making this assessment, distributors should consider all features of a product (including its key attributes).



Investor’s objectives for product

| Column 1 | Column 2 | Column 3 |
|----------------------|---------------------------------|--|
| Objective | Consistency with target market | <p><i>Sequoia Commodities Series 12</i> provides 100% leveraged exposure to the BNP Paribas Strategy C52 10% Index (“Index”) for a period of 1.5 years via a Limited Recourse Loan. The proceeds from the Limited Recourse Loan are invested into Units of a Deferred Purchase Agreement (“DPA”) which provide exposure to the Index. The product is designed to give investors leveraged exposure to any positive growth of the Index during the Investment Term through the payment of a Performance Coupon at Maturity. Any Performance Coupon payable is based on the performance of the Index applied to the full leveraged Investment Amount, adjusted for changes in the AUD/USD exchange rate during the Investment Term. The product’s leveraged exposure to the Index means it will likely be suitable for investors who are seeking capital growth.</p> |
| Capital Growth | In Target Market | |
| Capital Preservation | Not considered in Target Market | |
| Capital Guaranteed | Not considered in Target Market | |
| Regular Income | Not considered in Target Market | |

Investor’s intended use of product

| Column 1 | Column 2 | Column 3 |
|--------------------------------------|---------------------------------|---|
| Product Use (% of Investible Assets) | Consistency | <p><i>Sequoia Commodities Series 12</i> provides 100% leveraged exposure to the Index for a period of 1.5 years via a Limited Recourse Loan. Given the high risks associated with the 100% leverage and exposure to only one asset class, it’s expected the Units would be used as a Very Small allocation (<10%) within a broader portfolio strategy.</p> |
| Solution/Standalone (75-100%) | Not considered in Target Market | |
| Core Component (25-75%) | Not considered in Target Market | |
| Satellite/Small (10-25%) | Not considered in Target Market | |
| Very Small (<10%) | In Target Market | |

| Column 1 | Column 2 | Column 3 |
|----------------------------------|---------------------------------|---|
| Investment Timeframe of investor | Consistency | <p><i>Sequoia Commodities Series 12</i> provides 100% leveraged exposure to the Index for a period of 1.5 years via a Limited Recourse Loan. It is designed to be held until maturity and therefore the timeframe for holding the investment is 1.5 years. This product is not suitable for investors who have a Very Short Timeframe (0-1 years).</p> <p>Note: This section looks at an investor’s objectives for the overall length of time the investor wishes to continue investing their portfolio, rather than the length of any one particular investment. For example, a medium or long term investor may wish to acquire this investment with a view to reinvesting any returns on the investment into another product at the end of the 1.5 year investment term</p> |
| Very Short (0-1 years) | Not considered in target market | |
| Short (1-2 years) | In target market | |
| Medium (2-6 years) | In target market | |
| Long (6+ years) | In target market | |



| Column 1 | Column 2 | Column 3 |
|---|---------------------------------|--|
| Investor's intended Risk/Return tradeoff | Consistency | <p><i>Sequoia Commodities Series 12</i> provides 100% leveraged exposure to the Index for a period of 1.5 years via a Limited Recourse Loan. This product should therefore be considered a Very High Risk investment with potential to generate a Very High Return. The fact that the product also has a fixed timeframe of at least 1.5 years and a break-even point which needs to be exceeded by the Maturity Date in order for the investor to make a positive investment return, means that this investment includes a very specific timing risk. This timing risk is in addition to the high risk associated with geared products generally. This is why this product is considered Very High Risk.</p> <p>Note: This section looks at an investor's objectives for the relevant portion of their portfolio only, rather than the investor's portfolio as a whole. For example, a product with a Very High Risk/Return profile may be consistent with the investor's objectives for a growth allocation as part of Very Small portfolio allocation (<10%), notwithstanding that the risk/return profile of the investor's portfolio as a whole may be low or medium.</p> |
| Very High Risk & Return | In Target Market | |
| High Risk & Return | Not considered in Target Market | |
| Medium Risk & Return | Not considered in Target Market | |
| Low Risk & Return | Not considered in Target Market | |

Please refer to the Appendix for Definitions of Terms

Explanation of why investments in *Sequoia Commodities Series 12* are likely to be consistent with the likely objectives, financial situation and needs of the target market (s994B(8))

The Issuer has assessed the product and formed the view that the product, including its key attributes, is likely to be consistent with the likely objectives, financial situation and needs of investors in the target market as described above, as the key features of this product in Column 3 of the table above are likely to be suitable for investors with the attributes identified with a green TMD Indicator in Column 2.

