

Ellerston Australian Share Fund

ARSN 135 591 534

Financial Report
For year ended
30 June 2016

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Financial Report

For the year ended 30 June 2016

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Directors' report

The Directors of Ellerston Capital Limited (ABN 34 110 397 674, AFSL No. 283 000), the Responsible Entity of the Ellerston Australian Share Fund (the "Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2016.

Directors

The names of the Directors of the Responsible Entity in office during the financial year and up to the date of this report are:

Ashok Jacob (Chairman)
 Brian O' Sullivan
 Michael Johnston
 Guy Jalland
 Chris Kourtis

Principal activity

The principal activity of the Fund is to invest funds in accordance with the provisions of the Fund's Constitution. There has been no significant changes in the nature of this activity during the year.

Fund information

The Fund is an Australian Registered Scheme. Ellerston Capital Limited, the Responsible Entity of the Fund, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 11, 179 Elizabeth Street, Sydney, NSW 2000.

Results

The performance of the Fund, as presented by the results of its operations, was as follows:

	Year ended	
	30 June 2016	30 June 2015
Operating profit/(loss) before finance costs attributable to unitholders (\$)	<u>366,275</u>	<u>598,826</u>
<i>Distributions Class A units</i>		
Distributions paid and payable (\$)	<u>135,578</u>	<u>1,066,987</u>
Distribution (cents per unit)	<u>2.32</u>	<u>12.83</u>
<i>Distributions Class B units</i>		
Distributions paid and payable (\$)	<u>104,349</u>	<u>393,224</u>
Distribution (cents per unit)	<u>2.53</u>	<u>12.62</u>

Significant changes in the state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Fund during the year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Fund in future financial years.

Directors' report (continued)

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objective and strategy as set out in the offer documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulation under a Commonwealth, State or Territory law.

Relevant information

Following is a list of relevant information required under the *Corporations Act 2001*:

- (i) Fees paid to the Responsible Entity – Refer Note 16 to the Financial Statements
- (ii) Unitholdings of related parties of the Responsible Entity in the Fund – Refer Note 16 to the Financial Statements
- (iii) Applications and Redemptions in the Fund during the year – Refer Note 8 to the Financial Statements
- (iv) The value of the Fund's assets and basis of valuation – Refer to Statement of Financial Position and Note 2 respectively
- (v) The number of interests in the Fund as at 30 June 2016 – Refer Note 8 to the Financial Statements
- (vi) Distributions payable to unitholders as at 30 June 2016 – Refer to Statement of Financial Position

Indemnification and insurance of Directors and officers

The Constitution of the Responsible Entity requires it to indemnify, to the extent permitted by the law, all current and former officers of the Responsible Entity against a liability incurred:

- (a) In acting as an officer of the Responsible Entity;
- (b) In acting as an officer of a subsidiary at the request of the Responsible Entity;
- (c) For reasonable legal costs in defending an action for liability incurred in acting as an officer of the Responsible Entity or of a subsidiary at the request of the Responsible Entity.

During the financial year, insurance contracts were entered into to insure the Directors and officers against any liability incurred in their capacity as a Director or officer. The terms of the insurance contracts restrict disclosure of the nature of the liability and amount of the premium. Other than the constitutional provision described above, the Responsible Entity has not otherwise, during or since the end of the financial year, indemnified or agreed to indemnify an officer of Ellerston Capital Limited or its related bodies corporate against a liability incurred.

Rounding of amounts to the nearest dollar

The Fund is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded to the nearest dollar in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

Directors' report (continued)

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

Signed in accordance with a resolution of the Directors of Ellerston Capital Limited.

On behalf of the Directors



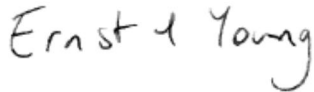
Brian O'Sullivan
Director

Sydney
30th September 2016

Auditor's Independence Declaration to the Directors of Ellerston Australian Share Fund

As lead auditor for the audit of Ellerston Australian Share Fund for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.



