

19 October 2018

The Directors
Specialised Investment and Lending Corporation Pty Ltd as Trustee for
Diversified Commercial Income Fund
Level 9, 179 Queen Street
Melbourne, Victoria 3000

Dear Directors

Australian Taxation Implications for Investors in the Diversified Commercial Income Fund

As requested, this letter has been prepared for inclusion in the Information Memorandum dated on or around [xx] October 2018, in relation to the issue of units in the Diversified Commercial Income Fund (***the Fund***).

This letter provides a general summary for Australian resident and non-resident investors (***the Investors***) who subscribe for units pursuant to the Information Memorandum and hold the units on capital account for Australian income tax purposes. It does not attempt to address all of the Australian tax consequences that may be relevant to the Investors.

The opinion is general in nature because the tax implications for each Investor may vary depending on their particular circumstances. Accordingly, it is recommended that each Investor seeks their own professional advice regarding the taxation implications before making any investment or other decision in relation to the units in the Fund. This taxation opinion is not, and is not intended to be, taxation advice to any particular Investor.

This opinion is based on the *Income Tax Assessment Act 1936* (***ITAA 1936***) and the *Income Tax Assessment Act 1997* (***ITAA 1997***) (collectively referred to as ***the Tax Law***) as applicable at the date of this opinion.

1. Tax Treatment of the Fund

As the Fund is a unit trust, it will be treated as “flow through” entity for Australian income tax purposes. That is, the taxable income of the Fund will be subject to Australian tax in hands of Investors, not the Fund on the basis that:

- The Investors are made “presently entitled” to all of the income of the Fund at the end of each income year; and
- The activities of the Fund are limited to “eligible investment businesses” such that the Fund should not constitute a public trading trust.

We understand the Fund offers Investors the opportunity to acquire interests in Cash Units and Loan Units. Typically, Cash Units are referable to a basic deposit product including cash management accounts and term deposits and Loan Units are referable to a portfolio of loans which may comprise loans that may be unsecured or secured by a mixture of either first mortgages, second mortgages or other security interest. Therefore, the expectation is that the taxable income from the Fund will primarily be in the form of interest income which will ultimately flow through to Investors.

2. Tax Treatment of Investors

The section contains an outline of the Australian income tax implications that will generally apply to Investors that acquire Fund units on capital account.

2.1 Australian Resident Investors

From time to time, Investors who are made presently entitled to the distributable income of the Fund will receive trust distributions from the Fund, in proportion to their entitlements to that distributable income.

In this regard, Australian resident investors should recognise their share of the distributable income, which is likely primarily in the form of interest income, to be included in their assessable income.

The redemption or transfer of units will constitute a disposal by an Investor for tax purposes. If the Investor holds their units on capital account, any gain made by the Investor on disposal will be subject to capital gains tax (**CGT**). If the Investor makes a capital loss, it may be used to offset capital gains derived in the current or a future tax year. We understand that it is intended by the Trustee that the unit price is to be issued at \$1.00 per unit but this may not always be the case as the unit price is based on underlying value of the assets referable to the particular class of units, and is calculated in accordance with the terms of the Trust Deed.

A CGT discount may be available on the capital gain on units held for 12 months or more by individual, trusts or complying superannuation entities. Companies are not eligible for CGT discount. For individual and trusts, the discount is 50%. For complying superannuation entities, the discount is 33.33%.

2.2 Non-Resident Investors

Given the intention is that the distributable income of the Fund will primarily represent interest income, non-resident Investors should only be subject to 10% final interest withholding tax (**IWHT**) on any income distribution received. This tax treatment applies irrespective of whether the Fund is classified as a Managed Investment Trust (**MIT**) for tax purposes.

This is, the Trustee is required to withhold a 10% IWHT to the Australian Taxation Office (**ATO**) and non-resident Investors are not required to lodge an Australian income tax return if interest income is the only source of income as the IWHT is treated as a "final" tax liability in Australia.

If any income from the Fund is not interest, dividend or royalties income, non-resident investors may either be subject to the general trust withholding provisions (whereby tax maybe deducted at the non-resident withholding rates) or the MIT withholding provisions. Investors should seek their own advice on these matters.

Any capital gain or capital loss resulting from a disposal or redemption of units in the Fund by a non-resident Investor will be disregarded if a non-resident Investor holds less than 10% of the units in the Fund or the Fund does not hold majority investments in Australia real property.

On the basis the Fund's investment will primarily consist of term deposits, or secured or unsecured mortgages, but not directly in any underlying real property, it is expected that a non-resident Investor should not have any CGT implications arising from their disposal or redemption of units.

Each non-resident Investor however, should seek their own advice when they seek to dispose or redeem the units.

3. Annual reporting

As the Fund is likely to constitute an Investment Body, the Fund will be required to provide certain distribution information (including tax components) to the ATO on an annual basis by lodging the Annual Investment Income Report (**AIIR**).

The Trust will also provide an annual tax distribution statement to Investors in accordance with the ATO's guidelines for Managed Funds. The tax distribution statement will reconcile the cash distribution provided to the Investor with the taxable distribution for that income year. It will agree to the amounts reported to the ATO under the AIIR.

4. Attribution Managed Investment Trust (AMIT) regime

The Government has enacted a tax regime for certain managed investment trusts known as the Attribution Managed Investment Trust (**AMIT**) Rules. The AMIT Rules remove a number of uncertainties for Trustees and Investors and facilitates fair and reasonable tax outcomes for Investors.

The AMIT Rules do not apply automatically to all MITs. The Trustee will make an assessment of whether the Fund qualifies as an AMIT and whether it will make an election to apply the AMIT Rules to the Fund. If the Fund meets the eligibility requirements, the Trustee is expected to make an election to apply the AMIT Rules. We would not expect the AMIT regime to materially change the tax treatment of Investors outlined above.

5. Goods and Services Tax

GST should not apply on the acquisition and disposal of units as well as cash distribution from the Fund to the Investors.

6. Change of Tax residency

We recommend that each Investor seeks professional advice on their residency status if there may be a change in their tax residency through the course of their investments and the associated tax implications relevant for their circumstances.

7. Taxation File Number (TFN)

Australian resident Investors may choose not to provide the Trustee with their TFNs. However, if a TFN is not quoted, or no appropriate TFN exemption is provided, the Trustee is required to deduct tax from any income distribution entitlement at the highest marginal tax rate plus Medicare Levy.

Yours sincerely

Josh Chye
Director

HLB Mann Judd (Vic) Pty Ltd
Chartered Accountants