

**PCL Target Market Determination – Exchange Traded Options**  
**1 October 2021**

<b>Issuer</b>	Phillip Capital Limited ABN 14 002 918 247 AFSL 246827 (“PCL”)
<b>Product</b>	Exchange traded options (ETOs) traded on the ASX market.
<b>Date of TMD</b>	1 October 2021
<b>Overview of this document</b>	<p>This document is a target market determination for the purposes of section 994B of the <i>Corporations Act 2001</i> (Cth) (<b>Corporations Act</b>) in respect of ETOs issued by us.</p> <p>This document is not a product disclosure statement (<b>PDS</b>) and does not take into account any particular investor's objective, financial situation or needs. You should refer to our PDS at <a href="https://www.phillipcapital.com.au/files/PCAU/PhillipCapital_ETO_PDS.pdf">https://www.phillipcapital.com.au/files/PCAU/PhillipCapital_ETO_PDS.pdf</a> Before deciding to invest in ETOs we recommend that you first consult with your investment adviser to determine whether ETO's are appropriate for your investment objectives, financial situation and particular needs.</p>
<b>Overview of ETOs</b>	<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"> <li>• 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;</li> <li>• to earn increased income by obtaining premium from selling options; or</li> <li>• to seek to make profits from speculative trading.</li> </ul> <p>ETOs are subject to significant risks, including but not limited to:</p> <ul style="list-style-type: none"> <li>• <b>High leverage:</b> The high level of leverage that is obtainable in trading ETO's can magnify losses as well as gains;</li> <li>• <b>Limited life span:</b> ETOs have a limited life span as their value erodes as the Option reaches its expiry date;</li> <li>• <b>Market movements:</b> ETO's are subject to movements in the underlying market, Options may fall in price or become worthless at or before expiry;</li> <li>• <b>Loss of premium for Buyers:</b> The maximum loss in buying (taking) an ETO is the amount of premium paid plus transaction costs;</li> <li>• <b>Unlimited loss for Sellers:</b> Whilst Sellers (writers) ETOs earn premium income, they may also incur unlimited losses if the market moves against the option position;</li> <li>• <b>If the option is exercised:</b> The Seller of the option is forced to buy the underlying shares at the current (higher) market price to deliver to the Buyer (taker) at the Exercise price; Similarly, where the market falls, the Seller of a Put option that is exercised is forced to buy the underlying shares from the buyer at a price above the current market price.</li> </ul>

	<p>Please refer to Section 7 of the PDS for more details on significant risks of ETOs.</p> <p>It should also be noted that under the ASX Clear Operating Rules (paragraph S5.3 of Schedule 5), a client wishing to trade in ETOs is required to acknowledge that they understand that dealing in derivatives incurs a risk of loss as well as a potential for profit.</p>
<p><b>Target Market for ETOs (s994B(5)(b))</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"> <li>• <b>High Risk Tolerance Investors</b> – retail clients seeking to make profit via speculative trading in ETOs;</li> <li>• <b>Risk Mitigation Investors</b> – retail clients seeking to hedge potential risk from other investments or exposures, or lock in a price to purchase or sell underlying investments; and</li> <li>• <b>Premium Generation Investors</b> – retail clients seeking to earn income by selling options covered by holdings of underlying assets.</li> </ul>
<p><b>Likely objectives, financial situation and needs of retail clients in the target market</b></p>	<p><b>High Risk Tolerance Investors</b> are retail clients likely to have a higher risk appetite and 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"> <li>• <u>Likely objectives</u>: Use existing assets to support leverage in order to seek higher returns with corresponding higher risk.</li> <li>• <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 distress or material impact on living standards. Have available liquid assets to fund potential margin calls. Have a good understanding of ETOs and trading strategies.</li> <li>• <u>Likely needs</u>: Wish to use spare capital to make enhanced returns</li> </ul> <p><b>Risk Mitigation Investors</b> are retail clients who are likely to be relatively risk averse 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"> <li>• <u>Likely objectives</u>: Protect previous gains or mitigate against potential future losses and/or lower the cost of acquiring underlying assets.</li> <li>• <u>Likely financial situation</u>: Have existing investments or exposures which the retail client wishes to hedge.</li> <li>• <u>Likely needs</u>: Loss or profit protection.</li> </ul> <p><b>Premium Generation Investors</b> are likely to be retail clients with a moderate risk appetite who are looking to increase their yield but prepared to have the options exercised against them.</p> <ul style="list-style-type: none"> <li>• <u>Likely objectives</u>: Increase their income return.</li> <li>• <u>Likely financial situation</u>: Hold existing positions in underlying stocks. Require a regular income. Are able to address capital gains tax position if ETOs sold by the retail client are exercised against.</li> <li>• <u>Likely needs</u>: Increase income return.</li> </ul>

