



P R O S P E C T U S

Arcana Provident Limited

ACN 070 168 713

Manager | QBL Funds Management



**T**raditionally, investment funds invest in either money market, bonds, stocks, property or derivative instruments leaving much of the crucial portfolio allocation decisions to the investor.

The idea behind Arcana Provident Limited is to invest potentially in all of these instruments based on two fundamental premises.

## Arcana Provident:

*The mystery  
of prudently  
providing for  
one's future  
well being*



**FIRSTLY,**  
the Manager is in a superior position to the individual investor to manage the efficient allocation of assets across a diverse array of asset classes.



**SECONDLY,**  
that a diverse portfolio of derivative investments will yield a superior reward to risk ratio in the long-term when contrasted with a traditional portfolio.

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Words that are known to have current registrations of registered or common law trademark rights are shown with an initial capital letter.

In view of this, it is expected that Arcana Provident Limited will continue to experience a low correlation to traditional investments in conjunction with an above average return.



This replacement prospectus dated and lodged with the Australian Securities and Investment Commission (ASIC) on 5 August 2002 replaces the prospectus lodged with the ASIC on 11 June 2002. No securities will be allotted or issued on the basis of this Prospectus later than 31 May 2003, however, the Directors may choose to shorten this period.

The Australian Securities and Investment Commission does not take any responsibility for the contents of this Prospectus. As at the date of this Prospectus, the Company is not intending to seek a listing for Shares on any Stock Exchange. This Prospectus is provided for information purposes and for your careful consideration on a “no advice, no recommendation basis”.

As with any issue, investors should carefully consider the potential risks and rewards involved in Shares, the subject of this Prospectus. Attention is drawn to the section Risk (commencing page 21). The Company has not obtained from you, nor have you provided the Company with sufficient information regarding your current financial circumstances, experience, needs, risk profile, age, marital status and investment objectives. Therefore, the onus is on you to carefully consider and then decide on the merits and suitability, both of the contents of this Prospectus and of any investment decision you may subsequently make.

As we are sure you are aware, risk is present in any investment. Even holding cash carries risks emanating from inflation, currency movements and government intervention. As a result, prudent investors usually diversify into several different types of investments and asset sectors to avoid over-exposure to possible calamity in any one sector. You should, therefore, carefully consider your own situation in light of the risk to over-exposure in one asset class or investment.

**If you feel you do not possess sufficient experience to carry out diligent assessment of your situation, then please seek professional advice regarding the areas (type of investment, taxation, risk, suitability, etc.) of which you are unsure.**

This Prospectus is not intended for distribution in any jurisdiction in which the purchase of Shares, the subject of this Prospectus, is not authorised or is unlawful. Laws in certain jurisdictions may include certain restrictions. Investors are required to inform themselves and ensure any restrictions are observed.

Information contained in this Prospectus and the Application Form herein constitutes all the information and representations in relation to this issue. No other information or representation beyond this document is authorised.

The Directors have taken all reasonable care to ensure that the facts stated herein are true and accurate in all material respects and that no material fact has been omitted that would make any statement herein misleading, whether fact or opinion. The Directors accept responsibility accordingly.

Further copies of this Prospectus may be obtained from the office of the Company.

**TABLE OF CONTENTS**



<b>INVESTMENT REVIEW</b>	<b>2</b>
What is Arcana Provident Limited?	2
What does Arcana Provident Limited do?	2
What are Derivative Markets?	3
What is the business of Arcana Provident Limited?	3
What are some of the Markets Traded?	3
Who is QBL Funds Management?	4
Who does the trading?	4
What has the Return been?	4
What is the Reward/Risk profile?	5
Why does Arcana Provident Limited trade Derivatives?	5
Why does Arcana Provident Limited trade markets other than Derivatives?	6
Why invest in Arcana Provident Limited?	6
What makes Arcana Provident Limited different?	7
Investment Strategy Development Overview	7
The Directors	8
<b>THE COMPANY STRUCTURE</b>	<b>10</b>
The Offer	10
Capital Structure	10
Share Rights	11
Dividend Policy	11
Reinvestment of Dividends	11
Share Related Transactions	12
Payment	12
Allotment of Shares & Restrictions	13
Redemption	13
Payment of Redemption Proceeds	14
Suspension of Issue & Redemption	14
Tax File Numbers	14
Reports for Investors	14
Material Contracts	15
Meetings	15
Interests	15
Consents	16
Documents available for inspection	16
<b>AUDITOR'S REPORT</b>	<b>17</b>
Financial Statements	17
<b>FEES &amp; EXPENSES</b>	<b>20</b>
Management Fees	20
Brokerage	20
Expenses & Establishment Fee	20
Other Fees	20
<b>RISK</b>	<b>21</b>
Risk Factors	21
Suspension of Trading	22
Risk Considerations	23
Limitations on Redemptions	23
General	23
<b>DEFINITIONS</b>	<b>24</b>
<b>SHARE APPLICATION FORM</b>	<b>27</b>
Application Form Instructions	28

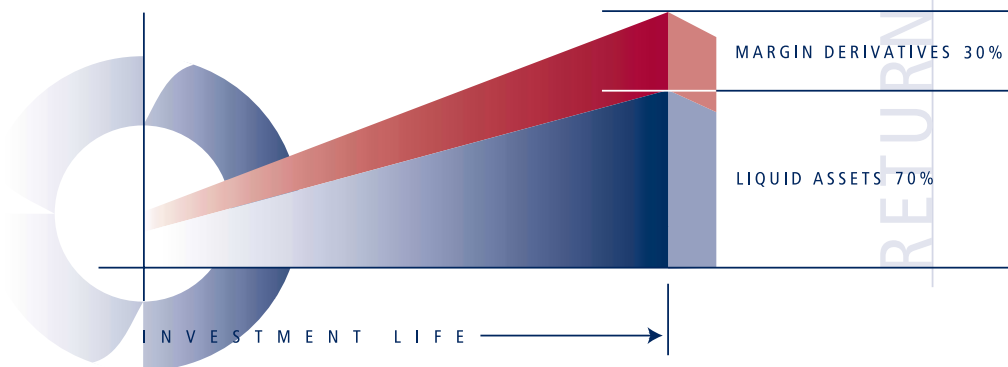
**What is Arcana Provident Limited?**

Arcana Provident Limited (‘the Company’) is a limited liability company, limited by shares. The Company was incorporated in New South Wales under the Corporations Law on 20 June, 1995 with a primary purpose to trade markets.

The Company is controlled by QBL Pty Ltd who holds the ordinary voting shares in the Company. As related bodies corporate, neither company holds, nor is required to hold an Australian Financial Services Licence.

**What does Arcana Provident Limited do?**

The principal charter of the Company is to produce superior return on subscribed capital within reasonable risk constraints. To achieve this aim, the primary focus of the Company is trading the major international futures, fixed interest and foreign exchange markets, including their derivatives as well as spot and forward markets and options.



To facilitate this, the Company may utilise up to 30% of the assets of the Company to margin derivatives positions. To ensure sufficient flexibility and liquidity in this trading, the Company maintains approximately 80% of its assets on deposit with the broker(s), in Liquid Assets (ie. Liquid Assets as accepted for margining purposes by futures exchanges).

This means for example, if \$50,000 is made by the derivatives portfolio on a given day, only \$15,000 of this will be made available for margining derivatives trading the following day.

Unlike more traditional portfolios with fixed allocation to certain asset classes, within the guidelines depicted above, the asset allocation may vary markedly.

## What are Derivative Markets?

Historically, futures contracts were based on physical commodities, providing the producer and consumer with effective hedging facilities. The futures markets work much like forward markets, where producers can sell their produce for future delivery and merchants can fix prices to purchase produce for future receipt.

Today, the futures markets encompass most major tradable instruments. In recent years, while the volume of contracts traded grew rapidly, financial futures trading surged as banks and fund managers turned to derivatives as a means of reducing risk or adjusting market exposure quickly and more efficiently.

