

# **Ellerston Australian Market Neutral Fund**

ARSN 168 025 670

## **Financial Report**

**For the year ended 30 June 2017**

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ARSN 168 025 670

## Financial Report

### For the year ended 30 June 2017

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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 Market Neutral Fund (the "Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2017.

### 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 2017	30 June 2016
Operating profit before finance costs attributable to unitholders (\$'000)	<u>26,402</u>	<u>18,673</u>
<b><i>Distributions - Class A units</i></b>		
Distributions paid and payable (\$'000)	<u>28,328</u>	<u>15,229</u>
Distribution (cents per unit)	<u>5.00</u>	<u>3.40</u>
<b><i>Distributions - Class B units</i></b>		
Distributions paid and payable (\$'000)	<u>424</u>	<u>1,740</u>
Distribution (cents per unit)	<u>7.60</u>	<u>5.18</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 2017 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 18 to the Financial Statements
- (ii) Unitholdings of related parties of the Responsible Entity in the Fund – Refer Note 18 to the Financial Statements
- (iii) Applications and Redemptions in the Fund during the year – Refer Note 10 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 2017 – Refer Note 10 to the Financial Statements
- (vi) Distributions payable to unitholders as at 30 June 2017 – 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 thousand dollars

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 \$1,000 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

A handwritten signature in black ink, appearing to read 'B O'Sullivan', with a long horizontal flourish extending to the right.

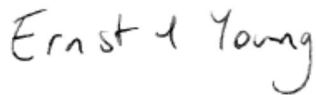
**Brian O'Sullivan**  
Director

Sydney  
22 September 2017

## Auditor's Independence Declaration to the Directors of Ellerston Australian Market Neutral Fund

As lead auditor for the audit of Ellerston Australian Market Neutral Fund for the financial year ended 30 June 2017, 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  
22 September 2017

## Statement of comprehensive income

	Notes	Year ended	
		30 June 2017 \$'000	30 June 2016 \$'000
<b>Investment income</b>			
Interest income		6,870	3,922
Dividend and distribution income		31,637	6,656
Net gains on financial instruments held at fair value through profit or loss	6	21,185	18,163
Net foreign exchange (losses)/gains		(567)	46
Other operating income		491	267
<b>Total investment income</b>		<u>59,616</u>	<u>29,054</u>
<b>Expenses</b>			
Management fees	18	8,007	3,012
Performance fees	18	4,665	3,023
Short dividend expense		18,077	3,304
Other operating expenses	15	2,465	1,042
<b>Operating expenses before finance costs</b>		<u>33,214</u>	<u>10,381</u>
<b>Operating profit before finance costs</b>		<u>26,402</u>	<u>18,673</u>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	11	(28,752)	(16,969)
Change in net assets attributable to unitholders		(2,350)	1,704
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<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	
	Notes	30 June 2017 \$'000	30 June 2016 \$'000
<b>Assets</b>			
Cash and cash equivalents	12	487,823	396,748
Due from brokers		10,805	31,802
Loan receivable	18	1,130	2,322
Dividend and distributions receivable		8,487	3,356
Interest receivable		3	465
Applications receivable		20	2,756
Other receivables	16	46	129
Financial assets held at fair value through profit or loss	7	<u>623,119</u>	<u>346,430</u>
<b>Total assets</b>		<u>1,131,433</u>	<u>784,008</u>
<b>Liabilities</b>			
Management fees payable	18	656	482
Performance fee payable	18	4,026	2,950
Due to brokers		45,624	22,030
Distribution payable	11	28,752	16,669
Short dividend payable		6,339	2,475
Other payables	17	8,436	324
Financial liabilities held at fair value through profit or loss	8	<u>383,382</u>	<u>188,293</u>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>477,215</u>	<u>233,223</u>
<b>Net assets attributable to unitholders</b>		<u>654,218</u>	<u>550,785</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

	Year ended	
	30 June 2017	30 June 2016
	\$'000	\$'000
<b>Net assets attributable to unitholders</b>		
Opening balance	550,785	110,440
Application of units	282,831	486,054
Redemption of units	(182,694)	(48,375)
Units issued upon reinvestment of distributions	5,646	962
Changes in net assets attributable to unitholders	<u>(2,350)</u>	<u>1,704</u>
<b>Closing balance</b>	<u>654,218</u>	<u>550,785</u>