Retail clients for whom *Sequoia Commodities Series 12* is unsuitable

An investment in *Sequoia Commodities Series 12* will generally not be suitable for retail clients outside the target market. This also includes Retail clients who do not understand the risks of leveraged structured investments and retail clients who cannot bear the consequences of potential losses without material impact on their standard of living.

Distribution Conditions (s994B(5)(c))

No third party is permitted to distribute *Sequoia Commodities Series 12* issued by *Sequoia Specialist Investments Pty Ltd* (SSI) without a Distribution Agreement entered into between SSI and the Distributor.

All Distributors who have entered into a Distribution Agreement with SSI and wish to distribute the product must do so in accordance with any additional relevant procedures specified by SSI to the Distributor.

Distributors must consider and understand the PDS dated 21 July 2022 when distributing *Sequoia Commodities Series 12* to retail clients who fall within the target market.

Review Triggers (s994B(5)(d))

The review triggers that may suggest that the TMD is no longer appropriate, such that a review of the TMD should be undertaken, include:

- We become aware of a significant issuance of the product to retail clients outside the target market;
- Material changes to law affecting DPAs or Loans or other relevant regulatory changes;
- We become aware of a significant volume of complaints related to the TMD from retail clients;
- We become aware of significant changes to the composition and/or construction of the Index constituting the Reference Asset; or
- We become aware of significant changes to the creditworthiness of the relevant Hedge Provider.

Review Periods (s994B(5)(e), (f))

| Review period | Maximum period for review |
|-----------------------------|---------------------------|
| Initial review | 12 months |
| Subsequent/periodic reviews | 1.5 years |



Distributor Reporting Requirements (s994B(5)(g), (h))

The following information must be provided to us by distributors who engage in retail product distribution conduct in relation to this product:

| Type of information | Description | Reporting period |
|--|--|--|
| Complaints | Number and nature of complaints | As soon as practicable, and in any case within 10 business days after becoming aware |
| Significant dealing(s) outside the target market | Date range of the significant dealing(s) and description of the extent and nature of the significant dealing | As soon as practicable, and in any case within 10 business days after becoming aware |

Overview of Sequoia Commodities Series 12

Sequoia Commodities Series 12 is a leveraged structured investment. A structured investment is a pre-packaged investment strategy that provides exposure to underlying assets which may include a single stock, a basket of stocks, indices, commodities, debt securities, listed futures contracts, exchange traded funds, managed funds and/or foreign currencies. Structured investments include predefined terms and conditions which are fixed at the commencement of the investment. Structured investments are only open for investment over a limited time period (typically 4-8 weeks) and once the investment offer period has closed they are typically closed for investment. The predefined terms and conditions will always include a fixed maturity date at the end of an investment term, typically anywhere from 3 months up to even 10 years. Most structured investments offered by Sequoia Specialist Investments Pty Ltd cover an investment term of between 1-4 years.

Structured investments can be used as an alternative to a direct investment, as part of the asset allocation process to increase diversification or reduce risk exposure of a portfolio, or to obtain leverage to a current market trend or investment theme.

Deferred Purchase Agreement

The DPA is the underlying legal instrument that an investor will invest into when investing into *Sequoia Commodities Series 12*. A deferred purchase agreement, or DPA, is a financial instrument which derives its value from the value of another reference asset such as an index, stock, or commodity. The DPA instrument allows for a lot of flexibility in defining the different terms and conditions of an investment, thereby allowing for a very broad range structured investments to be issued under a DPA.

The DPA is a financial contract between two parties where one party undertakes to deliver to the other some pre-determined delivery assets, rather than cash at the Maturity of the DPA. In other words, when you apply for a DPA, you agree to buy the delivery assets which will be delivered to you on the maturity date of the contract. The number of delivery assets that will be delivered will be determined by how the underlying reference asset performs during the investment term and the final value calculation of the DPA. However, if an investor does not repay the Loan on or before the Maturity Date then they will be deemed to have elected to use the Agency Sale and will receive cash instead of delivery assets at Maturity. Please refer to the relevant PDS for further details on the deemed election to use the Agency Sale Option and resulting cash settlement at Maturity.

In addition to the “delivery asset” feature, there are other conditions specified in the DPA contract such as the calculation of performance coupons, the final unit value, the parties’ contractual obligations, and the investment amount.

The Units in DPAs are “Securities” for the purposes of Chapter 7 of the Corporations Act.