## What is the business of Arcana Provident Limited?

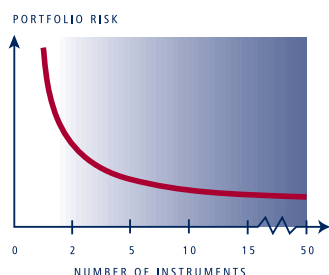
The principal business of Arcana Provident Limited is trading the financial markets. Arcana Provident Limited commenced trading in 1996 and was one of the first retail Hedge Funds to begin operation in Australia. Now, 6 years later, it is one of the longest running funds of this popular new breed of investment.

Traditionally, Hedge Funds were only accessible to wealthy individuals or institutional clients, often requiring minimum account sizes in excess of \$1 million dollars.

Arcana Provident Limited together with QBL Funds Management have enabled the average investor to share the benefits of a professionally managed Hedge Fund, without the restrictive minimum account size requirement.

## What are some of the Markets Traded?

The Manager trades, on behalf of the Company, a portfolio of markets that may include, but is not limited to the markets listed below. Neither the Manager, nor the Company trade as participants in these markets and all trades are executed through licensed brokers.



**The major benefits of diversification can be achieved with less than 15 instruments. Arcana Provident Limited manages diversification to concentrate on those opportunities with the highest expectation of profit.**

<b>Government Bonds</b> US Treasury Bond US Treasury Note US Municipal Bond Canadian Bond Japanese 10 year Bond German Bund UK Gilt French Notionnel Italian Bond Swiss Confederate Bond Australian 10 Year Bond Australian 3 Year Bond Spanish Bond Belgian Bond	<b>Interest Rates</b> Eurodollar Euromark Euroswiss Euroyen Eurolira French (PIBOR) British (LIBOR) German (FIBOR) Milan (MIBOR) UK Short Sterling US Treasury Bill US Federal Funds 30 day Australian 90 Day Bank Bill Canadian 90 Day Bank Bill	<b>Stock Indices</b> S&P 500 Index, Chicago Nasdaq Stock Index, Chicago Nikkei 225, Osaka & Singapore TOPIX, Tokyo FTSE 100 Index, London CAC 40 Index, Paris DAX Index, Frankfurt Swiss Market Index, Dietikon Share Price Index, Sydney Hang Seng, Hong Kong MIB Stock Index, Milan Ibex 35, Barcelona Belgian 20 Index, Brussels Toronto 35 Index, Toronto MSCI Taiwan Index, Taiwan Nemax Frankfurt PSI Lisbon STI Singapore	
<b>Currencies</b> Euro Japanese Yen British Pound Swiss Franc Canadian Dollar US Dollar Index Australian Dollar Mexican Peso Interbank (including cross rates)	<b>Precious Metals</b> Silver Gold Platinum Palladium	<b>Base Metals</b> Copper Zinc Lead Nickel Tin Aluminium	<b>Energy</b> Crude Oil Heating Oil Unleaded Gas Natural Gas Liquid Propane Gas Oil Brent Blend Crude Baltic Freight Electricity
<b>Agricultural</b> Soybeans Soybean Meal Soybean Oil Wheat Corn Oats Rye Barley	Flaxseed Palm Oil Milk Butter Cheese Peas Azuki Beans Shrimp	Cattle Hogs Pork Bellies Cotton Wool Silk Lumber Plywood	Orange Juice Coffee Cocoa Sugar Potatoes Rubber CRB Commodity Index Goldman Sachs Index

*The Company's Share Price has returned in excess of 20% pa after tax since 1996.\**

**Performance Summary Notes:**

The Investment Value shows how an initial \$10,000 investment in Arcana has grown over time. This growth equates to an annual compound return of 20.1% after fees and taxes. No value has been attached to franking credits distributed.

Shareholder return is a result of appreciation of the Share Price. Appreciation of the Share Price is a result of the Company making a return on its assets.

**Who is QBL Funds Management?**

QBL Funds Management commenced trading in 1988 and is currently one of Australia's largest futures fund managers.

QBL Funds Management manages and administrates trading activities for corporate entities and individuals with accounts in excess of \$1,000,000. For managing Arcana Provident Limited, QBL Funds Management is paid a Management Fee as well as an Incentive Fee. For more information, see Fees & Expenses page 20.

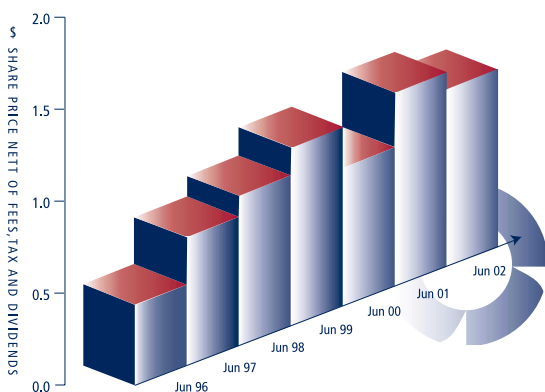
**Who does the trading?**

Currently the Manager monitors about 70 Market-Systems in over 150 of the most active futures markets. This equates to more than 5,000 Market-System combinations that are monitored for allocation on a daily basis.

Trading and testing is carried out in a proprietary environment developed by QBL. Each day the historical performance of all the Market-System combinations is evaluated, a portfolio constructed and orders generated. These orders are sent to a simulated exchange where hypothetical trades are generated updating the trading history for all the Market-System combinations. Basis the new information, the performance of all the Market-System combinations is once again evaluated, a portfolio constructed and orders generated.

The difference between the simulated and actual trading mode is simply that the orders are also generated to send to actual licensed brokers. Each day a 'trade file' is received from the actual broker that is read in and automatically reconciled against orders sent, then once open positions and change in equity is known the order generation process is run for another day to generate new orders for the broker.

The Manager may also use its expertise to evaluate and allocate directly to other traders whose expertise and results look to compliment those of the Manager.



**What has the Return been?**

In 1996 the Manager commenced trading for Arcana Provident Limited. The Company's Share Price from March 1996 through to June 2002 has risen by more than 20% per annum after all fees and taxes.\*

**Performance Summary**

Quarter	Adjusted Share Price**	Unadjusted Share Price	Dividend	Investment Value	Quarter	Adjusted Share Price**	Unadjusted Share Price	Dividend	Investment Value
Mar-96	\$0.49	\$1.00		\$10,000	Jun-99	\$1.33	\$1.93		\$27,241
Jun-96	\$0.43	\$0.90		\$8,917	Sep-99	\$1.25	\$1.25	\$0.60	\$25,723
Sep-96	\$0.50	\$1.04		\$10,319	Dec-99	\$1.42	\$1.42		\$29,102
Dec-96	\$0.53	\$0.88	\$0.24	\$10,889	Mar-00	\$1.24	\$1.24		\$25,497
Mar-97	\$0.53	\$0.88		\$10,824	Jun-00	\$1.18	\$1.18		\$24,251
Jun-97	\$0.80	\$1.17	\$0.15	\$16,488	Sep-00	\$1.07	\$1.07		\$21,953
Sep-97	\$0.90	\$1.30		\$18,389	Dec-00	\$1.13	\$1.13		\$23,253
Dec-97	\$1.25	\$1.81		\$25,568	Mar-01	\$1.19	\$1.19		\$24,501
Mar-98	\$0.98	\$1.43		\$20,149	Jun-01	\$1.60	\$1.60		\$32,954
Jun-98	\$1.03	\$1.49		\$21,126	Sep-01	\$1.56	\$1.56		\$32,129
Sep-98	\$1.21	\$1.76		\$24,944	Dec-01	\$1.61	\$1.61		\$33,014
Dec-98	\$1.28	\$1.86		\$26,277	Mar-02	\$1.44	\$1.44		\$29,477
Mar-99	\$1.37	\$1.99		\$28,101	Jun-02	\$1.56	\$1.56		\$32,038

\* Returns are historical and nett of fees and tax. Past performance may not be indicative of future returns. No allowance is made for entry fees and all returns assume reinvestment of dividends.

\*\*For example, if the Share Price is \$1.00 and a \$0.10 dividend is issued, all historical prices are adjusted down by 10% (\$0.10 / \$1.00).