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

## Statement of cash flows

	Notes	Year ended	
		30 June 2017 \$'000	30 June 2016 \$'000
<b>Cash flows from operating activities</b>			
Proceeds from sale of financial instruments held at fair value through profit or loss		2,227,690	1,269,740
Purchase of financial instruments held at fair value through profit or loss		(2,242,517)	(1,384,683)
Interest received		7,332	3,458
Dividend and distributions received		25,474	4,363
Dividends paid		(14,213)	(1,533)
Other income received		575	165
Repayment of loan		(5,449)	(8,109)
Proceeds from loan		6,641	3,026
Management fees paid		(7,832)	(2,634)
Performance fees paid		(3,589)	(828)
Payment of other operating expenses		(2,321)	(824)
Net foreign exchange (losses)/gains		(553)	54
<b>Net cash outflow from operating activities</b>	13(a)	<u>(8,762)</u>	<u>(117,805)</u>
<b>Cash flows from financing activities</b>			
Proceeds from applications by unitholders		285,567	483,297
Payments for redemptions by unitholders		(174,692)	(48,360)
Distributions paid		(11,024)	(958)
<b>Net cash inflow from financing activities</b>		<u>99,851</u>	<u>433,979</u>
<b>Net increase in cash and cash equivalents</b>		<b>91,089</b>	<b>316,174</b>
Cash and cash equivalents at the beginning of the year		396,748	80,582
Effects of foreign currency exchange rate changes on cash and cash equivalents		(14)	(8)
<b>Cash and cash equivalents at the end of the year</b>	12	<u>487,823</u>	<u>396,748</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 Market Neutral 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 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 22 September 2017.

## 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 Constitution, the requirements of the *Corporations Act 2001* and applicable Australian 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 and financial liabilities held at fair value through profit or loss, that have been measured at fair value and all values are rounded to the nearest \$1,000 except where otherwise indicated. 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 compliance with 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 futures and options. These financial assets and liabilities 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, listed trusts and hybrid securities that are not held for trading. These financial instruments are designated on the basis that they are part of a group of financial instruments 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 instruments is provided internally on that basis to the Investment Manager.

Hybrid security is a generic term used to describe a security that combines elements of debt securities and equity securities. Hybrid securities typically promise to pay a rate of return (fixed or floating) until a certain date, in the same way debt securities do. However, they also have equity-like features that can mean they may provide a higher rate of return than regular debt securities. In some cases, this is because they give the holder an option to convert the hybrid securities into equity securities (typically ordinary shares), which will give the holder an "equity kicker" if the underlying security performs well. In other cases it may be that the hybrid securities have equity-like risks attached and the issuer has to pay a higher rate of return to compensate investors for those risks.

Details of the Fund's investments are provided in Note 5 and 7.

#### (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'.

## 2 Summary of significant accounting policies (continued)

### (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.

### (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 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 and cash like investment 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.

## 2 Summary of significant accounting policies (continued)

### (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) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). The Australian dollar is the Fund's functional and presentation currency.

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income.

### (k) 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:

- (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.

### (l) 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.

### (m) Other payables

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

### (n) 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.

### (o) 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.

## 2 Summary of significant accounting policies (continued)

### (o) Distributions to unitholders (continued)

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.

### (p) 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.

### (q) 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:

- 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.

### (r) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 2017 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 those carried at fair value through profit or loss are expected to continue to be measured 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 significantly impact the Fund.



## 2 Summary of significant accounting policies (continued)

### (r) New accounting standards and interpretations (continued)

#### (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.

### (s) 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 thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

### (t) 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 financial assets or financial liabilities at fair value through profit or loss in table 3(a)(iii) 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.

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (i) Equity price risk (continued)

The table in note 3(b) summarises the sensitivities of the Fund's financial assets or financial liabilities at fair value through profit or loss in table 3(a)(iii) to equity price risk. The analysis is based on the assumptions that the markets in which the Fund invests moves +/- 10% (2016: +/- 10%). The impact mainly arises from the possible change in the fair value of listed equities and equity derivatives.

##### (ii) Foreign currency risk

Foreign exchange risk arises as the value of monetary assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates.

The table below summarises the Fund's major exposure to assets and liabilities that are denominated in a currency other than the Australian dollar.