Limited Recourse Loan to fund DPA Units

The DPA Units under *Sequoia Commodities Series 12* are funded via a Limited Recourse Loan (“Loan”). In this case, investors in the DPA Units borrow 100% of the Issue Price per Unit from SSI as the Lender on the Commencement Date. Please refer to the PDS for further details of the Loan. Investors automatically apply for the Loan when they submit the application form. The Loan is limited in recourse to an investor’s interest in the DPA Units. Since the Loan is limited in recourse to an investor’s interest in the DPA Units, once an Investor has paid their Prepaid Interest and the Fees as specified in the PDS, even if the Performance Coupon on the DPA Units is insufficient to repay the amount of the Loan, the investor cannot be pursued for anything more (even upon Early Maturity or an early unwind or upon an Issuer Buy-Back). As such, the Investor knows upfront at the time of entering into the Loan their worst case position and total amount of capital at risk.



Key Risks

Key risks include:

- Risk of 100% loss in relation to the Total Investment Cost and Upfront Adviser Fee. The Total Investment Cost equals the Prepaid Interest in relation to the Loan and the Application Fee. Investors may also incur an Upfront Adviser Fee in addition. A 100% loss will occur if there is no Performance Coupon paid at Maturity. This will be the case if the Index Performance is negative at Maturity and no Performance Coupon is paid;
- Risk of partial loss (i.e. less than 100% loss) in relation to the Total Investment Cost and Upfront Adviser Fee. The Total Investment Cost equals the Prepaid Interest in relation to the Loan and the Application Fee. Investors may also incur an Upfront Adviser Fee in addition. Investors may incur a partial loss if the Performance Coupon at Maturity is positive but less than the Break-Even Point;
- Timing risks. The timing risk associated with Series 12 is significant. This is because the Investment Term is fixed and the Series Performance is required to at least generate some positive performance over and above the Break-Even Point by the time the Maturity Date arrives in order for the investor to generate a profit from their investment (ignoring any Upfront Adviser Fee and any external costs). If this does not occur then Investors will generate a loss;
- The potential Performance Coupon is determined by reference to the Series Performance. The Series Performance is determined by reference to the Index Performance as well as changes in the AUD/USD exchange rate. An increase in the AUD/USD exchange rate between the Commencement Date and the Maturity Date will reduce the Performance Coupon whilst a decrease in the AUD/USD rate between the relevant dates will lead to an increase in the Performance Coupon. As such, whether or not you break-even depends on both the Index Performance and the AUD/USD exchange rate performance during the Investment Term;
- Volatility and exposure risk – the volatility control mechanism used by the Index means that if there is high volatility in commodities markets during the Investment Term there is a risk the Index will have little to no exposure to commodities during some or all of the Investment Term, which may provide some protection against decreases in the prices of commodities comprising the Index however it may also limit the Index's (and the Unit's) exposure to increases in the prices of commodities comprising the Index. To the extent the Index has an exposure primarily to cash as a result of the volatility control mechanism, the Index will be unlikely to have Index Performance greater than the Break-Even Point;
- There is no guarantee that the Units will generate returns in excess of the Prepaid Interest and Fees, during the Investment Term;
- Additionally, in the event of an Investor requested Issuer Buy-Back or Early Maturity Event, you will not receive a refund of your Prepaid Interest or Fees. The amount received will depend on the market value of the Units which will be determined by many factors before the Maturity Date including prevailing interest rates in Australia and internationally, foreign exchange rates, the remaining time to Maturity, and general market risks and movements. Investors should be aware the Units are designed to be held to Maturity and are not designed to be a trading instrument;
- Gains (and losses) may be magnified by the use of a 100% Loan. However, note that the Loan is a limited recourse Loan, so you can never lose more than your Prepaid Interest Amount and Fees paid at Commencement.
- Investors are subject to counterparty credit risk with respect to the Issuer and the Hedge Counterparty; and
- The Units may mature early following an Early Maturity Event, including an Adjustment Event, Market Disruption Event or if the Issuer accepts your request for an Issuer Buy-Back.

Please refer to Section 2 "Risks" of the Master PDS for more information.