Ernst & Young



Rohit Khanna
Partner
Sydney
30 September 2016

Statement of comprehensive income

		Year ended	
		30 June 2016	30 June 2015
	Notes	\$	\$
Investment income			
Interest income		4,566	10,235
Dividend and distribution income		339,454	510,811
Net gains/(losses) on financial instruments held at fair value through profit or loss	5	119,153	216,463
Other operating income		<u>5,453</u>	<u>-</u>
Total Investment income/(loss)		<u>468,626</u>	<u>737,509</u>
Expenses			
Management fees	16	80,999	110,448
Other operating expenses	13	<u>21,352</u>	<u>28,235</u>
Operating expenses before finance costs		<u>102,351</u>	<u>138,683</u>
Profit/(loss) from operating activities		<u>366,275</u>	<u>598,826</u>
Finance costs attributable to unitholders			
Distributions to unitholders	9	(239,927)	(1,460,211)
Change in net assets attributable to unitholders		<u>126,348</u>	<u>(861,385)</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>-</u>	<u>-</u>

The accompanying notes to the financial statements should be read in conjunction with this statement.

Statement of financial position

		As at	
		30 June 2016	30 June 2015
	Notes	\$	\$
Assets			
Cash and cash equivalents	10	236,629	505,323
Due from brokers		-	216,079
Financial assets held at fair value through profit or loss	6	9,604,944	11,911,585
Dividend and distributions receivable		50,999	42,052
Interest receivable		53	535
Other receivables	14	2,454	2,922
Total assets		<u>9,895,079</u>	<u>12,678,496</u>
Liabilities			
Management fees payable	16	6,458	9,376
Due to brokers		110,891	272,208
Distribution payable		25,647	1,214,035
Other payables	15	13,299	17,477
Total liabilities (excluding net assets attributable to unitholders)		<u>156,295</u>	<u>1,513,096</u>
Net assets attributable to unitholders		<u>9,738,784</u>	<u>11,165,400</u>

The accompanying notes to the financial statements should be read in conjunction with this statement.

Statement of changes in net assets attributable to unitholders

	30 June 2016 \$	30 June 2015 \$
NET ASSETS ATTRIBUTABLE TO UNITHOLDERS		
Opening balance	11,165,400	12,599,924
Application of units	570,000	1,610,697
Redemption of units	(3,154,657)	(2,250,000)
Units issues upon reinvestment of distributions	1,031,693	66,164
Changes in net assets attributable to unitholders	126,348	(861,385)
Closing Balance	9,738,784	11,165,400

The accompanying notes to the financial statements should be read in conjunction with this statement.

Statement of cash flows

		Year ended	
		30 June 2016	30 June 2015
	Notes	\$	\$
Cash flows from operating activities			
Proceeds from sale of financial instruments held at fair value through profit or loss		15,676,310	16,182,954
Purchase of financial instruments held at fair value through profit or loss		(13,195,754)	(15,298,795)
Interest received		5,048	11,046
Dividend and distributions received		330,220	528,039
Other income received		5,921	(491)
Management fees paid		(83,916)	(110,650)
Payment of other operating expenses		(25,243)	(26,933)
Net cash inflow/(outflow) from operating activities	11(a)	<u>2,712,586</u>	<u>1,285,170</u>
Cash flows from financing activities			
Proceeds from applications by unitholders		570,000	1,610,696
Payments for redemptions by unitholders		(3,154,657)	(2,250,000)
Distributions paid		(396,623)	(542,530)
Net cash inflow/(outflow) from financing activities		<u>(2,981,280)</u>	<u>(1,181,834)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(268,694)</u>	<u>103,336</u>
Cash and cash equivalents at the beginning of the year		<u>505,323</u>	<u>401,987</u>
Cash and cash equivalents at the end of the year	10	<u>236,629</u>	<u>505,323</u>

The accompanying notes to the financial statements should be read in conjunction with this statement.

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1 General information

The Ellerston Australian Share Fund (the "Fund") is an Australian Registered Fund. Ellerston Capital Limited, the Responsible Entity of the Fund, is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 11, 179 Elizabeth Street, Sydney, NSW 2000.

The Manager of the Fund is Ellerston Capital Limited.

The principal activity of the Fund is to invest funds in accordance with the provisions of the Fund's Fund Constitution. There has been no significant change in the nature of this activity during the year.

The financial report of the Fund has been authorised for issue in accordance with a resolution of the Directors of the Responsible Entity on 30th September 2016.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied throughout the years presented, unless otherwise stated in the following text.

(a) Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the Fund's Fund Constitution, the requirements of the *Corporations Act 2001* and applicable Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ("AASB").

