

**Vanguard**<sup>®</sup>

3 July 2017

# Important notice to unitholders

## Vanguard Investor Funds Attribution Managed Investment Trust Regime (AMIT)

### Fund Constitutions amended to participate in the new tax regime

#### About this notice

As previously advised through the website notice, dated 2 June 2017, Vanguard has decided to opt-in to the AMIT regime from 1 July 2017 for all eligible funds.

In accordance with relief from the Australian Securities and Investments Commission, this notice informs investors in the Funds (listed below) that:

- Vanguard has amended the Constitutions of the Funds to facilitate their operation under the AMIT regime with effect from 1 July 2017.

Please refer to the information below with regards to the nature and reasons for the changes made to the Constitutions and a list of impacted Funds.

#### What is the AMIT regime?

AMIT is a significant industry-wide reform, which introduces new concessional tax rules for managed investment trusts. The new rules are intended to reduce complexity, provide flexibility, increase certainty and minimise compliance costs for funds and their investors.

It is a new tax regime applying to managed investment schemes enacted on 5 May 2016 under certain acts, including the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. In order for the AMIT regime to apply, Vanguard must make an election to opt-in to the AMIT regime for each Fund.

Under the current tax regime, the taxable net income of a Fund is allocated to investors based on the investors proportionate share of the income of the Fund to which they are 'presently entitled'. Investors may have a downward cost base adjustment in the event that the amount distributed to investors exceeds their share of the taxable net income of the Fund.

Under the AMIT regime, investors will be assessed on the taxable income that is 'attributed' to them by a Fund on a 'fair and reasonable' basis, irrespective of the amount distributed.

The AMIT regime also provides investors with an upward cost base adjustment in the event that the taxable income 'attributed' to them exceeds their distributions for the year, thereby minimizing the potential for double tax.

The AMIT regime also provides greater certainty regarding the tax treatment of the Fund and its members in various situations, such as with respect to the status of the Fund as a "fixed trust" for tax purposes.

#### Why is Vanguard making changes to the Constitutions?

To enable the Funds to effectively operate under the AMIT regime, Vanguard is required to make changes to the Constitutions. The changes facilitate the administration of the Funds under the AMIT regime in the best interests of investors in the Funds.

For a summary of the changes to the Constitutions, please refer to "What are the proposed changes to the Constitutions?" below.



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### **When will the changes take effect?**

The changes have come into effect from **1 July 2017**.

A number of the amendments only operate for the year in which the Funds are treated as an AMIT for tax purposes.

### **Which Vanguard Funds are impacted?**

The changes to the Constitutions will apply to all the Funds listed below, regardless of whether the Fund is eligible to be elected into AMIT from 1 July 2017.

Vanguard has assessed the eligibility of each of the Funds to elect into the AMIT regime and will disclose on our website the current AMIT tax status of each Fund.

### **What do investors need to do?**

Investors do not need to take any action to enable the Funds to be elected into AMIT. Vanguard has completed the unitholder communication process required by ASIC to modify the relevant Fund Constitutions.

Please note, changes made under the AMIT regime effective 1 July 2017, have no impact on your 2016-17 tax statement.

### **Where do I get more information?**

All our Vanguard Product Disclosure Statements and applications forms have been updated accordingly from **1 July 2017**.

Please ensure you refer to our updated documentation which are available at [www.vanguard.com.au/pds](http://www.vanguard.com.au/pds).

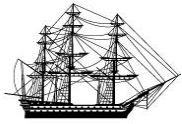
If you have any questions, please contact Vanguard Adviser Services on 1300 655 205 (8:00 am to 6:00 pm Melbourne time, Monday to Friday) or alternatively speak to your tax adviser.

### **What are the changes to the Constitutions?**

Vanguard has amended the Constitutions to allow each Fund to be operated in a manner permitted under the AMIT Regime. Vanguard has made these amendments effective from 1 July 2017.

