



## A NEW ASX LISTED FUND AIMING TO MAXIMISE THE BENEFITS OF AN INDEX INVESTMENT STYLE WITH A FOCUS ON CORPORATE GOVERNANCE

### INVESTMENT OVERVIEW

Corporate governance is a set of policies that defines the relationship between stakeholders, management, and the board of directors of a company and influence how that company operates. The current financial crisis and recent high profile corporate failures such as ABC Learning Centres and Allico Finance Group have highlighted the need for investors to consider corporate governance policies and practices to help determine the companies to invest in. There also have been a number of recent empirical studies, by academics, brokers, and research firms that suggest a positive correlation between good corporate governance practices and procedures and good corporate financial performance and shareholder value.

Australian Governance Master Index Fund Limited (the "Company") has been established to address these findings. The Company provides Australian investors with the opportunity to gain access to Australian entities which are considered to have relatively high levels of corporate governance as ranked by the Manager's analysis whilst seeking to promote adherence to corporate governance best practice recommendations.

The Company will pursue an Australian index style of investing with a corporate governance bias as an integral part of its investment strategy. Index funds by their nature favour long term holders of securities as it is based on the strategy that results in much lower portfolio turnover than that of active funds. A relatively passive investment style regularly outperforms active management approaches over the longer-term.

The investment process involves each entity within the S&P ASX 100 Index will be ranked on a relative corporate governance basis. The Manager will use a range of third party research along with its own analysis to rank the entities on a comparative basis. The bottom ranked 15 to 25 entities will be excluded from the investment portfolio and the Portfolio weightings will be adjusted to reflect the exclusions.

As a result, the Company will hold securities issued by 75 to 85 entities at any time, all of which will be securities within the S&P ASX 100 Index.

The two key investment objectives of the Company are:

- To achieve a high real rate of return on invested capital, within risk parameters acceptable to the Directors.
- To preserve the investment capital of the Company while having exposure to the Australian stock market.

### INVESTMENT HIGHLIGHTS

<b>Corporate Governance Focus</b>	<p>The Company will invest in the best governed Australian companies as ranked by the Manager's corporate governance analysis.</p> <p>The Company believes that boards and management that show relatively high levels of corporate governance are managed in the best interest of shareholders and tend to outperform relatively poorly governed companies over the long term.</p>
<b>Investment Strategy</b>	<p>The Company will invest only in entities within the S&amp;P ASX 100 Index which in the opinion of the Company have relatively superior governance practices.</p>
<b>Low Cost Vehicle</b>	<p>The Manager will receive an annualised fee of 0.49% (excluding GST) of the gross value of the portfolio. As the Manager is responsible for most operating costs incurred by the Company in the ordinary course of business, it is expected that the Total Expense Ratio will not exceed 0.49% in any year.</p>
<b>Diverse Australian Equities Exposure</b>	<p>The Company's portfolio allows investors to gain exposure to at least 75 of the largest companies within the S&amp;P ASX 100 Index and provides significant diversification that should reduce investment performance volatility.</p>
<b>Experienced Board and Manager</b>	<p>The Board will comprise Jeff Whalan, David Hawes and Maximilian Walsh.</p> <p>The Manager is Dixon Advisory &amp; Superannuation Services Limited. The Board and Manager bring together significant experience and expertise in listed equities, in governance and in providing comprehensive financial and investment advice.</p>

Investors should note an investment in the Company involves a number of risks. Investors should consider the risk factors identified in the Prospectus before applying for Shares.



**AUSTRALIAN GOVERNANCE MASTERS**  
— INDEX FUND LIMITED —

15 December 2009

Dear Investor

I am very pleased to invite you to join me in becoming a shareholder of the Australian Governance Masters Index Fund Limited (Company).

The Company has been created to invest in Australian equities utilising an index-style approach with a corporate governance bias. The Portfolio will be based on the S&P ASX 100 Index, excluding 15 to 25 companies who have relatively lower levels of compliance with the best practice corporate governance standards as compared to their peers. As a result, the Company will hold securities of 75 to 85 entities at any time, based on adjusted index weightings.