This financial report has been prepared on a historical cost basis, except for financial assets held at fair value through profit or loss, that have been measured at fair value. Cost is based on the fair value of the consideration given in exchange for assets.

The Statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current, additional information regarding this is included in the relevant notes.

The financial report is presented in Australian dollars. The Fund is a for-profit entity for the purpose of preparing financial statements.

(b) Statement of Compliance

The financial report has been prepared in accordance with the Australian Accounting Standards as issued by the AASB and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

(c) Financial instruments

(i) Classification

The Fund classifies its financial assets and financial liabilities into the categories below in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*. They comprise:

- *Financial assets and liabilities held for trading*

These include derivative financial instruments such as options. These assets are acquired principally for the purpose of generating a profit from short-term fluctuation in price. Derivative financial instruments entered into by the Fund do not meet the hedge accounting criteria as defined by AASB 139. Consequently hedge accounting is not applied by the Fund.

2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(i) Classification (continued)

- *Financial instruments designated at fair value through profit or loss upon initial recognition*

These include investments in equity securities and managed funds that are not held for trading. These financial assets are designated on the basis that they are part of a group of financial assets which are managed and have their performance evaluated on a fair value basis in accordance with risk management and investment strategies of the Fund as set out in the Fund's offering document. The financial information about these financial assets is provided internally on that basis to the Investment Manager.

Details of the Fund's investments are provided in Note 4 and 6.

(ii) Recognition

The Fund recognises a financial asset or a financial liability when, and only when, it becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date, i.e., the date that the Fund commits to purchase or sell the asset.

(iii) Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- (a) The rights to receive cash flows from the asset have expired; or
- (b) The Fund has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and
- (c) Either (1) the Fund has transferred substantially all the risks and rewards of the asset, or (2) the Fund has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Fund derecognises a financial liability when the obligation under the liability is discharged, cancelled or expires.

(iv) Initial measurement

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statement of financial position at fair value. All transaction costs for such instruments are recognised directly in the profit or loss.

(v) Subsequent measurement

After initial measurement, the Fund measures financial instruments which are classified as at fair value through profit or loss at fair value. Subsequent changes in the fair value of those financial instruments are recorded in 'Net gains/(losses) on financial instruments held at fair value through profit or loss'. Interest earned from bank accounts and collateral deposits is recorded in 'Interest revenue'. Dividend revenue and trust distribution income are recorded in 'Dividend and distribution income'.

(d) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the asset and settle the liability simultaneously. This is generally not the case with master netting agreements unless one party to the agreement defaults and the related assets and liabilities are presented gross in the Statement of Financial Position. As at the end of the year, the Fund has no financial assets or liabilities in the Statement of Financial Position which are presented on the offsetting basis.

2 Summary of significant accounting policies (continued)

(e) Cash and cash equivalents

For the purpose of Statement of financial position and Statement of cash flows, cash comprises of cash at banks and cash at brokers. Cash at brokers includes margin accounts and cash held as collateral against open derivative positions and which are restricted.

Cash equivalents are short term highly liquid investments with original maturities of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(f) Due from/to brokers

Due from/to brokers represents amounts receivable and payable for securities transactions that have not yet settled at the year end.

(g) Revenue and income recognition

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Fund and the revenue can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

Dividends

Dividends are recognised as income or expense on the date the share is quoted ex-dividend. Income is shown net of any non-recoverable withholding taxes.

Interest income

Revenue is recognised as the interest accrues (using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset. Interest income earned on cash and cash equivalents is recognised in the statement of comprehensive income on an accruals basis.

Trust distributions income

Trust distributions are recognised as income on an entitlements basis.

Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains or losses on investments held for trading or designated at fair value through profit or loss are calculated as the difference between the fair value at sale, or at year end, and the fair value at purchase or at the previous reporting date. This includes both realised and unrealised gains and losses, but does not include interest or dividend revenue.

(h) Expenses

All expenses including fees and commissions are recognised on an accrual basis.

(i) Income tax

Under current legislation, the Fund is not subject to income tax provided the unitholders are presently entitled to the income of the Fund, and the Fund fully distributes its taxable income.