30 June 2017	USD A\$'000	GBP A\$'000	NZD A\$'000	Total A\$'000
<b>Monetary Assets and Liabilities</b>				
Cash and cash equivalents	1,409	863	-	2,272
Due from brokers	-	-	2,328	2,328
Receivables	-	1,510	-	1,510
Due to broker	-	-	(34,857)	(34,857)
<b>Total monetary assets and liabilities</b>	<b>1,409</b>	<b>2,373</b>	<b>(32,529)</b>	<b>(28,747)</b>
<b>Non-Monetary Assets and Liabilities</b>				
Financial assets held at fair value through profit or loss	37,710	85,792	35,459	158,961
Financial liabilities held at fair value through profit or loss	-	-	(1,726)	(1,726)
<b>Total non-monetary assets and liabilities</b>	<b>37,710</b>	<b>85,792</b>	<b>33,733</b>	<b>157,235</b>
<b>Net total</b>	<b>39,119</b>	<b>88,165</b>	<b>1,204</b>	<b>128,488</b>

30 June 2016	USD \$'000	GBP \$'000	NZD \$'000	Total \$'000
<b>Monetary Assets and Liabilities</b>				
Cash and cash equivalents	-	168	-	168
Due from brokers	-	-	169	169
Due to broker	(23)	-	(306)	(329)
<b>Total monetary assets and liabilities</b>	<b>(23)</b>	<b>168</b>	<b>(137)</b>	<b>8</b>

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (ii) Foreign currency risk (continued)

30 June 2016	USD \$'000	GBP \$'000	NZD \$'000	Total \$'000
Monetary Assets and Liabilities				
Non-Monetary Assets and Liabilities				
Financial assets held at fair value through profit or loss	27,784	34,574	5,105	67,463
Financial liabilities held at fair value through profit or loss	-	-	(5,122)	(5,122)
Total Non-Monetary Assets and Liabilities	<u>27,784</u>	<u>34,574</u>	<u>(17)</u>	<u>62,341</u>
Net total	<u>27,761</u>	<u>34,742</u>	<u>(154)</u>	<u>62,349</u>

The table in note 3(b) summarises the sensitivities of the Fund's monetary and non-monetary assets and liabilities to foreign exchange risk. The analysis is based on the assumption that the Australian dollar weakened/strengthened by 10% against other currencies to which the Fund is exposed.

##### (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.

A significant proportion of the Fund's assets are held in cash and cash equivalents as at 30 June 2017. The table at note 3(b) summarises the sensitivity of the Fund's operating profit before finance costs and net assets attributable to unitholders through changes in fair values or changes in future cash flows. The analysis is based on the assumption that interest rates moved by +/-1% (2016: +/-1%) from the year end rates with all other variables held constant.

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (iii) Interest rate risk (continued)

The table below summarises the Fund's direct exposure to interest rate risks.

30 June 2017	Floating interest rate \$'000	Fixed interest rate \$'000	Non interest bearing \$'000	Total \$'000
<b>Assets</b>				
Cash and cash equivalents	487,823	-	-	487,823
Due from brokers	-	-	10,805	10,805
Loan receivable	1,130	-	-	1,130
Dividends and distributions receivable	-	-	8,487	8,487
Interest receivable	-	-	3	3
Applications receivable	-	-	20	20
Other receivables	-	-	46	46
Financial assets held at fair value through profit and loss	15,428	24,412	583,279	623,119
<b>Liabilities</b>				
Management fees payable	-	-	(656)	(656)
Performance fee payable	-	-	(4,026)	(4,026)
Due to brokers	(28,050)	-	(17,574)	(45,624)
Distribution payable	-	-	(28,752)	(28,752)
Short dividend payable	-	-	(6,339)	(6,339)
Other payables	-	-	(8,436)	(8,436)
Financial liabilities held at fair value through profit and loss	-	-	(383,382)	(383,382)
<b>Net total</b>	<b>476,331</b>	<b>24,412</b>	<b>153,475</b>	<b>654,218</b>

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (iii) Interest rate risk (continued)

30 June 2016	Floating interest rate \$'000	Fixed interest rate \$'000	Non interest bearing \$'000	Total \$'000
<b>Assets</b>				
Cash and cash equivalents	396,748	-	-	396,748
Due from brokers	3,360	-	28,442	31,802
Loan receivable	2,322	-	-	2,322
Dividends and distributions receivable	-	-	3,356	3,356
Interest receivable	-	-	465	465
Applications receivable	-	-	2,756	2,756
Other receivables	-	-	129	129
Financial assets held at fair value through profit and loss	-	40,932	305,498	346,430
<b>Liabilities</b>				
Management fees payable	-	-	(482)	(482)
Performance fee payable	-	-	(2,950)	(2,950)
Due to brokers	(159)	-	(21,871)	(22,030)
Distribution payable	-	-	(16,669)	(16,669)
Short dividend payable	-	-	(2,475)	(2,475)
Other payables	-	-	(324)	(324)
Financial liabilities held at fair value through profit and loss	-	-	(188,293)	(188,293)
<b>Net total</b>	<u>402,271</u>	<u>40,932</u>	<u>107,582</u>	<u>550,785</u>

An analysis of financial liabilities by maturities is provided in paragraph (d) on page 21.