Corporate governance is a set of rules that defines the relationship between stakeholders, management, and the board of directors of a company and influence how that company operates. The Company's emphasis on good governance comes in response to recent empirical studies both in Australia and overseas that suggest that there is a positive correlation between good corporate governance and long-term investment performance.

Of particular interest is a study published in March 2009 by Rebecca Brown from the Australian Treasury and Tue Gorgens from the Australian National University. The study which is based on evidence from the ASX suggests that those entities in the S&P ASX 300 which have greater compliance with the ASX Corporate Governance Principles outperform less compliant entities in terms of shareholder performance, operating performance and one year's sales growth. This study is available on the Treasury website.

The current economic climate and recent high profile corporate failures such as ABC Learning Centres and Allco Finance Group have highlighted the need for investors to revisit corporate governance policies and practices to help determine which companies to invest in.

We intend to actively participate in the annual general meetings of the entities in which we have invested and will vote for those resolutions that are in the interests of both good governance and shareholders. We believe this will encourage boards and management teams to be more concerned with the rights of shareholders, and therefore better guardians of shareholder money.

The Australian Governance Masters Index Fund has been designed for the long-term investor who is seeking to gain exposure to the Australian share market through an index based investment product – a product that is focused on the top 75 to 85 companies of the largest companies listed on the ASX with high levels of corporate governance relative to their peers.

I invite you to carefully consider the contents of this Prospectus and look forward to welcoming you as a shareholder.

Yours sincerely



Jeff Whalan AO

## OVERVIEW OF CORPORATE GOVERNANCE

Corporate governance aims to protect shareholder rights, enhance disclosure and transparency, facilitate effective functioning of the board and provide an efficient legal and regulatory enforcement framework. Good corporate governance should encourage shareholder participation and provide proper incentives for the board and management to follow objectives that are in the interests of the company and its shareholders.

Recently, there has been a significant amount research into the correlation between corporate governance and performance. A March 2009 Treasury Working Paper titled "Corporate Governance and Financial Performance in an Australian Context" concluded that:

"Companies with better corporate governance outperform poorly governed companies, particularly in relation to earnings per share and return on assets. Furthermore ...companies that are fully compliant with the ASX Corporate Governance Principles perform better than companies that are only partially compliant."

The Company believes that relatively high levels of corporate governance tend to lead to better long term investment performance.

## EXAMPLES OF EXCLUDED ENTITIES

For illustrative purposes only, set out below is a table of 15 entities which, had the Manager been responsible for managing the Portfolio as at 30 June 2007, 30 June 2008 and 30 June 2009 it would have excluded from the Portfolio due their relative lower corporate governance:

30 June 2007	30 June 2008	30 June 2009
A.B.C. Learning Centres	A.B.C. Learning Centres	CFS Retail Property Trust
Allco Finance Group	Allco Finance Group	Commonwealth Property Office Fund
Babcock & Brown Infrastructure Group	Asciano Group	Crown Limited
CFS Retail Property Trust	CFS Retail Property Trust	Dexus Property Group
Commonwealth Property Office Fund	Challenger Financial Services Group Ltd	Goodman Group
DB RREEF Trust	Commonwealth Property Office Fund	Harvey Norman Holdings Ltd
Harvey Norman Holdings Ltd	Consolidated Media Holdings	ING Office Fund
ING Industrial Fund	Crown Limited	Macquarie Airports
ING Office Fund	Goodman Group	Macquarie Infrastructure Group
Macquarie Airports	Harvey Norman Holdings Ltd	Macquarie Office Trust
Macquarie Countrywide Trust	ING Industrial Fund	OZ Minerals Ltd
Macquarie Goodman Group	ING Office Fund	Primary Health Care Ltd
Consolidated Media Holdings	Macquarie Airports	Rio Tinto Ltd
West Australian Newspapers Holdings Ltd	Macquarie Countrywide Trust	Spark Infrastructure
Westfield Group	Westfield Group	Westfield Group

The Company and the Manager recognise that some entities displaying a lower level of corporate governance structures as compared to their peers, may still generate a favourable return for investors. However, the investment strategy of the Company to be employed by the Manager is directed not at a more traditional "stock-picking" strategy of an active investment fund but instead an index-style of investing screened for relative levels of corporate governance.