(j) Goods and services tax (GST)

Revenues, expenses, cash flows, assets and liabilities are recognised net of the amount of goods and services tax (GST) except where:

2 Summary of significant accounting policies (continued)

(j) Goods and services tax (GST) (continued)

- (i) The amount of GST incurred is not recoverable from the taxation authority it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; and
- (ii) For receivables and payables which are recognised inclusive of GST.

Reduced input taxed credits (RITC) recoverable by the Fund from the taxation authority are recognised as receivables in the Statement of Financial Position.

(k) Other receivables

A receivable is recognised as an asset if it is virtually certain that recovery will be received and the amount of the receivable can be measured reliably.

(l) Other payables

Payables are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services.

(m) Provisions

Provisions are recognised when the Fund has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(n) Distributions to unitholders

In accordance with the Fund Constitution, the Fund fully distributes its distributable income to unitholders. Distributions are payable at the end of each half year.

Such distributions are determined by reference to net taxable income. Distributable income includes net gains arising from the disposal of investments less any carried forward realised losses from prior periods. Unrealised gains and losses on investments that are recognised as income are transferred to net assets attributable to unitholders and are not assessable or distributable until realised. Net realised losses are not distributed to unitholders but are retained to be offset against any future realised gain.

(o) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund, where permitted, are recorded gross of any exit fees payable after the cancellation of units redeemed.

The application and redemption prices are determined as the net asset value of the Fund adjusted for the estimated transaction costs, divided by the number of units on issue on the date of the application or redemption.

(p) Terms and conditions of units on issue

Each unit confers upon the unitholder an equal interest in a Class, and is of equal value. A unit does not confer an interest in any particular asset or investment of the Fund. Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units received.

Unitholders have various rights under the Fund Constitution and the *Corporations Act 2001*, including the right to:

2 Summary of significant accounting policies (continued)

(p) Terms and conditions of units on issue (continued)

- Have their units redeemed;
- Receive income distributions;
- Attend and vote at meetings of unitholders; and
- Participate in the distribution of net proceeds on termination and winding up of the Fund on a pro rata basis.

The rights, obligations and restrictions attached to each unit in a Class are identical in all respects.

(q) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 2016 and have not been early adopted by the Fund. The Directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

(i) AASB 9 Financial Instruments (and applicable amendments), (effective from 1 January 2018)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The standard is not applicable until 1 January 2018 but is available for early adoption.

The Directors do not expect this to have a significant impact on the recognition and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss.

The derecognition rules have not been changed from the previous requirements, and the Fund does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Fund's investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Fund.

The Fund has not yet decided if it will early adopt AASB 9.

(ii) AASB 15 Revenue from Contracts with Customers, (effective from 1 January 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The Fund's main source of income are interest, dividends and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the Directors do not expect the adoption of the new revenue recognition rules to have a significant impact on the Fund's accounting policies or the amounts recognised in the financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

(r) Rounding of amounts

The Fund is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest dollar in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

2 Summary of significant accounting policies (continued)

(s) Comparative disclosures

Where appropriate, comparative disclosures have been reclassified/amended to be consistent with the current year's presentation. Such reclassifications/amendments have not affected the statement of comprehensive income or statement of financial position.

3 Financial risk management

Risks arising from holding financial instruments are inherent in the Fund's activities, and are managed through a process of ongoing identification, measurement and monitoring. The Fund is exposed to credit risk, liquidity risk and market risk.

Financial instruments of the Fund comprise of investments in financial assets for the purpose of generating a return on the investment made by unitholders, in addition to derivatives, cash and cash equivalents, net assets attributable to unitholders, and other financial instruments such as trade debtors and creditors, which arise directly from its operations.

The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

(a) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, and equity prices. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies.

(i) Equity price risk

Equity price risk represents the risk that the value of a financial assets or liabilities will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments in the market.

Equity price risk is managed through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies.

The table in note 3(b) summarises the sensitivities of the Fund's assets and liabilities to equity price risk. The analysis is based on the assumptions that the markets in which the Fund invests moves +/- 10% (2015: +/- 10%). The impact mainly arises from the possible change in the fair value of listed equities and equity derivatives.

(ii) Foreign currency risk

The Fund is not exposed to significant risks from movements in foreign exchange rates. There are no foreign currencies to which the Fund's monetary assets and liabilities have a significant exposure as at 30 June 2016 (2015: nil).