*The Company's trading has demonstrated an ability to produce profits during periods that were unprofitable for traditional investments*

### **What is the Reward/Risk profile?**

The **Diversified 20** Shares are designed to maximise geometric return within reasonable risk constraints. Investors may wish to note that the trading experience by the Manager indicates a better than 50% chance of experiencing (in any 12 month period) a compound annual return of 20% or better, net of fees and expenses. Put simply, when viewing the annual returns each day of the actual trading of the Company, more than half of the net returns on the Share Price were over 20%. As there are many factors affecting the Manager's ability to achieve these results, the Directors would like to draw investor's attention specifically to the section headed Risk commencing page 21.

Despite the fact that the trading environment is designed specifically to maintain the respective risk constraints, neither the Directors or the Manager warrant that such constraints will be maintained. For more information please review the section headed Risk commencing page 21.

### **Why does Arcana Provident Limited trade Derivatives?**

#### **FLEXIBILITY**

Derivatives trading can gain from rising or falling prices and can therefore produce profits during periods that may be unprofitable for stocks, bonds, property and other traditional forms of investment.

#### **LEVERAGE**

A key feature of most derivative instruments is their ability to offer substantial gearing or leverage, often 30 to over 1,000 times that of the deposited margin<sup>1</sup>. Futures, options, warrants, convertible bonds and swaps are all derivatives or are combinations of a derivative and the underlying asset.

The benefit of the leverage is that an investment is not laboured with the constraint of capital, or sometimes the cost. For example, a Market-System for 90 day Bank Bills (face value \$1,000,000) may return \$1,500 per contract per annum, on average, with a margin requirement of less than \$1,000 in the futures market. If one had to hold \$1,000,000 in cash to trade this exposure, the benefit would immediately disappear.

#### **LOW TRANSACTION COSTS**

The low transaction costs (brokerage and slippage) associated with derivatives trading is the most important factor facilitating return from short-term price movements. With the ability to enter and exit the equivalent of \$500,000 in stocks or \$100,000 in bonds, in a matter of seconds for less than \$500, the derivative markets provide a unique opportunity for the quantitative trader to better calibrate risk than any other investment class.

#### **DIVERSITY AND LIQUIDITY**

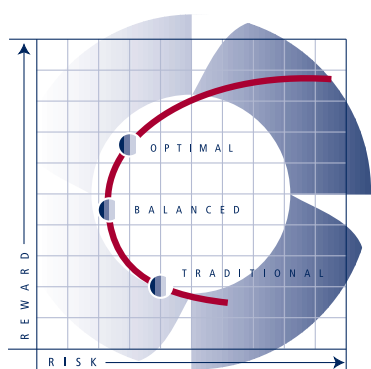
The world's futures and options markets represent a spread of instruments quite unlike that of any other asset class. Although the number of derivative instruments is far less than the number of individual stocks or bonds, their range across physical commodities and financial assets provides an extremely diverse and unique asset class.

1 The Eurodollar futures contract traded at CME/IMM in Chicago provides leverage on a US\$1,000,000 contract for a deposited margin normally below US\$1,000.

By far the largest individual derivatives market is currency exchange. Interbank foreign exchange and currency futures markets handle international currency transactions with an estimated value in excess of US\$1 trillion per day in over 100 currency cross-rates.

After foreign exchange, the market for long and short-term debt is the second largest market. Interest rate futures provide the money and bond markets with a mechanism for transferring the risk of interest rate changes. Recently, the worldwide growth of such instruments has been dramatic, providing greater liquidity in some futures contracts than in the underlying cash markets.

Stock index futures and option contracts, representing well-diversified portfolios of stocks, are now available on most of the major international stock markets. Precious and base metals, crude oil and its products, grains and many other key agricultural commodities are also traded in derivatives markets worldwide.



### Why does Arcana Provident Limited trade markets other than Derivatives?

Derivatives portfolios have a low correlation to traditional investments such as stocks and bonds, making them an excellent complement to more conventional investment portfolio products.

It is the long term aim of the Company to improve the risk-adjusted return by integrating traditional investments alongside an actively traded derivatives portfolio.

### Sharpe-Markowitz Efficient Frontier Application of Modern Portfolio Theory (MPT)

has shown that the addition of a Managed Derivatives component of up to 30% of a traditional portfolio actually reduces risk and enhances portfolio performance <sup>2</sup>.

### Why invest in Arcana Provident Limited?

Investors in the Company will be able to obtain specific advantages that may not be available if they were to engage directly in derivatives transactions. For those persons seeking the potentially high rewards of derivatives trading and who are prepared to accept the related potential risks, the Company offers the following advantages:

**PROFESSIONAL TRADING MANAGER:** The Shares provide an opportunity to participate in a professionally managed fund, utilising an advanced and disciplined trading and portfolio management methodology.

**ECONOMIES OF SCALE:** Due to the size of the Company and the high level of automation employed, economies of scale manifest, such as superior brokerage service and efficient administration. Also, a large asset base facilitates finer calibration of risk and more efficient compounding of return as the incremental size of each contract is a small portion of the asset base.

**RISK TO INVESTOR:** Because only a portion of new profits are allocated to risk capital, Shareholder's risk to the initial issue price is expected to reduce over time. For example, if \$50,000 is made by the derivatives portfolio on a given day, only \$15,000 of this will be made available for margining derivatives trading the following day.

<sup>2</sup> Lintner, John, Professor, Harvard University. "The Potential Role of Managed Commodity-Financial Futures Accounts (and/or Funds) in Portfolios of Stocks and Bonds". Presented at Annual Conference of the Financial Analysts Federation, May 1983.  
Baratz, Morton S., Ph.D. & Eresian, Warren, Ph.D., "The Role of Managed Futures Account in an Investment Portfolio". Presented at the MAR Conference on Futures Money Management, Las Vegas, Nevada, January 1990.  
Peters, Carl C., Ph.D., M.S., B.S., "A Comparative Analysis of Portfolio Diversification Criteria Using Managed Futures". Presented at the Fourth Annual Convention of the Pennsylvania Economic Association, Millersville University, 1989.  
Fishmar, Daniel, Professor, Westminster College & Peters, Carl C., Ph.D., M.S., B.S., "Portfolio Analysis of Stocks, Bonds and Managed Futures using Compromise Stochastic Dominance". The Journal of Finance, Vol. 11, No.3, June 1991.

**DIVERSIFICATION FROM INVESTMENT IN A DERIVATIVES PORTFOLIO:**

The Directors are of the opinion that an investment in the Company offers the potential for both a low correlation and superior return to traditional investments. For example, the Managed Account Reports<sup>3</sup> Pooled Fund Derivatives Index (in Australian Dollars) has, for more than a decade, shown a low correlation and superior performance to many major world markets.

The Directors consider that investment in such a widely diversified and leveraged portfolio can provide the investor with a high rate of return in relation to risk, compared to more traditional investment avenues such as stocks and bonds.

**What makes Arcana Provident Limited different?**

Arcana Provident Limited currently employs an array of short to medium-term trend-following trading strategies in a computerised environment that automatically adapts to changing investment conditions. This dynamic environment, developed by Mr York, was designed to overcome a lack of flexibility often experienced with other statistically based investment methodologies.

Put simply, if a market goes up the Systems look to buy, if it goes down they look to sell. The short-term Systems looking at a 1-3 day timeframe, the medium-term Systems looking at a 2-8 week timeframe. In the same vein, Market and Market-System statistics such as price, range and change in equity are used as inputs to determine allocation adjustments and trading intensity. If a Market-System is doing well it may be allocated more capital, if it is doing poorly it may have capital taken away from it and eventually be scaled out of the portfolio.

With multiple Trading-Systems monitored in each market, the strategy is specifically designed to efficiently manage a large number of market positions across the wide diversity of markets. By removing the emotion and subjectivity from the trading process, the Company is in an excellent position to maximise risk-constrained return.

