

Investing in the Dispersion of Listed Global Shares

**For Financial Advisers Only
Not for Distribution to End Investors**

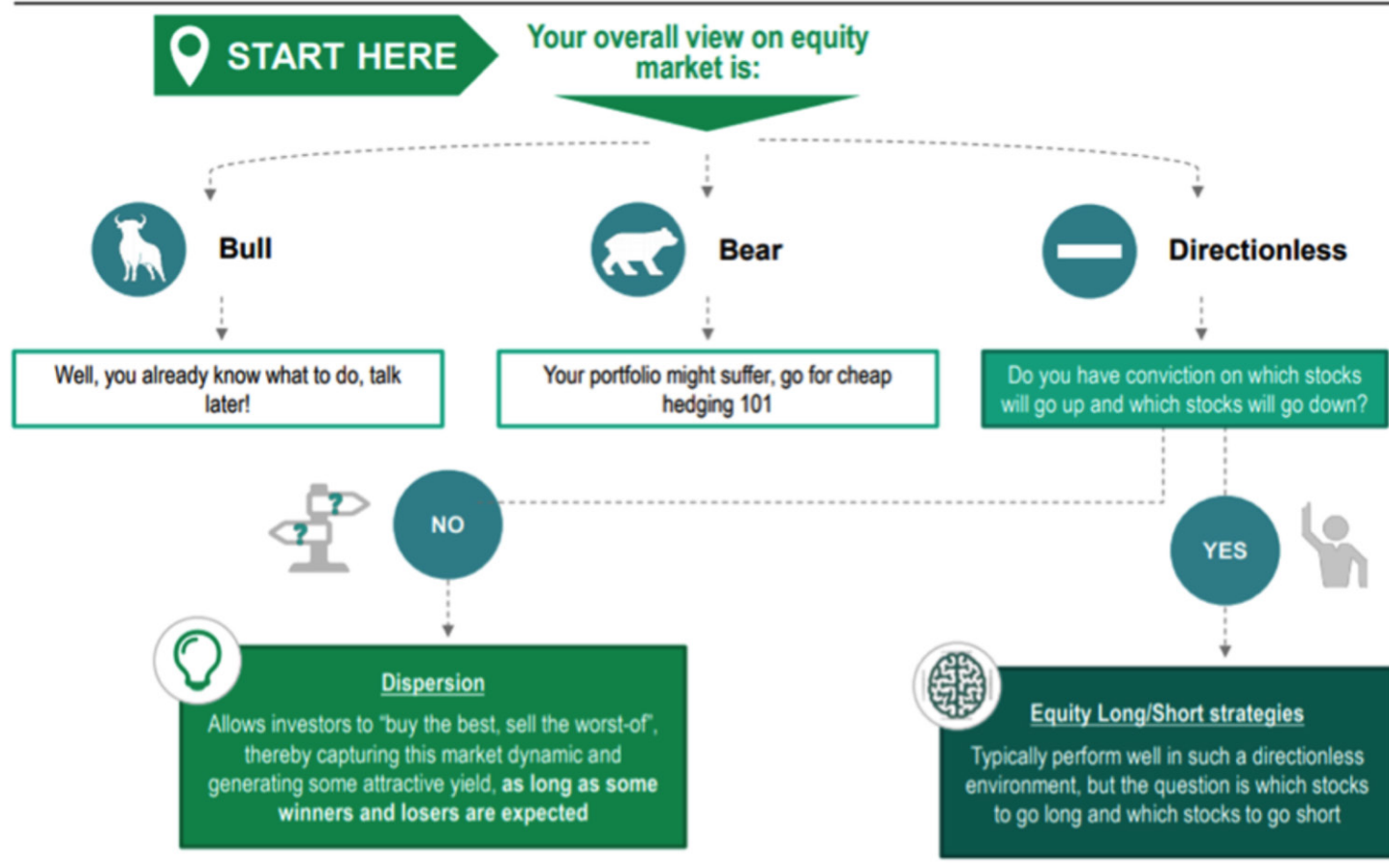


Sequoia Dispersion – Series 3 Offer Close Date – 7 March 2020¹

Sequoia has just launched a new investment enabling investors to gain exposure to the Dispersion of a Reference Basket of listed Global Shares for a 2 year period with minimal upfront capital and limited downside risk.

