

# CALEDONIA

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Dear Investor

## Merger of Caledonia's Investment Trusts

We have been managing a single portfolio strategy for a number of years now, and we believe this single focus and alignment has been an important factor in helping us to achieve strong investment returns in recent years.

As many investors would recall, we are still operating four separate Australian unit trusts (the **Caledonia Trusts**), now with identical portfolios, as a legacy from the time when we managed different investment strategies in each of the Caledonia Trusts.

Maintaining four trusts with the same identical investment strategy is no longer necessary, and results in a duplication of resources in the management and operation of the trusts, leading to unnecessary costs. For some time now, we have been working on a way to merge these Caledonia Trusts into a single vehicle, in a manner that ensures all investors are treated fairly, with an overall favourable outcome from both a commercial and tax perspective for all investors.

We are pleased to say that we have now developed a solution that achieves all of those outcomes, and we are writing to inform you that we will be merging the Caledonia Trusts into a single Australian unit trust on 1 November 2016 (**Transaction Day**).

All assets in the Caledonia Trusts (Series A, C and D) will be transferred into the Caledonia Trust (Series B), and unitholders in the Caledonia Trusts (Series A, C and D) will receive units in the Caledonia Trust (Series B) in exchange for their existing units (the **Transaction**). **The value of a unitholder's investment will not change as a result of the Transaction.** Given the different unit prices across each of the Caledonia Trusts, the number of Caledonia Trust (Series B) units issued to Caledonia Trust (Series A, C and D) unitholders will differ to their existing unitholding. Unitholders who are only in the Caledonia Trust (Series B) will have no change to the number of units they hold as a result of the Transaction.

The main commercial benefit for all investors comes in the form of a reduced management expense ratio (**MER**). The MER of each trust includes a range of external fixed operating costs that are replicated across each trust, e.g. fund administration, unit registry services, audit, accounting, tax services. The increased scale of the merged trust, combined with the efficiency of procuring these services for one single entity, rather than for four separate entities, means that the MER for the merged trust will be lower than it is for each of the four existing trusts, hence providing a commercial and economic benefit for all investors.

The same circumstances also apply to the four separate Caledonia Zillow Trusts, and hence this Transaction will be replicated for the Caledonia Zillow Trusts, such that all assets in the Caledonia Zillow Trusts (Series A, C and D) will be transferred into the Caledonia Zillow Trust (Series B), and unitholders in the Caledonia Zillow Trusts (Series A, C and D) will receive units in the Caledonia Zillow Trust (Series B) in exchange for their existing units.

The Annexure to this letter provides details on the anticipated tax implications, but to summarise – we have had ongoing positive discussions with the ATO throughout this process, and we have now received tax rulings to confirm that the Transaction will not give rise to any adverse tax outcomes (assuming that investors hold their units on capital account for Australian tax purposes).

It is intended that from the Transaction Day, the surviving trusts will be renamed as the “**Caledonia Fund**” and the “**Caledonia Zillow Fund**” respectively.

Importantly, **NO ACTION** is required by you to give effect to this Transaction, and the value of your investment will remain unchanged as a result of the Transaction. All high-water marks and existing fee structures will remain in place.

There will be no change to our portfolio investment strategy as a result of the Transaction.

You will be issued with a confirmation of the Transaction, all other relevant documentation, and an updated Information Memorandum, a few weeks following the Transaction Day.

We believe this Transaction will deliver greater efficiency and simplicity, to the ongoing benefit of all of our valued investors.

We thank you for your continued support of Caledonia, and as always if you wish to discuss this further please contact Alicia Hill on +61 2 9255 7613 or me on +61 2 9255 7605.

Yours sincerely

A handwritten signature in black ink, appearing to be 'L. Stevens', written in a cursive style.

**Luke Stevens**  
Executive Director and Chief Financial Officer

## Taxation Implications

The purpose of this section is to inform investors that Alfred Street Nominees Pty Limited (**the Trustee**), as the trustee of the Caledonia Trusts and the Caledonia Zillow Trusts, has been granted two Private Binding Rulings (**PBR**) and six Class Rulings from the Commissioner of Taxation (together, **the Rulings**) to confirm the Australian tax implications of the Transaction. The Rulings confirm the following income tax and capital gains tax (**CGT**) consequences for the Caledonia Trusts and the Caledonia Zillow Trusts under the Transaction:

1. To the extent unitholders have a capital gain and elect to apply CGT rollover relief, no capital gains will arise on the exchange of units in the Caledonia Trusts (Series A, C and D) and the Caledonia Zillow Trusts (Series A, C and D) (together, **the Target Trusts**) for units in Caledonia Trust (Series B) and Caledonia Zillow Trust (Series B) respectively.
2. The tax cost base of the units received by investors in Caledonia Trust (Series B) and Caledonia Zillow Trust (Series B) respectively will be equal to the historical tax cost base of the units previously held in the respective Target Trusts. To the extent that CGT rollover relief does not apply, the cost base of Caledonia Trust (Series B) and Caledonia Zillow Trust (Series B) units will be equal to the market value of the units at the time of the exchange.
3. Investors will be taken to have acquired their units in Caledonia Trust (Series B) and Caledonia Zillow Trust (Series B) respectively at the time they acquired the relevant units in the relevant Target Trust, for the purposes of working out the discount CGT concession (if applicable). To the extent that CGT rollover relief does not apply, investors will be taken to have acquired their units in Caledonia Trust (Series B) or Caledonia Zillow Trust (Series B) respectively at the time of the exchange, for the purposes of working out the discount CGT concession (if applicable).
4. There will be no change to the income tax positions of Caledonia Trust (Series B) and Caledonia Zillow Trust (Series B) unitholders who will not receive additional units under the Transaction.
5. Caledonia Trust (Series B) and Caledonia Zillow Trust (Series B) will receive market value cost base for the investments that are transferred to it by the Target Trusts.
6. The Transaction should not result in an increase to taxable income for Caledonia Trust (Series B) and Caledonia Zillow Trust (Series B).

For completeness, the intended income tax and CGT consequences above have been noted on the assumption that investors hold their units on capital account for Australian tax purposes. Where this is not the case, it is recommended that investors seek their own professional advice on the taxation implications of the Transaction.