**Investment Strategy Development Overview**

The investment strategy has been traded for many years as well as computer tested on decades of historical data in over 100 markets. Through a dynamic process of continuous research and development, the trading environment continues to evolve iteratively through the following stages:

- (i) The definition of Trading-Systems, followed by the application of these Systems to various markets with various parameters (ie creation of multiple Market-Systems, as defined);
- (ii) Overlaying a procedure to create a dynamic portfolio that varies the allocation between the Market-Systems based on expected performance;
- (iii) Test the Systems and methods on market data as far back in time and under as many different conditions as possible, to determine how they work most effectively;
- (iv) Evaluation of the results to ensure the Systems and methods meet high standards of statistical reliability and validity, including sustaining performance with differing parameters and through a multitude of economic cycles;
- (v) Implementation of the Systems and methods exactly as they were tested.

*The strategy is specifically designed to efficiently manage a large number of market positions across the wide diversity of markets*

<sup>3</sup> Managed Account Reports LLC., 1250 Broadway, 26th Floor, New York, NY, 10001. Managed Account Reports track the performance of Commodity Trading Advisors around the world.

## The Directors



**Philip M York** is Managing Director of the Company and holds shares in both the Company and the Manager.

In 1986 Mr York adopted a 'systems' approach to trading. In 1988 Mr York was involved in consulting work applying artificial intelligence technology to trading financial markets. Also in 1988, Mr York undertook intensive research into the application of Modern Portfolio Theory to the domain of leveraged investments.

Mr York was engaged to trade futures privately from 1992 through 1995. In 1996 he commenced trading derivatives for Arcana Provident Limited on behalf of the Manager. The performance of Mr York's derivatives trading from March 1996 through to June 2002 has resulted in an annual return on capital in excess of 20% after tax.

Mr York continues to be the principal architect behind the research, development and implementation of the trading systems and methods employed by the Manager. Mr York's insight in the arena of automated investment and portfolio management has extended work in these fields.

Mr York has held Securities Dealers proper authority and Registered Representative status from the Sydney Futures Exchange. Mr York brings together vast experience from the application of artificial intelligence techniques to credit analysis and insurance underwriting through to portfolio management systems.



**Adrian J Pitt BEc**, is a Director of, and Shareholder in the Company. Mr Pitt holds a graduate diploma in Applied Finance and Investment from the Securities Institute of Australia and a Bachelor of Economics from Sydney University. For the past 20 years Mr Pitt has worked in the finance markets as a very successful institutional fund manager, trader and international trading adviser in both the derivatives and equity arenas.

Currently Mr Pitt is involved in proprietary equity advisory work for an Australian Investment Bank. Mr Pitt's experience includes the practical application of trading techniques as varied as Elliott Wave, Gann analysis and Angle Symmetrics. Mr Pitt also has an enormous depth of experience in the application of computer-based trading systems and advanced derivatives portfolio management.



**Ronald C Foord, BA, Dip. Ed, MBA, ACA, ACIS, FAICD**, is a Director of, and Shareholder in the Company. Mr Foord holds a Bachelor of Arts (majoring in financial studies), a Diploma of Education from Macquarie University and a Master of Business Administration from Sydney University. Mr Foord is an Associate of the Institute of Chartered Accountants, a Fellow of the Australian Institute of Company Directors and an Associate of the Chartered Institute of Company Secretaries and Managers.

Mr Foord has more than 20 years experience in financial management and has held senior executive positions in professional accounting and management consulting firms. In addition, Mr Foord has very broad management experience, working in private enterprise, including being a director of a number of significant Australian and South East Asian companies for the past 12 years. During this time Mr Foord was also trustee for a significant Superannuation Fund. Currently, Mr Foord trades stocks and financial instruments on his own account.



**John Marchetta, BComm**, is a Director of the Company and has held the position of Fund Manager since early 1999. Mr Marchetta holds a Bachelor of Commerce in Accounting and is currently pursuing a Bachelor of Science in Mathematics.

Mr Marchetta has been trading stocks and derivatives utilising a systems approach for more than 8 years. Prior to joining the Manager, Mr Marchetta demonstrated his powerful fund management skill-set by developing his own fully automated trading environment. This environment incorporated, not only quantitative trading systems, but also advanced money management and portfolio allocation strategies.

Mr Marchetta has held Securities Dealers proper authority and Registered Representative status from the Sydney Futures Exchange. Mr Marchetta brings to the Company skills in trading, accounting and information technology that have made him instrumental in the development and deployment of superior front and back-office solutions.



**Deborah A York** is Director/Secretary of the Company and the Manager and holds shares in both.

Ms York brings to the Company business nous from areas as diverse as financial services through to mainframe software sales and marketing. Ms York has worked in the software and finance arena for more than 15 years.

**HLB Mann Judd** has been the auditor of the Company since 1995. HLB Mann Judd is a prominent Australian firm with associations in over 90 countries through its affiliation with the HLB International group.

## The Offer

The Company was incorporated in New South Wales as an Australian company under the Corporations Law on 20 June 1995. Under Section 8 of its Articles, the Company is empowered to redeem or buy-back its own shares. The Company is further empowered under Schedule 1 to issue Redeemable Preference Shares.

Investors are hereby invited to subscribe to the issue of up to 20,000,000 Non-Voting Redeemable Preference Shares ('Shares' with a capital 'S') of class **Diversified 20**, in Arcana Provident Limited ('the Company'). Only Shares of type **Diversified 20** are offered as the subject of this Prospectus. The Company is entitled to accept over-subscriptions for further Shares.

The monies subscribed will be available to be invested as a professionally managed pool. **The offering period** for the Shares opens on 1 September 2002 and closes on 31 May 2003 or as shortened by the Directors of the Company.

These Shares will be available at the Share Price current at the date of allotment. The first Share allotment under this Prospectus will be made basis the September 2002 Valuation Day (as defined). Thereafter Shares will be allotted on each monthly Valuation Day at the then current Share Price of that Valuation Day. Subscriptions received within 5 business days of the nearest Valuation Day will be allotted on the following Valuation Day.

As the Share Price can fluctuate markedly, this procedure ensures that new investors do not share in either the potential profits or losses of earlier subscribers. For more information on Share Price reporting, see Reports for Investors on page 14.

The **minimum subscription** is for \$5,000.

The Company structure enables different classes of shares to be issued from time to time by the Directors.

Application procedures are set out under Share Related Transactions on page 12 and on the back of the Application Forms attached to this Prospectus.

*The offering  
period for the  
Shares opens  
on 1 September  
2002 and closes  
on 31 May 2003*

## Capital Structure

The Directors and QBL Pty Ltd hold voting rights to the ten ordinary shares on issue. These shares are not the subject of this Prospectus and are the shares referred to with a lower case 's'. The ordinary shares hold full voting rights in the Company, but no equitable interest beyond their par value. No options over Shares or debentures of the Company have been issued or granted by the Company. The Company has not agreed to issue or grant any such options.

*Arcana  
Provident  
Limited  
is designed  
to capitalise on  
both rising  
and falling  
markets*

### Share Rights

The ordinary shares held by the Manager and the Directors hold no rights to the capital or profits of the Company (ie. dividends). In the event that ordinary shares are issued with rights to dividends, preference to dividends will continue to be given to the holders of Redeemable Preference Shares in the Company.

Each Share confers upon its holder the same rights as the holders of ordinary shares to receive notices, reports, audited accounts and balance sheets of the Company and to attend general meetings, but does not confer upon its holder the right to vote at any general meeting of the Company except under the following circumstances, which may be further limited in the issue resolution:

- (a) At the date of the notice convening the meeting, any Dividend payable in respect of the Share is in arrears;
- (b) On a proposal that directly or indirectly affects any of the special rights or privileges attached to the Share;
- (c) On a proposal to wind up the Company;
- (d) On a proposal for the disposal of the whole of the Company's property, business and undertaking;
- (e) During the winding up of the Company;
- (f) On notice of Suspension of Trading;

in which case the holder of that Share is entitled to one vote on any such resolution.

Each Share also holds the right to petition the Company in relation to the following issues:

- (a) The holding of an Extraordinary General Meeting;
- (b) To alter the risk profile of a class of Share;
- (c) To alter the proportion of profits applied to direct reinvestment and the issue of dividends/bonus Shares;
- (d) To remove an officer of the Company;
- (e) To raise any issue of conduct (not process) that would indicate that the officers are not reasonably acting in the best interests of the Shareholders;
- (f) Any other issue that the Directors may determine from time to time.

