

TARGET MARKET DETERMINATION: Exchange Traded Options

Issuer	Shaw and Partners Limited (Shaw, we, our, us) ABN 24 003 221 583 AFSL 236 048
Product	Exchange traded options (ETOs) traded on the ASX market.
Date of TMD	5 October 2021
Overview of this document	<p>This document is a target market determination for the purposes of section 994B of the <i>Corporations Act 2001</i> (Cth) (Corporations Act) in respect of ETOs issued by us.</p> <p>This document is not a product disclosure statement (PDS) and does not take into account any particular investor's objectives, financial situation or needs. You should refer to the Shaw PDS (available from your Shaw Adviser or the Shaw website www.shawandpartners.com.au) and consider obtaining personal advice from your Shaw Adviser before deciding to invest in ETOs.</p>
Overview of ETOs	<p>ETOs are options quoted on the ASX. The underlying product can be an individual financial product, such as a quoted share or other financial product, or an index.</p> <p>There are three main reasons why retail clients may trade via ETOs:</p> <ul style="list-style-type: none"> • to reduce risk by hedging against other exposures (e.g. acquiring an ETO over shares the retail client already holds), or to lock in a price to purchase or sell underlying investments; • to earn increased income by obtaining premium income from selling options; or • to seek to make profits from market movements. <p>ETOs are subject to significant risks, including but not limited to:</p> <ul style="list-style-type: none"> • Buyers of ETOs may lose their entire premium (i.e. the entire up-front amount invested) if the ETO is not in-the-money at the time of exercise. Depending on the strategy used, losses can be substantial; • Generally speaking, ETOs are not suitable for retail investors who cannot bear the consequences of potential losses without material impact on their standard of living; • ETOs are also typically only suitable for investors who have sufficient experience and understanding of the product; • ETOs are a leveraged instrument. Leverage can magnify losses as well as gains. In other words, a high degree of leverage involved in many ETOs can work against a buyer, multiplying their losses if the market moves against them; • ETOs have a limited life span and will expire. Their time value falls as they approach their expiry date, and they are worth nothing after they

	<p>expire (if unexercised). Accordingly, buyers of ETOs should actively manage their open positions, particularly as expiry dates approach;</p> <ul style="list-style-type: none"> • Sellers of options (and buyers of low exercise price options (LEPOs)) may be exposed to margin calls, which may require cash or other assets to be lodged at short notice; and • Sellers of uncovered ETOs are exposed to the potential for market risk, including, where the market moves against the position, material losses for sellers of uncovered put options and potentially unlimited losses for sellers of uncovered call options. <p>It should also be noted that under the ASX Clear Operating Rules (Rules) (paragraph 5.3 of Schedule 5), a client wishing to trade in ETOs is required to acknowledge that:</p> <ul style="list-style-type: none"> • they have read and understood the documents (if any) given to them under Rule 7.1.1(b) of the Rules; • dealing in derivatives incurs a risk of loss as well as a potential for profit; and • they have given consideration to their objectives, financial situation and needs and formed the opinion that dealing in derivatives is suitable for their purposes.
<p>Retail clients for whom ETOs are unsuitable</p>	<p>ETOs will generally not be suitable for retail clients outside the target market. Potential categories would include:</p> <ul style="list-style-type: none"> • Retail clients who do not understand the risks of ETOs as applicable to their proposed trading; and • Retail clients who cannot bear the consequences of potential losses without material impact on their standard of living.
<p>Target Market for ETOs (s994B(5)(b))</p>	<p>Given the diverse nature of different ETO strategies, we consider that the target market for ETOs is a retail client that falls within one (or more) of the below categories, noting there may also be some overlap between categories:</p> <ul style="list-style-type: none"> • High Risk Tolerance Investors – retail clients seeking to make profit in ETOs from market movements; • Risk Mitigation Investors – retail clients seeking to hedge potential risk from other investments or exposures, or lock in a price to purchase or sell underlying investments; and • Premium Generation Investors – retail clients seeking to generate premium income by selling options covered by holdings of underlying assets. <p>Note it is not necessary for a retail client to fall within all three categories; it is sufficient to fall within only one of the above categories to be within the target market for ETOs.</p>