(iii) Interest rate risk

Interest rate risk is the risk that a financial instrument's value will fluctuate as a result of the changes in market interest rates. The majority of the Fund financial assets and liabilities are non-interest bearing. As a result the Fund is not subject to significant amounts of risk due to fluctuations in the prevailing levels of market interest rates.

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit/(loss) and net assets attributable to unitholders to market risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performances of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

3 Financial risk management (continued)

(b) Summarised sensitivity analysis (continued)

	Equity price risk Impact on operating profit/Net assets attributable to unitholders	
	-10% \$	+10% \$
30 June 2016	(958,079)	958,079
30 June 2015	(1,186,672)	1,186,672

(c) Credit risk

Credit risk represents the risk that a counterparty will fail to discharge an obligation and cause the Fund to incur a financial loss. Credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers.

Credit risk is not considered to be significant to the Fund. All transactions in listed investments are settled on delivery using approved top-tier financial institutions. The Fund closely monitors the level of exposure that it holds with each counterparty.

The risk of default is considered minimal as delivery of securities sold is made once the custodian has received payment. Payment is made on a purchase once the securities have been received by the custodian. A trade will fail if either party fails to meet its obligation.

The Fund's maximum credit risk exposure at balance date in relation to each class of recognised financial asset is the carrying amount of those assets as indicated in the Statement of Financial Position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

There are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated. The Fund minimises its exposure to credit risk on derivatives by only trading with top-tier financial institutions and closely monitors the level of exposure that it holds with each counterparty.

(i) Concentration of credit risk exposure

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The Fund monitors its exposure to ensure concentrations of risk remain within acceptable levels and generally maintains a relatively low net equity exposure due to the investment strategy of the Fund. As at the end of the year, a significant proportion of the Fund's assets were held in financial assets and cash and cash equivalents, of which the majority was held with a top tier Australian bank.

3 Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities.

Maturity analysis for financial liabilities

Financial liabilities of the Fund comprise of outstanding settlements payable, distributions payable, other payables and net assets attributable to unitholders. Outstanding settlements payable as settled within 3 days after trade. Distributions payable and other payables have no contractual maturities but are typically settled within 30 days.

Net assets attributable to unitholders are payable on demand, however the Responsible Entity has the power under the Fund Constitution to amend the timing of redemption payments.

4 Fair value measurement

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets/liabilities designated at fair value through profit or loss (see note 6)
- Financial assets/liabilities held for trading (see note 6)
- Derivative financial instruments (see note 7)

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current year.

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value hierarchy;

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

(i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the year without any deduction for estimated future selling costs. Financial assets and liabilities are priced at last traded prices.

The Fund values its investments in accordance with the accounting policies set out in note 2 to the financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(ii) Fair value in an inactive or unquoted market (level 2 and level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the year applicable for an instrument with similar terms and conditions.

4 Fair value measurement (continued)

(ii) Fair value in an inactive or unquoted market (level 2 and level 3) (continued)

For other pricing models, inputs are based on market data at the end of the year. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the end of the year taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such funds.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

Recognised fair value measurement

The table below set out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy as at 30 June 2016 and 30 June 2015.

As at 30 June 2016	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Financial assets held for trading:				
Derivatives	24,157	-	-	24,157
Financial assets designated at fair value through profit or loss:				
Equity securities	9,523,587	-	57,200*	9,580,787
Total	9,547,744	-	57,200	9,604,944

*The unlisted Level 3 equity security was subsequently listed in July 2016 on the Australian Stock Exchange. The purchase of the Level 3 unlisted equity was made in June 2016 and its fair value at 30 June 2016 was based on its IPO purchase value of \$57,200.

As at 30 June 2015	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
Financial assets held for trading:				
Derivatives	44,860	-	-	44,860
Financial assets designated at fair value through profit or loss:				
Equity securities	11,866,725	-	-	11,866,725
Total	11,911,585	-	-	11,911,585

4 Fair value measurement (continued)

Recognised fair value measurement (continued)

The level in which instruments are classified in the hierarchy is based on the lowest input that is significant to the fair value measurement in its entirety. Assessment of the significance of an input requires judgment after considering factors specific to the instrument.

The fair value of listed equity and publicly traded derivatives is based on quoted market prices or binding dealer price quotations at the reporting date, without any deduction for transaction costs.

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the year.

(i) Transfers between levels

There were no transfers between levels in the fair value hierarchy for the years ended 30 June 2016 and 30 June 2015.