On receipt of a petition from the equivalent of not less than 5% of the paid up capital of the Company, the Company will, in the case of option (a) process notice to hold an Extraordinary General Meeting, unless a general meeting is due to be held within 90 days of receipt of the petition. In the case of options (b) - (f) such issues must appear on the agenda of the next general meeting and include full form and content as covered in the petition notice.

### Dividend Policy

It is the Directors' intention to pay a fully franked dividend each financial year provided there are tax credits locked in, or expected to be locked in from profits.

### Reinvestment of Dividends <sup>4</sup>

If cash dividends are declared, Shareholders may take advantage of the Company's Dividend Reinvestment Plan (DRP). This was adopted by the Company on 22 July 1995. All Shareholders will participate in the DRP unless they request otherwise in the Application Form attached to this Prospectus.

<sup>4</sup> No assurances can be given as to future returns, dividends, bonus Shares or limitation of risk.

Under the DRP, Shareholders may elect to reinvest all of their dividends by subscription to additional Shares in the Company. This may be done for future dividends by selecting the Dividend Reinvestment option on the Share Application Form. Shareholders are able to commence participation in, or withdraw from the DRP at any time by notifying the Company in secure communication.

Participating Shareholders will be entitled, on each dividend payment, to be allotted the number of Shares (rounded down to the nearest whole number) that the cash dividend would purchase at the then current Share Price.

Unless the Directors otherwise determine, a Shareholder whose registered address is in the United States of America or Canada may not participate in the DRP. The Directors may decide, in respect of any Shareholder, that the Shareholder's participation in the DRP may breach applicable laws, in which case that Shareholder will not be permitted to participate in the DRP.

Dividends paid and reinvested, whether franked or unfranked, will usually be included in a resident Shareholder's assessable income. For capital gains tax purposes, the cost of the Shares issued pursuant to the DRP will be the amount of the dividend reinvested to acquire the Shares.

Under the terms of the DRP, the Directors may alter, suspend or terminate the DRP by giving one months notice to the Shareholders. The Directors may immediately terminate the plan if there is any change of law (as defined) which, in the opinion of the Directors, will adversely affect the majority of Shareholders or holders of a majority of the Shares participating in the DRP.

### **Share Related Transactions**

A Share Application Form is included at the end of this Prospectus. Applications for Shares may be mailed to the address below:

**Arcana Provident Limited**  
PO Box 8888  
Hunters Hill NSW 2110  
Australia

### **Payment**

Payment may be made by bank draft or personal cheque and delivered with the completed Share Application Form. Cheques must be made payable to Arcana Provident Limited. Payment may also be made by telegraphic transfer on personal application to the Company.

The Shares will not be issued by the Company during any period when the calculation of the Share Price is suspended.

**Allotment of Shares & Restrictions**

The Company may restrict or prevent the ownership of Shares by any person, firm or corporation, if such holding results in a breach of applicable Laws and regulations or for any reason that may be considered detrimental to the Company or the Manager.

Where it appears to the Company that any such person who is precluded from holding Shares (either alone or in conjunction with any other person, either in title or beneficially) holds Shares, the Company may redeem all the Shares so held at the applicable Share Price.

Where an application is rejected, the monies will be fully refunded. Where the number of Shares allotted is less than total monies received, the surplus application monies will be refunded. All refunds will be made within 21 days of the closing of the subscription lists for the allotment.

Share certificates will not be issued, however, investors will receive a statement of allotment setting out full details of the number of Shares issued, and the issue price of the Shares.

**Redemption**

Redemptions will be carried out on each monthly Valuation Day at the applicable Share Price subject to restrictions and procedures stipulated within this Prospectus and under the governing law.

Shares will be redeemed on any Valuation Day in minimum parcels of 1,000 Shares. Any request for redemption that would cause an investor's net holding to fall below \$5,000 will result in the redemption of all remaining Shares.

For a redemption request to be valid, Shareholders must send a signed, irrevocable written notice for redemption detailing how many Shares are to be redeemed. Shareholder redemption requests must be mailed to the address below:

**Arcana Provident Limited**

PO Box 8888  
Hunters Hill NSW 2110  
Australia

Shares may be redeemed on any monthly Valuation Day provided that the Shareholder's request for redemption is received at least **five business days** before such Valuation Day. Requests received less than five business days before any Valuation Day may be acted upon at the **next** Valuation Day.



### **Payment of Redemption Proceeds**

The Company will endeavour to forward the proceeds of redemption by cheque to the Shareholder (or the first named of joint Shareholders), within 10 business days from the applicable Valuation Day.

Cheques will be mailed to the Shareholder in Australian dollars. Shareholders will bear any bank costs incurred in the transmission of funds.

### **Suspension of Issue & Redemption**

The calculation of the Share Price may be suspended during a period when trading on a relevant exchange or market is substantially restricted or other circumstances exist which, in the opinion of the Directors, make it impracticable to dispose of or value the investments. No Share so affected may be issued or redeemed during a period of suspension, except at the reasonable discretion of the Directors. The determination of the price of Shares will be suspended in the case of Suspension of Trading as described on page 22.

If a Shareholder's request for redemption cannot be acted on due to a suspension of the valuation of assets, a Shareholder may withdraw their request for redemption after the relevant Valuation Day. In such event, a withdrawal will be effective only if written notification is received before termination of the period of suspension. If the request is not withdrawn, the redemption will be made on the next Valuation Day following the end of the suspension.

*Arcana*

*Provident*

*Limited*

*looks to*

*maximise*

*Reward/Risk*

*by maintaining*

*diversification*

*to a dynamic*

*group of select*

*opportunities*

### **Tax File Numbers**

You should quote your Tax File Number ("TFN") in the relevant section of the Application Form at the back of this Prospectus, otherwise tax may be withheld at the maximum marginal rate plus the Medicare Levy (for Australian Residents).

### **Reports for Investors**

The Manager calculates an unofficial Share Price daily. This information is available 24 hours a day on the web at [www.qbl.com.au](http://www.qbl.com.au) (follow the link to QBL Funds Management). For the Share Price of the most recent Valuation Day investors may call QBL on (02) 9418-9966. Investors should bear in mind that investments in the Company are long term and the Directors are in no way advocating the Share Price be followed on a daily basis.

The Company publishes quarterly reports of the Company's activities and performance. The Company will also publish an annual report containing the Directors' statement and audited accounts made up to 30 June.

**Material Contracts**

The following contracts, have been entered into and are, or may be material to this issue:

- A Management & Administration Agreement between the Company and the Manager, appointing the Manager to administrate the Company's affairs and trade a portfolio as described in this Prospectus.
- A Dividend Reinvestment Plan as described under Reinvestment of Dividends commencing on page 11 has been adopted. The plan facilitates reinvestment of Shareholder dividends in the Company through the issue of additional Shares.
- A Futures Clearing Agreement between the Company and various brokers. These are industry standard agreements for executing futures contracts (such as those for markets described on page 3 with risks as discussed on page 21). These agreements in no way limit the Company's ability to make alternate arrangements.

Any such contract may be amended by mutual consent of the parties thereto, the decision on behalf of the Company being made by its Directors and limited by the rights of the Shareholders as described under Share Rights on page 11. Copies of all contracts are available at the office of the Company.

**Meetings**

The Annual General Meeting of the Company will be held in Sydney, New South Wales, Australia or at such other place as the Directors may determine. At least 14 days written notice must be given to Shareholders of the date, time and proposed venue. As the Shares are non-voting, Shareholders will be entitled to attend but will not be entitled to vote at the meeting (except in relation to the limited matters mentioned under the previous heading Share Rights page 11).

General Meetings may also be convened at the request of the Directors. Notice of every General Meeting is required to be given to every holder of Shares in the Company, every Director, the auditors and every person otherwise entitled by operation of law.