¹The Issuer may, in its discretion, extend or shorten the Offer Period for the Units without prior notice. If this happens, the Commencement Date and one or more consequential dates for the Units may vary.

Dispersion in Client Portfolio – Where does it fit?



The Units provide investors with a potential uncapped Performance Coupon at Maturity based on the full leveraged investment amount depending on the performance of Dispersion of the Reference Basket during the Investment Term provided the realized level of Dispersion at Maturity is greater than the Hurdle². The Performance Coupon is also adjusted for changes in the AUD/USD exchange rate during the Investment Term.

The Reference Basket consists of 10 listed Global Shares which have been characterised by the Hedge Provider as having a large exposure to the following perceived sources of future dispersion:

- US-China Trade Tensions;
- Brexit;
- China Economic Slowdown/Coronavirus Impact;
- Growing regulatory risks facing US tech giants
- Inflation rising globally

² As at the date of the Information memorandum (IM) the Hurdle would be 25%. The Issuer will set the actual Hurdle on the Commencement Date.

Summary of the key features are as follows

		Series 3
Reference Basket	Name	Share Bloomberg Code
	Comcast Corp	CMCSA UW Equity
	Societe Generale SA	GLE FP Equity
	Banco Santander SA	SAN SQ Equity
	Royal Bank of Scotland Group PLC	RBS LN Equity
	Netflix Inc	NFLX UW Equity
	Daimler AG	DAI GY Equity
	Honeywell International Inc	HON UN Equity
	Taiwan Semiconductor Manufacturing Co Ltd	TSM UN Equity
	QUALCOMM Inc	QCOM UW Equity
	Apple Inc	AAPL UW Equity
Dispersion	<p>The dispersion of a basket of securities is typically measured by how much the return of each individual security in the basket differs, in absolute terms from the average return of the overall basket over a given period of time. Each of these return differentials are averaged and the greater the average, the higher the measure of dispersion</p> <p>Refer to the Formulae & Calculations section of the IM for a precise formula for calculating Dispersion.</p>	
Potential Performance Coupon	<p>Yes, the potential for one uncapped Performance Coupon based on the realised level of Dispersion at Maturity LESS the Hurdle, as adjusted for changes in the AUD/USD exchange rate</p>	
Hurdle*	<p>The Hurdle is determined by the Issuer on the Commencement Date. As at the date of the IM the Hurdle would be 25%. The Issuer will not proceed with the issue of Units if the Hurdle cannot be set at or below 25% on the Commencement Date</p>	
Currency Exposure	<p>Yes. The potential Performance Coupon at Maturity is adjusted for changes in the AUD/USD exchange rate during the Investment Term.</p>	
Limited recourse Loan	Yes	
Investment Term	2 years	
Annual Interest Rate on Loan (payable for the full 2 years in advance)	2.95% p.a. (7.5% payable upfront for the full 2 year Investment Term)	
Application Fee	1.0%	
Total Investment cost for the full 2 year period	6.90%	
Break-Even Level Performance Coupon at Maturity	6.90%	
Margin Calls	No	
SMSF Eligibility	Yes	

*Subject to change depending on the Hurdle Rate on the Commencement Date.