(ii) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the movement in level 3 instruments for the year ended 30 June 2016 by class of financial instrument.

	Unlisted equities \$
Opening balance 30 June 2015	-
Purchases	57,200
Sales	-
Transfers	-
Gains and losses recognised in profit and loss	-
Closing balance 30 June 2016	57,200

There were no investments classified as level 3 within the Fund as at 30 June 2015.

(iii) Valuation inputs and relationship to fair value

The following table summarises the quantitative information about significant unobservable inputs used in level 3 fair value measurements. See Note 4(ii) for the valuation techniques adopted.

Description	Fair value \$	Valuation techniques	Unobservable inputs	Range
As at 30 June 2016				
Unlisted equities	57,200	Recent transactions	n/a	n/a

There were no investments classified as level 3 within the Fund as at 30 June 2015.

(iv) Fair values of other financial instruments

The Fund did not hold any financial instruments which were not measured at fair value in the Statement of financial position. Due to their short-term nature, the carrying amounts of receivables and payables are assumed to approximate fair value.

5 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	Year ended	
	30 June 2016	30 June 2015
	\$	\$
Financial assets		
Net gain/(loss) on financial assets held for trading	(15,855)	24,038
Net gain/(loss) on financial assets designated at fair value through profit or loss	<u>135,008</u>	<u>192,425</u>
Net gain/(losses) on financial assets held at fair value through profit and loss	<u>119,153</u>	<u>216,463</u>
Total net gains/(losses) from financial instruments held at fair value through profit or loss	<u>119,153</u>	<u>216,463</u>

6 Financial assets held at fair value through profit or loss

	As at	
	30 June 2016	30 June 2015
	\$	\$
Held for trading		
Derivative (Note 7)	<u>24,157</u>	<u>44,860</u>
Total held for trading	<u>24,157</u>	<u>44,860</u>
Designated at fair value through profit or loss		
Equity securities	<u>9,580,787</u>	<u>11,866,725</u>
Total designated at fair value through profit or loss	<u>9,580,787</u>	<u>11,866,725</u>
Total financial assets held at fair value through profit or loss	<u>9,604,944</u>	<u>11,911,585</u>

7 Derivative financial instruments

Typically, derivative contracts serve as components of the Fund's investment strategy and are utilised primarily to structure and hedge investments, to enhance performance and reduce risk to the Fund. The Fund does not designate any derivative as a hedging instrument for hedge accounting purposes. The derivative contracts that the Fund trades include futures and exchange-traded options.

Derivatives often reflect at their inception only a mutual exchange of promises with little or no transfer of tangible consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the underlying security of a derivative contract may have a significant impact on the profit or loss of the Fund.

7 Derivative financial instruments (continued)

Derivatives do not qualify for hedge accounting and are classified as held for trading, with gains or losses arising from changes in fair value taken directly to net profit or loss for the year. The Fund holds the following derivative instruments:

Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities prices. Options held by the Fund are exchange-traded. The Fund is exposed to credit risk on purchased options to the extent of their carrying amount, which is their fair value.

	Contract/ Notional \$	Fair Values	
		Assets \$	Liabilities \$
30 June 2016			
Options	<u>889,674</u>	<u>24,157</u>	-
	<u>889,674</u>	<u>24,157</u>	-

	Contract/ Notional \$	Fair Values	
		Assets \$	Liabilities \$
30 June 2015			
Options	<u>1,091,802</u>	<u>44,860</u>	-
	<u>1,091,802</u>	<u>44,860</u>	-

Risk exposures and fair value measurements

Information about the Fund's exposure to equity price risk, credit risk, foreign exchange risk, interest rate risk, liquidity risk and about the methods and assumptions used in determining fair values is provided in note 3 to the financial statements. The maximum exposure to credit risk at the end of the year is the carrying amount of each class of derivative financial instruments disclosed above.

8 Units on issue

The terms and conditions attached to the units are stated in Note 2(o), 2(p) and 2(q).