**Interests**

Except as set out in this Prospectus, no Director or expert and no firm of which a Director or expert is a partner has:

1. any interest in the promotion of, or in the assets to be acquired by, the Company; or
2. received any sum in cash or Shares or is proposed to receive any sum, either to induce him to become a Director or otherwise for services rendered, in connection with the promotion or formation of the Company; or the right, whether legally enforceable or not, to:
  - (i) subscribe for securities in the Company; or
  - (ii) nominate persons to subscribe for securities in the Company.

### Consents

The Manager, the Directors and the Auditors have given written consent (and have not subsequently withdrawn consent) to the issue of this Prospectus with those statements attributed to them and information provided by them in the form and context in which those statements and that information are included. As at the date of lodgment of this Prospectus, the Company has not received notice withdrawing the aforementioned consents.

### Documents available for inspection

Copies of the Memorandum and Articles and the latest reports of the Company may be obtained on request. Also, the following documents may be inspected at the registered office of the Company during normal business hours: copies of the Material Contracts and each consent given by an expert to the inclusion of statements made by that expert, or purporting to be based on statements made by that expert, contained in this Prospectus.

This Prospectus is signed for and on behalf of the Company by its Directors:



**Philip M York**  
Managing Director



**Adrian J Pitt**  
Director



**Ronald C Foord**  
Director



**John A Marchetta**  
Director



**Deborah A York**  
Director/Secretary

23 July 2002

The Directors  
Arcana Provident Limited  
PO Box 8888  
HUNTERS HILL NSW 2110

Dear Sirs

This Independent Accountant's Report ("the Report") on Arcana Provident Limited ("Arcana") has been prepared at the request of the Directors of Arcana for inclusion in a prospectus to be dated July 2002 in relation to the issue of non-voting Redeemable Preference Shares in Arcana.

**Scope of this Report**

In preparation of this Report, reference has been made to the requirements of Division 4 of Part 6D.2 of the Corporations Act 2001 relating to prospectuses.

HLB Mann Judd are the auditors of the company and have completed the audit for the year ended 30 June 2002 and signed an unqualified audit opinion. The audit opinion was also unqualified for the 2001 year.

**Financial Statements**

The financial statements for the years ended 30 June 2001 and 30 June 2002 are in Australian Dollars and are set out below.

**Statement of Financial Performance**

	2002	2001
	\$	\$
Revenues from ordinary activities	393,490	1,930,631
Expenses from ordinary activities	492,709	428,977
<b>(Loss) profit from ordinary activities before income tax expense</b>	<b>(99,219)</b>	<b>1,501,654</b>
Income tax expense relating to ordinary activities	20,735	-
<b>(Loss) profit from ordinary activities after related income tax attributable to members of the company</b>	<b>(119,954)</b>	<b>1,501,654</b>
<b>Total changes in equity other than those resulting from transactions with owners as owners</b>	<b>(119,954)</b>	<b>1,501,654</b>

HLB Mann Judd (NSW Partnership)

Mann Judd House 159 Kent Street Sydney 2000 Australia DX 10313 SSE Telephone +61 (0) 2 9251 7711 Fax +61 (0) 2 9251 7336

Email: mailbox@hlbnsw.com.au Website: www.hlb.com.au

Liability limited by the Accountants Scheme, approved under the Professional Standards Act 1994 (NSW)

Partners: John R Biddle S Anthony Fittler Matthew R Gardiner Ian D Haigh Michael G Hutton Dennis J Mattiske David McGrane Philip B Meade Robert K Mulkearns Mark D Muller Frederick A Murrell Stephen K Preen Bruce V Rose Darryl K Swindells Edgar R Temple Neil P Wickenden

HLB Mann Judd (NSW Partnership) is a member of  International and the HLB Mann Judd National Association of independent accounting firms

Statement of Financial Position

	2002	2001
	\$	\$
<b>Current Assets</b>		
Cash assets	4,316,124	5,187,164
Other financial assets	<u>140,386</u>	<u>474,831</u>
Total current assets	<u>4,456,510</u>	<u>5,661,995</u>
Total assets	<u>4,456,510</u>	<u>5,661,995</u>
<b>Current Liabilities</b>		
Payables	<u>69,783</u>	<u>75,702</u>
Total current liabilities	<u>69,783</u>	<u>75,702</u>
Total liabilities	<u>69,783</u>	<u>75,702</u>
<b>Net Assets</b>	<u>4,386,727</u>	<u>5,586,293</u>
<b>Equity</b>		
Contributed equity	3,981,279	5,060,891
Retained profits (losses)	<u>405,448</u>	<u>525,402</u>
<b>Total equity</b>	<u>4,386,727</u>	<u>5,586,293</u>
Number of Shares on issue	2,811,674	3,481,244
Net Asset Value per Share	\$1.56	\$1.60

The above figures have been extracted from the audited accounts of Arcana for the years ended 30 June 2001 and 2002 and are a true and fair representation of the financial performance and financial position for those years. We are of the opinion that there are no other assets and liabilities that have not been recorded in those accounts. The accounts have been drawn up in accordance with Australian Accounting Standards.

A statement of cash flows which is included in the audited accounts has not been reproduced here as Arcana's trading is on a cash settlement basis and is effectively recorded in the statement of financial performance.

Any additional financial information that is disclosed in the audited financial statements is not, in our opinion, of a material nature to this report.

#### Declarations

The name and qualifications of the person signing this report is Ian Haigh, a member of the Institute of Chartered Accountants in Australia and a partner in the firm of HLB Mann Judd.

- The involvement of HLB Mann Judd in the preparation of this prospectus is limited solely to the preparation of this Report;
- HLB Mann Judd was not involved in any other aspect of the prospectus and did not authorise or cause the issue of any other part of the prospectus and we have only issued our consent in respect of the inclusion of this Report in the prospectus;
- Neither Mr Haigh nor any partner of HLB Mann Judd have any interest in Arcana;
- The giving of our consent for the inclusion of this Report in the prospectus should not be taken as our endorsement of Arcana or a recommendation by HLB Mann Judd of any participation in the Offer of any intending investor.

The author of this Report and HLB Mann Judd give no assurance or guarantee whatsoever in respect of the future success of or financial returns associated with the subscription for shares being offered pursuant to this prospectus.

Yours faithfully

A handwritten signature in blue ink, appearing to read 'Ian Haigh'.

I D Haigh  
Partner



### **Management Fees**

A Management Fee is payable by the Company to the Manager monthly in arrears out of the assets attributable to the Shares. This fee accrues between Valuation Days at the rate of thirty three one hundredths of one per cent per month of the Total Assets of the Company less expenses (not including provision for tax).

In addition, an Incentive Fee will also be payable by the Company to the Manager. The Incentive Fee is 17.5% of any net profit (after expenses, but before tax provision) beyond that attained on any prior monthly Valuation Day. The Incentive Fee is payable after deduction of the Management Fee.

This means that an Incentive Fee is only paid after all previous losses and expenses<sup>5</sup> have been covered and net new equity highs are achieved.

### **Brokerage**

The Company utilises the services of major broking houses and a major bank. These organisations will be entitled to charge fees and commissions at competitive rates in consideration of the level of trading activity undertaken by the Company.

Neither the Directors or the Manager will receive a fee from the brokers or the bank for trading activity undertaken by the Company. The Company reserves the right to seek competitive services.

### **Expenses & Establishment Fee**

The preliminary expenses of the Company will be considered as paid in full on payment of an Establishment Fee of 2.95% of the amount raised to the Company. No other party holds claim against the Company in relation to the issue at the allotment dates.

The Directors warrant to limit these expenses to the Company to 2.95% of the amount raised pursuant to this Prospectus (not including statutory and other out of pocket expenses).

The Company will also incur Director's, officer's, administration, audit and legal fees, registrar and Government charges and duties. Costs may also be incurred in the maintaining of accounts, preparing valuations and offering documents, printing of notices, reports and explanatory memoranda.

### **Other Fees**

Allocations of assets to investments or trading programs other than those directly employed by the Manager may incur additional fees payable either directly or indirectly to the managers/administrators of those investments.

<sup>5</sup> In this context tax is not included as an expense because fees are a tax deductible expense of the Company. That is, the fees are calculated after losses and expenses but before tax accruals.