<p><b>Different ETO strategies</b></p>	<p>We expect <b>High Risk Tolerance Investors</b> will be likely to engage in the following strategies:</p> <ul style="list-style-type: none"> <li>• Buying call options and put options (noting that these financial products, of themselves, may not be particularly high risk depending upon the circumstances) (<b>Level 1 ETOs</b>);</li> <li>• Selling covered call options (<b>Level 2 ETOs</b>);</li> <li>• Selling uncovered options (both put options and call options) (<b>Level 3 ETOs</b>); and</li> <li>• Trading in LEPOs.</li> </ul> <p>We expect <b>Risk Mitigation Investors</b> will be likely trading in <b>Level 1 ETOs</b>.</p> <p>We expect <b>Premium Generation Investors</b> will be likely trading in <b>Level 2 ETOs</b>.</p> <p>Finally, we consider that the target market for ETOs includes any retail client whose open ETO position are being closed out at any time (whether on the instruction of the retail client, due to the exercise of rights by the 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><b>Explanation of why ETOs are likely to be consistent with the likely objectives, financial situation and needs of the target market (s994B(8))</b></p>	<p>We expect that <b>Level 1, 2 and 3 ETOs and LEPOs</b> will likely be consistent with the likely objectives, financial situation and needs of <b>High Risk Tolerance Investors</b> 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 hardship.</p> <p>We expect that <b>Level 1 ETOs</b> will likely be consistent with the likely objectives, financial situation and needs of <b>Risk Mitigation Investors</b> 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 <b>Level 2 ETOs</b> will likely be consistent with the likely objectives, financial situation and needs of <b>Premium Investors</b> 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 against without material hardship.</p>
<p><b>Retail clients for whom ETOs are unsuitable</b></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"> <li>• Retail clients who do not understand the risks of ETOs as applicable to their proposed trading; and</li> <li>• Retail clients who cannot bear the consequences of potential losses without material impact on their standard of living.</li> </ul>
<p><b>Distribution Conditions (s994B(5)(c))</b></p>	<p>Third party distribution of ETOs issued by us must only occur in accordance with the client suitability and understanding procedures specified by us. No third party distributor is permitted to distribute ETOs issued by us to retail clients unless the distributor considers 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><b><u>DDO Categorisation</u></b></p> <p>After completion of the Self Certification questions PhillipCapital will categorise clients based on their response into three DDO Categories linked to appropriate strategies.</p>

DDO Category	Long Puts	Stock Covered	Sold Puts (100% Cash Covered)	
	Long Calls	Calls	Spread Strategies	Naked Strategies, LEPOs
DDO CAT 1	Yes	No	No	No
DDO CAT 2	Yes	Yes	No	No
DDO CAT 3	Yes	Yes	Yes	No

**Further distribution conditions**

1. In accordance with s994B(5) (c) Corporations Act, PCL has determined that it is appropriate to define the class of clients that are excluded from our ETO Target Market.

Exchange Traded Options are NOT for:

- inexperienced investors with no trading experience in ETOs, that;
- have minimal ETO product knowledge, and;
- investors who are unwilling to take risks and are unable to bear a loss of any type, or; who do not fit into one of the three categories detailed in Section 2.

<b>Review Triggers (s994B(5)(d))</b>	<p>The review triggers that may suggest that the TMD is no longer appropriate, such that a review of the TMD should be undertaken, include:</p> <ul style="list-style-type: none"> <li>• We become aware of a significant issuance of the product to retail clients outside the target market;</li> <li>• Material changes to the ETO product construct by ASX group;</li> <li>• Material changes to law affecting ETOs;</li> <li>• We become aware of a significant volume of complaints from retail clients.</li> </ul>									
<b>Review Periods (s994B(5)(e), (f))</b>	This TMD will be reviewed at least annually and more frequently if a review trigger occurs.									
<b>Distributor Reporting Requirements (s994B(5)(g), (h))</b>	<p>The following information must be provided to us by distributors who engage in retail product distribution conduct in relation to this product:</p> <table border="1"> <thead> <tr> <th>Type of information</th> <th>Description</th> <th>Reporting period</th> </tr> </thead> <tbody> <tr> <td>Complaints</td> <td>Number and nature of complaints</td> <td>Quarterly</td> </tr> <tr> <td>Significant dealing(s) outside the target market</td> <td>Date range of the significant dealing(s) and description of the extent and nature of the significant dealing</td> <td>As soon as practicable, and in any case within 10 business days after becoming aware</td> </tr> </tbody> </table>	Type of information	Description	Reporting period	Complaints	Number and nature of complaints	Quarterly	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
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