The movement in units of the Fund during the year ended and 30 June 2015 are as follows:

	As at	
	30 June 2016 No.	30 June 2015 No.
Class A		
Opening balance	8,055,045	9,967,410
Applications	-	121,495
Redemptions	(2,934,035)	(2,044,072)
Units issued upon reinvestment of distributions	688,355	10,212
Closing balance	<u>5,809,365</u>	<u>8,055,045</u>
Class B		
Opening balance	3,209,218	1,750,724
Applications	601,092	1,404,128
Redemptions	(211,011)	-
Units issued upon reinvestment of distributions	350,873	54,366
Closing balance	<u>3,950,172</u>	<u>3,209,218</u>
Total units on issue	<u>9,759,537</u>	<u>11,264,263</u>

Class B Units rank equally with Class A Units with respect to redemptions, distributions and on winding up.

Capital management

As a result of the ability to issue and redeem units, the capital of the Fund can vary depending on the demand for subscriptions to and redemptions from the Fund. The Fund is not subject to externally imposed capital requirements and has no restrictions on the issue or redemption of units.

The Fund's objectives for managing capital are:

- To invest capital in accordance with the provisions of the Fund's Constitution and the current Product Disclosure Statement.
- To pursue its investment objective which is consistent with the Constitution and Product Disclosure Statement.

The policies and processes applied by the Fund in managing its capital are outlined in Note 3.

9 Distributions to unitholders

The distributions for the year were as follows:

	30 June 2016 \$	30 June 2016 CPU	As at 30 June 2015 \$	30 June 2015 CPU
Distributions Class A units				
Distributions paid	122,820	2.10	190,912	1.96
Distributions payable	<u>12,758</u>	<u>0.22</u>	<u>876,075</u>	<u>10.87</u>
Total - Class A	<u>135,578</u>	<u>2.32</u>	<u>1,066,987</u>	<u>12.83</u>
Distributions Class B units				
Distributions paid	91,460	2.20	55,264	2.09
Distributions payable	<u>12,889</u>	<u>0.33</u>	<u>337,960</u>	<u>10.53</u>
Total - Class B	<u>104,349</u>	<u>2.53</u>	<u>393,224</u>	<u>12.62</u>
Total	<u>239,927</u>	<u>4.85</u>	<u>1,460,211</u>	<u>25.45</u>

10 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise:

	30 June 2016 \$	As at 30 June 2015 \$
Cash at bank	<u>236,629</u>	<u>505,323</u>
Total	<u>236,629</u>	<u>505,323</u>

Cash at bank earns interest at floating rates based on negotiated deposit rates.

11 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	Year ended	
	30 June 2016	30 June 2015
	\$	\$
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Increase/(decrease) in net assets attributable to unitholders	126,348	(861,385)
Distributions to unit holders	239,927	1,460,211
Proceeds from sale of financial instruments held at fair value through profit or loss	15,676,310	16,182,954
Purchase of financial instruments held at fair value through profit or loss	(13,195,754)	(15,298,795)
Net (gains)/losses on financial instruments held at fair value through profit or loss	(119,153)	(216,463)
Net change in receivables	(7,997)	19,071
Net change in payables	(7,095)	(423)
Net cash inflow/(outflow) from operating activities	2,712,586	1,285,170
(b) Non-cash financing activities		
Reinvestment of unitholder distributions	1,031,692	66,164

12 Auditor's remuneration

During the year the following fees were paid or payable for services provided by the auditor of the Fund.

	Year ended	
	30 June 2016	30 June 2015
	\$	\$
Audit and other assurance services		
Audit and review of financial statements	7,857	8,880
Non-audit services		
Taxation services	3,658	3,135
Total remuneration for assurance services	11,515	12,015

The auditor's remuneration was borne by the Responsible Entity, Ellerston Capital Limited.

13 Other operating expenses

	30 June 2016	30 June 2015
	\$	\$
Custody and administration fees	20,105	26,714
Other expenses	1,247	1,521
Total	21,352	28,235

14 Other receivables

	As at	
	30 June 2016	30 June 2015
	\$	\$
GST refund receivable	<u>2,454</u>	<u>2,922</u>
Total	<u>2,454</u>	<u>2,922</u>

15 Other payables

	As at	
	30 June 2016	30 June 2015
	\$	\$
Custody and administration fees payable	<u>13,299</u>	<u>17,477</u>
Total	<u>13,299</u>	<u>17,477</u>

16 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party including financial or operational decisions.

Details of Key Management Personnel

(i) Directors

The Directors of the Responsible Entity are considered to be key management personnel of the Fund.