# Risk

## **Risk Factors**

In addition to the core issue of general competence of the Manager, the Directors have determined the following broad categories of risk in relation to the issue of Shares:

- Market risk (ie. Margin risk);
- Jurisdictional, Regulatory and Sovereign risk;
- Counter-Party Risk;
- Illiquidity;
- Lack of Capital;
- Risk of Default on cash investments.

## **MARKET RISK**

In considering the suitability of investment in a vehicle with exposure to speculative markets, you should be aware of the following:

- Under certain market conditions, the Manager may find it difficult to liquidate a position.
- The placement of contingent orders by the Manager, such as a stop loss or stop limit order, will not necessarily limit losses to the specified amounts, since market conditions may make it impossible to execute such orders.
- The high degree of leverage that is often obtainable in derivatives trading can work against, as well as for the Company. The use of leverage can lead to large losses as well as gains.
- In conjunction with this margin risk, the primary risk the Manager faces is not that of a single overnight move that may take away a few per cent of capital, but of an extended period where losses are greater than profits.

## **JURISDICTIONAL, REGULATORY & SOVEREIGN RISK**

Sovereign risk is the risk of regulatory interference, change of law, or a declaration of a state of emergency that could adversely affect efficient management of the Trading Assets.

The risks in trading speculative instruments in various countries around the world can vary significantly. In considering whether to trade in various countries, the Company will be exposed to the following:

- Execution and clearing of trades subject to the rules of the country in which the transaction occurred – not the country where the order was generated;
- Protective provisions of securities, futures or derivatives legislation of Australia may not apply;
- Currency exchange rate fluctuations for instruments not denominated in Australian Dollars.

**COUNTER-PARTY RISK**

Default by counter-parties such as clearing members, banks and brokers although possible is extremely rare.

**ILLIQUIDITY**

Risk is present in the form of illiquidity. Although adjustments can be made over time for changes in these characteristics, unprecedented volatility from surprise announcements can cause risks outside normal expectation. The best defence the Manager can apply against this is simply being conservative and reasonably diversified.

The Manager is familiar with illiquidity and gaps, having traded through events such as droughts, frosts and floods, the Russian Coup, the Chernobyl disaster, the Gulf War and the September 11th terrorist attacks. In addition to real-time experience in these conditions with the Market-Systems, all the Trading-Systems have been rigorously tested on Market data going as far back as 1949.

**LACK OF CAPITAL**

The ability of the Company to trade profitably and maintain risk objectives might be affected if sufficient funds are not available to enable the Market-Systems to be fully implemented. The Directors of the Company have agreed to set a Minimum Capitalisation of the Company at \$1,000,000. Should the value of the Company fall below this level, either through redemptions or losses, a General Meeting will be called for the Shareholders to vote on the future course of the Company.

**Suspension of Trading**

All trading, issues and redemptions will be suspended in relation to the **Diversified 20** class of Share if losses are suffered that reduces the Share Price to less than 50% of the highest Valuation Day Share Price<sup>6</sup> per **Diversified 20** Share (plus dividends). For more information on Suspension of Issue and Redemption see page 14.

In the event of Suspension of Trading, all allocations related to the suspended Shares will be liquidated and no further trading in relation to that issue will occur, pending the result of a Shareholder's meeting to resolve a course of action.

In the event of a trading suspension, all Shareholders subject to the suspension will be convened to decide by majority vote, by the holders of such Shares, on the possible liquidation of the issue. In the case of non-liquidation of the Shares, the suspension will be lifted immediately and the Shareholders may request redemption of their Shares.

*Your initial  
capital exposure  
is reduced  
over time as  
the Company  
re-apportions  
risk at each  
new equity  
high*

<sup>6</sup> The highest Valuation Day Share Price in this context is adjusted for dividends, as dividend distributions cause variations in the Share Price.

### **Risk Considerations**

Shareholder's risk is addressed in two ways:

- (i) The likelihood of extreme loss of initial capital is reduced by the Suspension of Trading constraints placed at 50% of the highest Valuation Day Share Price.
- (ii) The amount paid for the Shares.

### **Limitations on Redemptions**

To facilitate Capital Redemption, profits up to one cent per Share may be withheld for allocation to a Capital Redemption Reserve. This reserve will be increased as soon as practicable. Proceeds of the Capital Redemption Reserve may be distributed through subsequent issues.

The one cent per Share cannot be redeemed, except out of profits that would otherwise be available for dividends (as placed in a Capital Redemption Reserve) or out of proceeds of a fresh issue of non-voting shares made for the purposes of facilitating such redemption. Where no such profits or Capital Premium Reserve are available, the Company may (but is not obliged to) issue non-voting shares of nominal value to the Directors or the Manager to facilitate the redemption.

As at the date of this Prospectus the Capital Redemption Reserve account holds enough money to facilitate redemption of more than three million Shares.

### **General**

This brief statement cannot disclose all the risks and other significant aspects of speculative markets. Therefore, carefully study this document and the nature of speculative investment before you consider an investment in the Company.

If you feel you do not possess sufficient experience to carry out diligent assessment of your situation, please seek professional advice regarding the areas of which you are unsure.

Neither the Directors or the Manager underwrite the maintenance of the constraints depicted above, nor the repayment of capital. The Company agrees to defend the Directors and the Manager in relation to any action taken against them over the maintenance of the constraints.





**Annual Compound Return** means taking the total return for the period and equating this back to a single yearly return. For example, a 20% return for two years equates to your investment being multiplied by 1.2 for each of the two years because you make a return on your previous return (ie.  $1.2 \times 1.2 = 1.44$ ). This means that a \$1.00 share compounding to \$1.44 in two years would equate to an Annual Compound Return of 20%. Please note, Annual Compound Return is different to the Average Annual Return when the year on year results are not identical.

**Articles** means the Articles of Association of Arcana Provident Limited.

**Average Annual Return** means adding the Annual Return for each year and dividing it by the number of years.

**Change of Law** means any appropriation, expropriation, confiscation, restraint, restriction, prohibition, law, decree, order or directive of any Government Agency occurring after the date hereof, including but without limiting the generality of the foregoing, the imposition or increase of any tax or change in the basis of any tax or levy.

**Commodity Trading Advisor (CTA)** means one vested with the authority to manage futures trading on behalf of clients. A CTA is a class of membership in a futures organisation.

**Company** means Arcana Provident Limited (ACN 070 168 713), a company incorporated to trade markets with a registered office at Level 8, 70 Castlereagh Street Sydney NSW 2000. QBL Pty Ltd (The Manager) and Arcana Provident Limited (the Company) are related bodies corporate.

**Derivative Markets** means markets derived from a market in actual assets. For example, the Crude Oil futures market is a market derived from the actual Crude Oil market. Derivative markets trade in contracts whose specifications are based on physical assets, as opposed to trading in the physical assets themselves. Other examples of derivative markets are options, warrants, swaps and forward agreements.

**Dollars, and the sign ‘\$’** means Australian Dollars unless otherwise stated.

**Directors** means the Directors of Arcana Provident Limited (the Company).

**Draw, Drawdown** means the percentage deficit from the all time equity high to any subsequent equity low. If the highest equity high equates to a Net Asset Value (“NAV”) of \$2.00, a subsequent draw of 10% from this level would equate to a NAV of \$1.80.

**Futures** means the major international futures markets, including, in the context of this document, options, spot and forward contract markets. Also see Derivative Markets and Leveraged Instruments.

**Hedge Fund** means a professionally managed fund that can invest in many different asset classes. These funds will often buy 'long' or sell 'short' allowing profits to be made from both rising and falling markets. Diversified Hedge Funds are not benchmarked to Stock and Bond Indices, aiming instead to generate an 'absolute' return to the investor.

**Leveraged Instruments** means those trading instruments in which the investor need only provide the market with a small amount of money in comparison to the full value of the underlying asset. For example, a futures contract for 100 oz of gold may only require a US\$2,500 deposit (margin) despite offering leverage on far more (ie. 100 oz @ US\$250 per oz equals a contract value of US\$25,000).