The purpose and effect of the amendments are summarised below:

<b>Amendment</b>	<b>Summary of the amendment</b>
<b><i>Provisions that relate to when the Fund is an AMIT for the relevant financial year</i></b>	
<b>Definition of income</b>	A new provision provides the default definition of the income of the fund to be the aggregate of all of the assessable income trust components, plus any further amounts which Vanguard determines to treat as income. This is consistent with the existing default definition, but adapts it to concepts used in the AMIT regime.
<b>Determination of distributions</b>	A new provision requires Vanguard to determine the amount distributed by the Fund each distribution period. This provides greater flexibility to Vanguard, with respect to the amount distributed, to be able to manage the Funds in the best interests of unitholders.
<b>Accumulation of income</b>	A new provision that provides for Vanguard to be able to accumulate Income and to determine to which unitholders the trust components referable to those accumulated amounts will be attributed to for tax purposes.
<b>Attribution of income</b>	A new provision that provides for Vanguard to attribute all of the tax components of the Fund to unitholders each year and the basis for that attribution. For the attribution of income, the provision requires Vanguard to adhere to specific requirements of the AMIT Regime, including that income be attributed on a 'fair and reasonable basis' and must not be based on the 'tax characteristics' of a unitholder.



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**Provisions that apply generally**

**Unders and Overs**

A new provision allows Vanguard to address any “unders” or “overs” that arise under the AMIT regime in accordance with the AMIT regime, and to limit Vanguard’s liability to the extent that Vanguard exercises a discretion under those provisions.

**Member objection right**

A new provision imposing certain procedural requirements for a unitholder to exercise their right to object to an attribution of tax components to it under the AMIT regime and provides Vanguard with certain rights and powers in dealing with such objections. This includes, for example, the right to require the unitholder to indemnify Vanguard for costs incurred in dealing with the objection.

**Powers to administer AMIT**

A new provision that provides Vanguard with the powers necessary to administer the Fund under the AMIT regime. This includes, for example, the power to elect for the Fund to be an AMIT, the power to elect for each class within the Fund to be treated as a separate AMIT and all of the powers necessary to enable the Fund to be administered under the AMIT regime (this includes, for example, the power to attribute tax components to unitholders).

**Limitation of liability**

Provisions that limit Vanguard’s liability with respect to the exercise of powers under the AMIT regime or under the Constitution in respect of the administration of the AMIT regime.

**Clearly defined rights**

A new provision that limits Vanguard’s powers under the Constitution to the extent necessary to ensure that the Fund has “clearly defined rights”, which is a requirement for a Fund to be an AMIT.

**Indemnities for tax liabilities**

A new provision that requires a unitholder to indemnify Vanguard for any AMIT-related tax liabilities that arise as a result of the particular unitholder.

**Recovery of tax liabilities**

A new provision that provides Vanguard with the ability to recover amounts owing by a unitholder to Vanguard in respect of AMIT-related tax liabilities by either deducting those amounts payable to a unitholder or compulsorily redeeming units to facilitate their recovery.

**Consequential amendments**

Make consequential amendments to the other provisions in the Constitution to ensure that they operate as intended following the making of the AMIT-related amendments discussed above and the operation of the Fund under the AMIT regime.



## List of impacted Vanguard Funds

<b>Fund name</b>	<b>ARSN</b>
Vanguard Investor Cash Plus Fund	090 995 887
Vanguard Index Diversified Bond Fund	090 995 841
Vanguard Index Australian Property Securities Fund	090 995 494
Vanguard Index Australian Shares Fund	090 995 770
Vanguard High Yield Australian Shares Fund	109 638 379
Vanguard Index International Shares Fund	090 995 583
Vanguard Index Hedged International Shares Fund	095 375 894
Vanguard LifeStrategy Conservative Fund	090 996 044
Vanguard LifeStrategy Balanced Fund	103 186 607
Vanguard LifeStrategy Growth Fund	090 996 099
Vanguard LifeStrategy High Growth Fund	090 995 967

**If you have any questions, please contact Vanguard Client Services  
on 1300 655 101 (8:00 am to 6:00 pm Melbourne time, Monday to Friday).**

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