The names of the Directors of the Responsible Entity in office during the year and until the date of this report are:

Ashok Jacob (Chairman)
Brian O' Sullivan
Michael Johnston
Guy Jalland
Chris Kourtis

(ii) Compensation of key management personnel

No Directors fees or other amounts have been paid or are payable at year end to the Directors by the Fund.

16 Related party transactions (continued)

Unitholding of Related Parties

30 June 2016

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/ payable by the Trust (\$)
Ellerston Global Equity Managers Fund	4,919,176	4,073,470	4,136,202	42.47	614,006	1,459,712	92,814

30 June 2015

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/ payable by the Trust (\$)
Ellerston Global Equity Managers Fund	6,622,165	4,919,176	4,965,908	44.28	—	1,702,989	664,710

As at 30 June 2016, 614,006 of the units acquired by Ellerston Global Equity Managers Fund are units issued upon reinvestment of distributions (2015: nil).

Ellerston Capital Limited is the investment manager of the Ellerston Global Equity Managers Fund.

30 June 2016

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/ payable by the Trust (\$)
Ashok Jacob	200,000	200,000	203,080	2.09	-	-	4,645

30 June 2015

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/ payable by the Trust (\$)
Ashok Jacob	200,000	200,000	201,900	1.80	-	-	25,669

There were no units issued upon reinvestments of distributions to the Directors of the Fund at year end (2015: nil).

All transactions with key management personnel have been entered into under terms and conditions no more favourable than those the Fund would have adopted if dealing at arm's length.

16 Related party transactions (continued)

Transactions with the Responsible Entity

The Responsible Entity will receive from the Fund a management fee in the range of 0.65% - 1.1% (2015: 0.65% - 1.1%) per annum of the gross asset value of the units.

The Responsible Entity will receive from the Fund a performance fee of 15.00% (2015: 15.00%) of the amount by which the accumulated investment return of the units exceeds the accumulated return of the S&P/ASX 200 Accumulation Index (the benchmark) during each year to 30 June (the calculation period). If the units underperform against the benchmark during a calculation period, a performance fee will not be paid. Any underperformance will be carried forward to the following calculation period and must be recouped before any performance fees can commence to accrue or be paid.

There were no performance fees incurred for the years ended 30 June 2016 and 30 June 2015.

Management fees paid and payable for the year are shown in the table below:

	30 June 2016	30 June 2015
	\$	\$
Management fees expense	80,999	110,448
Management fees payable	6,458	9,376

All related party transactions are made at arm's length on normal terms and conditions.

17 Events occurring after the reporting period

There were no significant matters or circumstances that have arisen since the end of the year that have significantly affected, or may affect, the Fund's operations in future years, the results of those operations or the Fund's state of affairs in future years.

18 Contingent assets and liabilities and commitments

The Fund did not have any contingent assets, liabilities or commitments as at 30 June 2016 and 30 June 2015.

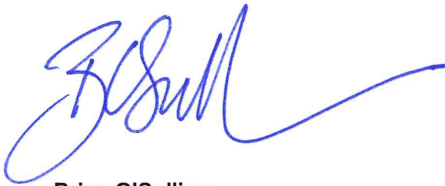
Directors' declaration

In accordance with a resolution of the Directors of Ellerston Capital Limited, I state that:

In the opinion of the Directors:

- (a) The financial statements and notes of the Fund are in accordance with the *Corporations Act 2001*, including:
 - (i) Giving a true and fair view of the Fund's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - (ii) Complying with Australian Accounting Standards and *Corporations Regulations 2001*; and
- (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2(b).
- (c) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (d) The financial statements are in accordance with the provisions of the Fund's Constitution.

On behalf of the board



Brian O'Sullivan

Director

Sydney
30th September 2016

Independent auditor's report to the unitholders of Ellerston Australian Share Fund

We have audited the accompanying financial report of Ellerston Australian Share Fund (the "Fund"), which comprises the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of the Fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

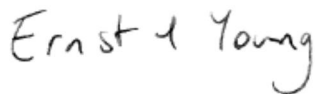
Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Fund a written Auditor's Independence Declaration, a copy of which follows the Directors' Report.

Opinion

In our opinion:

- a. the financial report of Ellerston Australian Share Fund is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Fund's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(b).



Ernst & Young



Rohit Khanna
Partner
Sydney
30 September 2016