Brookfield

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14 December 2017

Dear Investor

RE: BAO Trust (Fund) – Adoption of the Attribution Managed Investment Trust (AMIT) regime

Brookfield Capital Management Limited (BCML), as Responsible Entity of the Fund, provides an update regarding the Fund's election to be treated as an Attribution Managed Investment Trust (AMIT) from the income year ending 30 June 2017.

The AMIT regime is a new set of rules for the taxation of Managed Investment Trusts (MITs) and their members. In order for the AMIT regime to apply, MITs must make an election to be treated as an AMIT. The AMIT regime aims to provide greater certainty than the existing tax regime in relation to the taxation position for MITs and their members.

BCML has reviewed the AMIT regime and assessed the consequences for unitholders if the Fund was to elect into the AMIT regime. The assessment also included a review of the Fund's Constitution, its operability under the AMIT regime and the current status of the Fund (i.e. in wind up). BCML concluded that the election to be treated as an AMIT is in the best interests of unitholders and the existing Constitution need not be amended to enable the Fund to operate as an AMIT as it satisfies the technical requirements to qualify as an AMIT.

To qualify, members must have 'clearly defined rights' and the responsible entity must have the power to make the election. The existing Constitution clearly defines unitholders rights to income and capital of the Fund. BCML is of the view that it has sufficient powers conferred to it under the 'general power provisions of the Responsible Entity' in the Constitution to make such an election for the Fund without amending the Constitution. BCML has determined that as a result of electing to be an AMIT, all unitholders would not be disadvantaged by the election.

An election into the AMIT regime should not give rise to any adverse tax implications to Investors in comparison to income years in which the Fund qualifies as a managed investment trust. The benefits of being an AMIT for the Fund include:

- Having the ability to carry forward overs and unders in the year of discovery;
- The mechanism of adjusting the cost base upwards or downwards of the unit cost base for capital gain /loss calculation purposes for unitholders. Cost bases will increase if taxable

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income exceeds distribution amount and decrease if distribution amount includes a tax deferred component;

- The character flow through of trust distributions is maintained, unitholders will be able to continue to treat tax deferred distribution as tax deferred and not taxed as ordinary income under this regime; and
- Shorter time frame for tax reviews. Under the AMIT regime, tax returns have up to a four year time review period (unless in cases of fraud) by the ATO rather than being unlimited;

Under the AMIT regime, the Responsible Entity must provide an AMIT Member Annual Statement (AMMA statement) to each unitholder in respect of each income year instead of the Annual Tax Statement (ATS). The AMMA includes the amount and the character of amounts allocated to each unitholder and the amount of any adjustment to the unitholder's cost base in its units. Distribution statements provided by the Fund to investors currently will also differ slightly in terms of the wording and references to relevant legislation.

If you have any further tax questions in relation to the new AMIT regime and how that might affect your investment in the Fund, we recommend you consult your tax advisers.

Yours sincerely

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