<p>Likely objectives, financial situation and needs of retail clients in the target market</p>	<p>High Risk Tolerance Investors are retail clients likely to have a higher risk appetite who are seeking higher returns through riskier strategies and are prepared to suffer material losses (and able to withstand such losses).</p> <ul style="list-style-type: none"> • <u>Likely objectives</u>: Use existing assets to support leverage in order to seek higher returns with corresponding higher risk. • <u>Likely financial situation</u>: Have a relatively high and regular income and/or substantial holdings of capital available for investment. Are able to withstand losses from trading without causing material impact on living standards. Have available liquid assets to fund potential margin calls. Have a good understanding of ETOs and trading strategies. • <u>Likely needs</u>: Wish to use spare capital to make enhanced returns. <p>Risk Mitigation Investors are retail clients likely to have a lower risk appetite and are looking to protect previous gains, lock in purchase or sale prices, or mitigate against potential future losses.</p> <ul style="list-style-type: none"> • <u>Likely objectives</u>: Protect previous gains or mitigate against potential future losses and/or lower the cost of acquiring underlying assets. • <u>Likely financial situation</u>: Have existing investments or exposures which the retail client wishes to hedge. • <u>Likely needs</u>: Loss or profit protection. <p>Premium Generation Investors are retail clients likely to have a moderate risk appetite who are looking to increase their yield but are prepared to have the options exercised against them.</p> <ul style="list-style-type: none"> • <u>Likely objectives</u>: Increase their income return. • <u>Likely financial situation</u>: Hold existing positions in underlying securities and are seeking to increase their income from premiums. Investors are able to address the capital gains tax position if sold ETOs are exercised. • <u>Likely needs</u>: Increase income return.
<p>Different ETO strategies</p>	<p>We expect High Risk Tolerance Investors will be likely to engage in any or all of the following strategies:</p> <ul style="list-style-type: none"> • Buying call options and put options (noting that these financial products, of themselves, may not be particularly high risk depending upon the circumstances) (Level 1 ETOs); • Selling covered call options (Level 2 ETOs); • Selling uncovered options (both put options and call options) (Level 3 ETOs); and • Trading in LEPOs.

	<p>We expect Risk Mitigation Investors will likely be trading in Level 1 and/or Level 2 ETOs.</p> <p>We expect Premium Generation Investors will likely be trading in Level 2 ETOs.</p> <p>Finally, we consider that the target market for ETOs includes any retail client whose open ETO position is being closed out at any time (whether on the instruction of the retail client, due to the exercise of rights by us, by action of ASX group, or otherwise), even if that retail client would not otherwise fall within a category within the target market.</p>
<p>Explanation of why ETOs are likely to be consistent with the likely objectives, financial situation and needs of the target market (s994B(8))</p>	<p>We expect that Level 1, 2 and 3 ETOs and LEPOs will likely be consistent with the likely objectives, financial situation and needs of High Risk Tolerance Investors because these products offer the potential for enhanced returns, and this class of retail client should be able to bear any potential losses without material impact on their standard of living.</p> <p>We expect that Level 1 and Level 2 ETOs will likely be consistent with the likely objectives, financial situation and needs of Risk Mitigation Investors because these products offer the ability to protect or lock-in any previous profits from an underlying investment and/or protect against future losses.</p> <p>We expect that Level 2 ETOs will likely be consistent with the likely objectives, financial situation and needs of Premium Investors because these products offer the potential for increased income, and this class of retail client should be able to bear any consequences of their ETOs being exercised without material impact on their standard of living.</p>
<p>Distribution Conditions (s994B(5)(c))</p>	<p>Third party distribution of ETOs issued by Shaw must only occur in accordance with the client suitability and understanding procedures specified by Shaw and followed as part of the client onboarding process. All Third Party distributors are Shaw Advisers who have a one-to-one relationship with the retail client and are not permitted to distribute ETOs issued by Shaw to retail clients unless they consider on reasonable grounds that each relevant retail client is likely to be within the target market.</p> <p>Any distribution of ETOs by us directly to retail clients will be in accordance with procedures we determine are reasonably likely to ensure that ETOs are only issued to retail clients who are reasonably likely to be within the target market.</p>
<p>Review Triggers (s994B(5)(d))</p>	<p>The review triggers that may suggest that this Target Market Determination (TMD) is no longer appropriate, such that a review of the TMD should be undertaken, include:</p> <ul style="list-style-type: none"> • We become aware of a significant issuance of ETOs to retail clients outside the target market; • Material changes to the ETO construct by ASX group; • Material changes to law affecting ETOs; and • We become aware of a significant volume of complaints from retail clients in relation to ETOs.

Review Periods (s994B(5)(e), (f))	This TMD must be reviewed and the review completed by at least 5 October 2022 or earlier if a review trigger occurs. Where a review trigger occurs, the review must be completed within 10 business days.		
Distributor Reporting Requirements (s994B(5)(g), (h))	The following information must be provided to Shaw by distributors who engage in retail product distribution conduct in relation to this product:		
	Type of information	Description	Reporting period
	Complaints	Number and nature of complaints.	As soon as practicable, and in any case within 10 business days after receiving a complaint.
	Significant dealing(s) outside the target market	Date range of the significant dealing(s) and description of the extent and nature of the significant dealing.	As soon as practicable, and in any case within 10 business days after becoming aware.