Sources of Dispersion



US-China Trade Tensions

- Further escalation could affect in particular the **semi-conductor**, **automotive** and **engine** industries (high exposure and reliance to China)
- Uncertainty on the **luxury retail** industry and **tech** sector
- German automotive industry appears the most at risk (high level of global exports)



Inflation and Currency

- **Cyclical sectors** could take a hit amidst inflation picking-up globally
- **Utilities** and **Telecom** stocks with high debt, low free cash flow tend to be more vulnerable
- Some **banking stocks** could experience volatility in a low interest rate environment
- European banks could benefit from inflation
- Some banks can be impacted by FX exposure (e.g. Brexit and Turkey)



China Economic Slowdown

- Coronavirus poses a potential threat to the mobile phone industry including mobile device and chip manufacturers
- Pose uncertainty on market power of Chinese companies



Technology

- US tech giants are facing growing regulatory risks (eg. Social media regulation, data privacy requirement)

How to Assess the Attractiveness of this Investment

Some of the important factors to consider include:

1. Assessing how optimal the current entry point is;
2. Analyzing historical returns of the same investment in the past³; and

Attractive Entry Point for Investing into Dispersion on the Reference Basket

When investing into Dispersion, it is considered attractive to do this when the relevant:

- VOLATILITY parameter is considered CHEAP to BUY via a long position;
- CORRELATION parameter is EXPENSIVE to SELL via a short position.

³ Investors should note that past performance is not a reliable indicator of future performance. Future volatility and returns may vary.

The graph below illustrates the historical evolution of the relevant Volatility parameter and the current low level compared to the previous 9 years.

Note: Investors indirectly buy Volatility when investing into Dispersion



The graph below illustrates the historical evolution of the relevant Correlation parameter of the Reference Basket and the current high level compared to the previous 9 years.

Note: Investors indirectly sell Correlation when investing into Dispersion



In summary, as at the date of the IM, the entry point for investing into the Dispersion on the Reference Basket appears relatively attractive due to the prevailing Low Volatility and Medium-High Correlation market conditions.

Historical Performance Coupons on the same 2 years investment in Dispersion on the Reference Basket

Simulation Covering Prior 15 years

Please see below the historical simulations to show how the Investment would have performed in prior years. These historical simulations have been shown for the full period in which price data for all stocks included in the Reference Basket have been simultaneously available. This includes a period of over 15 years. These historical simulations are shown for educational purposes only and are not indicative of the future performance of the Units. Investors should note that past performance is not a reliable indicator of future performance. Future dispersion and returns may vary.

Historical Simulation period

Simulation Start Date	31 May 2002
Simulation End Date	26 October 2017*
Number of Simulations Performed	3,833

*The Simulation End Date is the last **start date** of a simulation covering a 2 years period maturing on 26 October 2019.

Historical Performance Coupons

	Historical Coupon Level*	Net Return on 6.9% Total Investment Cost
Maximum	144.5%	1,942%
Average	24.57%	+256%
Minimum	0.0%	-100%

*This is calculated as realized level of Dispersion at Maturity LESS the Hurdle ignoring the impact of changes in the AUD/USD exchange rate during the Investment Term. It assumes a Hurdle of 25% which was the Hurdle as at the date of the IM.

Historical Realised Dispersion

The graph below shows the historical dispersion that would have been realised on the Reference Basket during the above +15 Year Simulation Period.

To be clear, the historical performance coupon is calculated by Reference to the realized level of Dispersion after deducting a 25% Hurdle rate. This is why we have included the red line on the graph which represents the 25% Hurdle.



Investors should note that past performance is not a reliable indicator of future performance. Future dispersion and returns may vary.

Historical Probability**

	Historical Gross Coupon Level	Net Return on 6.9%* Total Investment Cost	Probability**
Greater than	6.9%*	Break-Even and above	76.5%
Greater than	13.8%	100% and above	57.9%
Greater than	20.7%	200% and above	32.3%
Greater than	27.6%	300% and above	24.8%
Greater than	34.5%	400% and above	18.7%
Greater than	41.4%	500% and above	14.0%

*The Total Investment Cost

**Probability is calculated by reference to the number of occurrences in the simulated period divided by the total number of occurrences.