Appendix

Definitions

| Term | Definition |
|---|--|
| Objective | |
| Capital Growth | The investor seeks to invest in a product designed to generate capital return. The investor prefers exposure to growth assets (such as shares or property) or otherwise seeks an investment return above the current inflation rate. |
| Capital Preservation | The investor seeks to invest in a product to reduce volatility and minimise loss in a market down-turn. The consumer prefers exposure to defensive assets (such as cash or fixed income securities) that are generally lower in risk and less volatile than growth investments. |
| Capital Guaranteed | The investor seeks a guarantee or protection against capital loss whilst still seeking the potential for capital growth (typically gained through a derivative arrangement). The investor would likely understand the complexities, conditions and risks that are associated with such products. |
| Regular Income | The investor seeks to invest in a product designed to distribute regular and/or tax-effective income. The investor prefers exposure to income-generating assets (typically, high dividend-yielding equities, fixed income securities and money market instruments). |
| Product Use (% of Investible Assets) | |
| Solution/Standalone (75-100%) | The investor intends to hold the investment as either a part or the majority (up to 100%) of their total <i>investible assets</i> (see definition below). The investor typically prefers exposure to a product with at least High portfolio diversification. |
| Core Component (25-75%) | The investor intends to hold the investment as a major component, up to 75%, of their total <i>investible assets</i> (see definition below). The investor typically prefers exposure to a product with at least Medium portfolio diversification. |
| Satellite (10-25%) | The investor intends to hold the investment as a smaller part of their total portfolio, as an indication it would be suitable for up to 25% of the total <i>investible assets</i> (see definition below). The investor is likely to be comfortable with exposure to a product with Low portfolio diversification. |
| Very Small (<10%) | The investor intends to hold the investment as a very small part of their total portfolio, as an indication it would be suitable for up to 10% of the total <i>investible assets</i> (see definition below). The investor is likely to be comfortable with exposure to a product with Low portfolio diversification. |
| Investible Assets | Those assets that the investor has available for investment, excluding the residential home. |
| Investment Timeframe of Investor | |
| Very Short (0-1 years) | The investor has a very short investment timeframe and may wish to redeem in less than 1 year and therefore could be less tolerant to the markets ups and downs. |
| Short (1-2 years) | The investor has a short investment timeframe and may wish to redeem within 1-2 years and therefore could be less tolerant to the markets ups and downs. |
| Medium (2-6 years) | The investor has a medium investment timeframe and is unlikely to redeem within two years and therefore could be more tolerant to the markets ups and downs. |
| Long (6+ years) | The investor has a long investment timeframe and is unlikely to redeem within six years and therefore could be the most tolerant to the market ups and downs. |



Investor's Intended Risk/Return Trade-off

A Standard Risk Measure (SRM) to calculate the likely number of negative annual returns over a 20 year period, using the guidance and methodology outlined in the *Standard Risk Measure Guidance Paper For Trustees*. SRM is not a complete assessment of risk and potential loss. For example, it does not detail important issues such as the potential size of a negative return or that a positive return could still be less than an investor requires to meet their investment objectives/needs. It also does not consider all risks such as concentration risk or liquidity risks which are explained in more detail in the product disclosure statement.

An investor's desired product return profile would generally consider the impact of fees, costs and taxes.

Very high risk & return The investor has a more aggressive or very high risk appetite, seeks to maximise returns and can accept higher potential losses (e.g. has the ability to bear 6 or more negative returns over a 20 year period (SRM 7) and possibly other risk factors, such as leverage).

Investor typically prefers growth assets such as shares, property and alternative assets.

High risk & return The investor is higher risk in nature and can accept higher potential losses (e.g. has the ability to bear up to 6 negative returns over a 20 year period (SRM 6)) in order to target a higher target return profile.

Investor typically prefers predominantly growth assets such as shares, property and alternative assets with only a smaller or moderate holding in defensive assets such as cash and fixed income.

Medium risk & return The investor is moderate or medium risk in nature, seeking to minimize potential losses (e.g. has the ability to bear up to 4 negative returns over a 20 year period (SRM 3 to 5)) and comfortable with a moderate target return profile.

Investor typically prefers a balance of growth assets such as shares, property and alternative assets and defensive assets such as cash and fixed income.

Low risk & return The investor is conservative or low risk in nature, seeks to minimize potential losses (e.g. has the ability to bear up to 1 negative return over a 20 year period (SRM 1 to 2)) and is comfortable with a low target return profile. Investor typically prefers defensive assets such as cash and fixed income.

Distributor Reporting

Significant dealings

Section 994F(6) of the Act requires distributors to notify the issuer if they become aware of a significant dealing in the product that is not consistent with the TMD. Neither the Act nor ASIC defines when a dealing is 'significant' and distributors have discretion to apply its ordinary meaning.

The issuer will rely on notifications of significant dealings to monitor and review the product, this TMD, and its distribution strategy, and to meet its own obligation to report significant dealings to ASIC.

Dealings outside this TMD may be significant because:

- they represent a material proportion of the overall distribution conduct carried out by the distributor in relation to the product, or
- they constitute an individual transaction which has resulted in, or will or is likely to result in, significant detriment to the investor (or class of investor).

In each case, the distributor should have regard to:

- the nature and risk profile of the product (which may be indicated by the product's risk rating or withdrawal timeframes),
- the actual or potential harm to an investor (which may be indicated by the value of the investor's investment, their intended product use or their ability to bear loss), and
- the nature and extent of the inconsistency of distribution with the TMD.