## DIRECTORS AND MANAGER INFORMATION

### JEFF WHALAN AO – INDEPENDENT CHAIRMAN



**Jeffrey Whalan** is the Managing Director of WHON Pty Ltd, a specialist human resources company. Jeffrey is also an Independent Director of Global Resource Masters Fund Limited, a company whose portfolio is managed by the Manager.

Jeffrey is a Fellow of the Australian Institute of Company Directors and a Fellow of the Australian Institute of Management. He is also the chair of

the Code Compliance Committee which monitors compliance with the mutual Banking Code of Practice.

Jeffrey has been the CEO of Centrelink, the largest agency of the Australian Public Service, responsible for \$70 billion of government outlays and 27,000 staff. Prior to this he was CEO of Medicare Australia.

### DAVID HAWES – INDEPENDENT DIRECTOR



**David Hawes** has held senior executive positions in both the public and private sectors.

He was Deputy Secretary in the Department of Foreign Affairs and Trade and has over 20 years experience in international trade policy and negotiations at bilateral and multilateral levels.

David joined Qantas Airways in 1994, in the lead-up to the airline's full

privatization and public listing, and headed its Government and International Relations area until early 2009.

As a member of Qantas' Executive Committee, David witnessed, and participated in, many of the airline's important corporate governance structures, functions and responsibilities. He also served on the board of the Qantas Foundation.

### MAX WALSH AM – NON EXECUTIVE DIRECTOR



**Max Walsh** is one of Australia's leading economists and business journalists. He has specialised in the areas of business, economics and politics in a journalistic career spanning nearly 50 years. He has been editor and managing editor of The Australian Financial Review and Editor-in-Chief of The Bulletin.

Max is now Deputy Chairman of Dixon Advisory and Superannuation Services

Limited. Max is also Chairman of Asian Masters Fund Limited and Global Resource Masters Limited which are ASX listed investment companies with over \$170 million of market capitalisation. Max is also Chairman of the Australian Masters Corporate Bond Fund series, which presently consists of 5 companies with over \$250 million of Corporate Bonds under management.

### DIXON ADVISORY – MANAGER



**Alex MacLachlan** is a Managing Director (Funds Management) of Dixon Advisory. Alex is also the Managing Director of Global Resource Masters Fund Limited and a Director of Asian Masters Fund Limited, which are ASX listed investment companies with over \$170 million of market capitalisation. Alex is also a Director of the Australian Masters Corporate Bond Fund series.

Prior to joining the Manager, Alex was an investment banker specialising in the natural resources sector, most recently serving as Head of Energy, Australasia, for UBS AG in Sydney. During his career as an investment banker, Alex advised on over \$100 billion in announced M&A and capital markets transactions for over 30 leading Australian and international natural resources companies including BHP, Woodside and Santos.

## KEY OFFER DETAILS

Issuer of shares	Australian Governance Masters Index Fund
Offer to open	16 December 2009
Offer to close	5.00pm(AEST) 25 January 2010
Offer size	\$50 million
Over subscriptions	Up to a further \$50 million
Issue price per share	\$1.60
Pro forma NTA post issue	\$1.57

## IMPORTANT INFORMATION

The issuer of the Shares is Australian Governance Masters Index Fund Limited (ACN 140 842 397).

The Prospectus contains all of the details of the offer. Copies of the Prospectus are available from Dixon Advisory on 02 6162 5555 or at [www.governancemasters.com.au/prospectus.pdf](http://www.governancemasters.com.au/prospectus.pdf)

The offers of Shares in the Company will be made in the Prospectus. Investors should consider the Prospectus in deciding whether to acquire shares in the Company and to assess whether the investment is suitable for an individual's investment needs. Any person who wishes to subscribe for shares in the Company will need to complete the application form contained in the Prospectus