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Scenario Outcomes:

Assuming you wish to get exposure to Dispersion with minimal upfront capital and limited downside risk, you decide to take out a limited recourse loan of \$500,000 and invest the proceeds into Dispersion on the Reference Basket. The cashflow scenarios are below:

Cash Outlay for Sequoia Dispersion Series 3	
Investment Amount	\$1,000,000
Loan	(\$1,000,000)
Interest for 2 year Investment Term (2.95%p.a.)	(\$59,000)
Application Fee (1.0%)	(\$10,000)
Total Investment Cost	(\$69,000)

Investment cash flow Scenarios during the Investment Term for Sequoia Dispersion Series

Scenario	Investment Amount	Dispersion Less Hurdle at Maturity	Performance Coupon *	Total Investment Cost	Net Profit/ (Loss)	% Return on Total Investment Cost	Probability**
2	\$1,000,000	0.00%	\$0	\$69,000	-\$69,000	-100%	<22.15%
3	\$1,000,000	6.9%	\$69,000	\$69,000	\$0	0%	76.5%
4	\$1,000,000	13.8%	\$138,000	\$69,000	\$69,000	100%	57.9%
5	\$1,000,000	20.7%	\$207,000	\$69,000	\$138,000	200%	32.3%
6	\$1,000,000	27.6%	\$276,000	\$69,000	\$207,000	300%	24.8%
7	\$1,000,000	34.5%	\$345,000	\$69,000	\$276,000	400%	18.7%

*Excludes the impact of any changes in the AUD/USD exchange rate.

** Probability is calculated as the number of occurrences in the above +15 year simulated period divided by the total number of occurrences.

The above scenario outcomes are in no way indicative of future performance of Sequoia Dispersion – Series 3.

Key risks include:

- Your return (including any Coupon) is affected by the performance of the Dispersion of Reference Basket (Global Shares) and whether this is greater than the Hurdle at Maturity. There is no guarantee that the Dispersion of the Reference Basket will perform well or will be greater than the Hurdle.
- There will be no Performance Coupons payable if the Dispersion of the Reference Basket is below the Hurdle at Maturity.
- The potential Performance Coupon is determined by reference to the Dispersion of the Reference Basket, the Hurdle 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;
- 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 an Early Maturity Event you will not receive a refund of your Prepaid Interest or Fees.
- 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 will never be required to pay more than the Prepaid Interest Amount and Fees at Commencement.
- Investors are subject to counterparty credit risk with respect to the Issuer and the Hedge Counterparty;
- Gains and losses may be magnified by the use of a 100% limited recourse Loan; 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 IM for more information. Please refer to Section 2 “Risks” of the Master IM for more information.

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**To find out more and to download a copy of the relevant
Information Memorandum, please visit
Sequoia Specialist Investments at www.sequoiasi.com.au**

* The Issuer may, in its discretion, extend or shorten the Offer Period for the Units without prior notice. If this happens, the Commencement Date and one or more consequential dates for the Units may vary. The Issuer may also defer the Commencement Date for the Units, in which case the Maturity Dates and other consequential dates for the Units may vary. If the Issuer varies the Offer Period or the Commencement Date for the Units it will post a notice on the website informing applicants of the change at www.sequoia.com.au

Units in Sequoia Dispersion – Series 3 are 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”). Investments in the Sequoia Dispersion – Series 3 can only be made by completing an Application Form attached to the Term Sheet Information Memorandum (“TSIM”), after reading the Term Sheet IM dated 21 February 2020 and the Master IM dated 11 April 2019 and submitting it to Sequoia. A copy of the IM can be obtained by contacting Sequoia Wealth Management on 02 8114 2222 or contacting your financial adviser. You should consider the Term Sheet & Master IM before deciding whether to invest in Units in Sequoia Dispersion – Series 3. Capitalised terms on the webpage have the meaning given to them in Section 10 “Definitions” of the Master IM.

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