**Long** means an agreement to buy a commodity or contract that one has yet to sell (eg. to buy a 100 oz gold contract for delivery in June at US\$250 per oz on the precept that it can be sold before June expiry for say US\$270 per oz, realising a US\$2,000 profit {100 oz x \$20}).

**Liquid Assets** means Cash, Bank Accepted Bills and Negotiable Certificates of Deposit.

**Manager** means QBL Pty Ltd (ACN 003 531 833), trading as QBL Funds Management, a company engaged by Arcana Provident Limited to manage and administrate the affairs of the company, including daily valuations of the Company and the Share Price.

**Market-System** means a fixed set of mathematical rules, (comprising a 'Trading System'), applied using a particular set of parameters, against a particular set of market data, dictating a price and time to buy and/or sell assets or derivative instruments in a particular market. An example of a simple medium-term, trend-following Market-System would be to trade the Japanese Yen with the following rules. "Buy at the Highest High for the last 20 days (adjusted daily), with an exit strategy to Sell back the position at the lowest low for the last 10 days (adjusted daily)". The inverse would be used for trading Short. A different Market-System could be created by applying the rules to a different market and/or using a different set of parameters. Smaller parameters will make the system shorter term and vice-versa. (The systems/methods are provided for illustrative purposes only).

**NAV** means the Net Asset Value per Share, calculated daily by the Manager. This is determined by dividing the Net Asset Value of the Company by the number of Shares on issue. These figures are depicted in the Audited accounts of the Company (page 18).

**Offering Period** means the period during which Shares, the subject of this Prospectus, will remain available for subscription. The period is from 1 September 2002 to 31 May 2003 (page 10), unless otherwise shortened by the Directors.

**Registrar** means QBL Pty Ltd ACN 003 531 833 (the Manager), who will be managing Share registrations and transfers for the issue.

**Shares** means Non-Voting Redeemable Preference Shares in Arcana Provident Limited of type **Diversified 20**, being the subject of this Prospectus (page 10).

**shares (lower case 's')** means shares other than the Non-Voting Redeemable Preference Shares of class **Diversified 20**, which are the subject of this Prospectus. These include the ordinary (voting) shares of the Company.

**Share Price** means the NAV of Arcana Provident Limited, as valued by the Manager on a daily basis.

**Short** means an agreement to sell a commodity or contract that one has yet to buy (eg. to sell a 100 oz gold contract for delivery in June at US\$250 per oz on the precept that it can be bought back before June expiry for say US\$230 per oz, realising a US\$2,000 profit {100 oz x US\$20}).

**Slippage** means the difference between the desired price of entry or exit into or from a market and the actual price at which the order is filled. For example, an order to buy 100 oz of gold at US\$250 per oz may not be filled until the price reaches US\$251 per oz equating to slippage of US\$100 (US\$1 per oz x 100 oz) against the desired entry price.

**Subscription Date** means the date on which Shares are allotted.

**Trading-System** means a fixed set of mathematical rules, when applied using a particular set of parameters, against a particular set of market data (comprising a 'Market-System'), dictates a price and time to buy and/or sell assets or derivative instruments. An example of a medium-term, trend-following Trading-System could be to Buy at the Highest High for the last X days (adjusted daily), with an exit strategy to Sell back the position at the lowest low for the last Y days (adjusted daily). The inverse would be used for trading Short. An example of a different Trading System would be to Buy a number of Standard Deviations above a Moving Average with an exit Strategy to Sell back the position should the price retrace to the Moving Average. (The systems/methods are provided for illustrative purposes only).

**Trend** means a tendency for market prices to continue in a direction beyond what randomness would indicate. In appreciation of this, a Trend-Following Trading-System will tend to Buy when markets are going up and sell when they are going down.

**Valuation Day** is the last day of each calendar month and is the day on which the Company's assets are revalued by the Manager after adjustment for periodic fees, taxes, dividends, redemptions, conversions, new subscriptions and all other accretions and diminutions including all profits and losses. The Share Price for this day will be net of these adjustments and include both unrealised as well as realised gains and losses marked to market. The Valuation Day Share Price is then determined by dividing the Net Asset Value of the Company by the number of Shares on issue.

I/We apply to invest \$  to purchase fully paid Redeemable Preference Shares in Arcana Provident Limited at the Share Price current at the next allotment date pursuant to the Prospectus dated 5 August 2002. I/We further request that  of my dividends be reinvested in accordance with the Dividend Reinvestment Plan. I/We request you to allot the Shares applied for to me/us and authorise you to register me/us as the holder(s) of the Shares allotted. I/We agree to be bound by the terms of this Prospectus.

Applicant Name(s) Mr/Mrs/Miss/Ms/Co.name

Are you making this application on behalf of a trust? Yes/No

Name of Trust

Name as you would like it to appear on the register Tax File Number

Joint Applicant Name(s) Mr/Mrs/Miss/Ms/Co.name

Tax File Number

Address

Suburb/City

State

Postcode

Country

Telephone during business hours

Telephone after hours

Email

Applicant signature(s)

Company seal where applicable

Applicant signature(s)

Date

Please attach cheque here

**PLEASE MAKE CHEQUES PAYABLE IN AUSTRALIAN DOLLARS  
TO ARCANA PROVIDENT LIMITED**

IMPORTANT: Before deciding to apply for Shares in the Company, you should read the attached Prospectus in full. No securities will be allotted or issued on the basis of this Prospectus later than 31 May 2003.

Please send your completed application form to:

**Arcana Provident Limited**

PO Box 8888

Hunters Hill NSW 2110 Australia

For enquiries Phone (02) 9418 9966

Facsimile: (02) 9418 7861

Email: [arcana@qbl.com.au](mailto:arcana@qbl.com.au)



### **Instructions for the Application Form**

- Applications for Shares can only be made on a Share Application Form that is attached to and forms part of this Prospectus.
- The minimum subscription amount is \$5,000.
- As the Company is currently trading, the subscription price shall be the Share Price on the Valuation Day that the Shares are allotted.
- The application may be made by cheque or bank draft made payable to 'Arcana Provident Limited' and crossed 'Not Negotiable'.
- For details on how to invest in Arcana Provident Limited by direct electronic funds transfer, please contact the office of the Company.
- Applications for Shares are subject to the terms and conditions outlined in this Prospectus.

### **Trusts**

- If an application is made by a trustee corporation, the name of the trustee corporation should be inserted as the name of the applicant.
- If the application is made by a trustee that is not a corporation, then the name(s) of the trustee(s) should be inserted as the name of the applicant.
- When a trustee signs the application form on behalf of a trust, the trustee should note that they are signing "As trustee for ... (insert name of trust)".

### **Signatures**

- By signing the Application Form, applicants are agreeing to be bound by the terms of the Prospectus and as such should read the Prospectus in its entirety.
- Natural persons should sign the Application Form where indicated. Joint applicants should each sign the Application Form.
- If the application is made by a company, the Application Form must be signed by either two directors, or a director and the secretary. If the applicant is a sole directorship company only one signature is required, however, the director/secretary should note on the Application Form they are signing as the sole director/secretary of the company.

### **Dividend Reinvestment Plan**

- Investors have the option to participate in the Dividend Reinvestment Plan ('DRP').
- All applicants will automatically participate in the DRP unless "None" is indicated on the Application Form (ie. leaving no indication of DRP will be deemed 100% reinvestment). Partial reinvestment is not available under the DRP.
- Under the DRP additional Shares in the Company will be provided to the investor (along with attributable franking credits) in lieu of a cash distribution.

### **Tax File Numbers**

- Each applicant should supply their tax file numbers, otherwise tax may be withheld at the maximum marginal rate plus the Medicare Levy (for Australian Residents). In the case of joint applicants, both tax file numbers are required.

### **Enquiries contact**

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 PO Box 8888  
 Hunters Hill NSW 2110  
 Australia

Telephone (02) 9418 9966  
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Telephone after hours

Email

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Applicant signature(s)

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**QBL Funds Management**

**PO Box 8888**

**Hunters Hill**

**NSW 2110**

**Australia**