#### (b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit before finance costs 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.

	Equity price risk		Interest rate risk	
	Impact on operating profit before finance costs/Net assets attributable to unitholders			
	-10%	+10%	-1%	+1%
	\$'000	\$'000	\$'000	\$'000
<b>30 June 2017</b>	<b>(19,990)</b>	<b>19,990</b>	<b>(4,763)</b>	<b>4,763</b>
30 June 2016	(11,720)	11,720	(4,023)	4,023

### 3 Financial risk management (continued)

#### (b) Summarised sensitivity analysis (continued)

	Foreign exchange risk					
	Impact on operating profit before finance costs/Net assets attributable to unitholders					
	-10%	+10%	-10%	+10%	-10%	+10%
	USD	USD	GBP	GBP	NZD	NZD
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>30 June 2017</b>	<b>(3,912)</b>	<b>3,912</b>	<b>(8,817)</b>	<b>8,817</b>	<b>(120)</b>	<b>120</b>
30 June 2016	(2,776)	2,776	(3,474)	3,474	15	(15)

The Fund does not currently hedge its foreign currency exposure. Foreign currency exposure generated from non base currency positions forms part of the investment strategy.

#### (c) Credit risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

With respect to credit risk arising from the financial assets of the Fund, other than derivatives, the Fund's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed 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 year end.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

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 a portion was held with top tier Australian banks.

#### (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 Offsetting financial assets and financial liabilities

Financial assets and 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 or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the Statement of financial position are disclosed in the first three columns of the tables below.

Financial assets	Effects of offsetting on the Statement of financial position			Related amounts not offset		
	Gross amount of financial assets	Gross amounts set off in the Statement of financial position	Net amount of financial assets presented in the Statement of financial position	Amounts subject to master netting arrangements	Collateral pledged/received	Net Amount
<b>30 June 2017</b>						
Derivative financial instruments (i)	686	-	686	-	-	686
<b>Total</b>	<b>686</b>	<b>-</b>	<b>686</b>	<b>-</b>	<b>-</b>	<b>686</b>
<b>30 June 2016</b>						
Derivative financial instruments (i)	610	-	610	(366)	-	244
<b>Total</b>	<b>610</b>	<b>-</b>	<b>610</b>	<b>(366)</b>	<b>-</b>	<b>244</b>
Financial liabilities	Effects of offsetting on the Statement of financial position			Related amounts not offset		
	Gross amount of financial liabilities	Gross amounts set off in the Statement of financial position	Net amount of financial liabilities presented in the Statement of financial position	Amounts subject to master netting arrangements	Collateral pledged/received	Net Amount
<b>30 June 2017</b>						
Derivative financial instruments (i)	-	-	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>30 June 2016</b>						
Derivative financial instruments (i)	366	-	366	(366)	-	-
<b>Total</b>	<b>366</b>	<b>-</b>	<b>366</b>	<b>(366)</b>	<b>-</b>	<b>-</b>

#### 4 Offsetting financial assets and financial liabilities (continued)

(i) *Master netting arrangement*

Agreements with derivative counterparties are based on the ISDA Master Agreement. Under the terms of these arrangements, the net position owing/receivable to a single counterparty in the same currency will be taken as owing/receivable and all the relevant arrangements terminated. These amounts have not been offset in the Statement of financial position, but have been presented separately in the above table.

#### 5 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 7 and 8)
- Financial assets/liabilities held for trading (see note 7 and 8)
- Derivative financial instruments (see note 9)

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 annual financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments which represents quoted prices in the active market.

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.

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.



## 5 Fair value measurement (continued)

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

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 currency 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 2017 and 30 June 2016.

As at 30 June 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets held for trading:				
Derivatives	686	-	-	686
Financial assets designated at fair value through profit or loss:				
Equity securities	386,945	-	-	386,945
Listed unit trusts	195,648	-	-	195,648
Listed hybrid securities	39,840	-	-	39,840
<b>Total</b>	<b>623,119</b>	<b>-</b>	<b>-</b>	<b>623,119</b>
<b>Financial liabilities</b>				
Financial liabilities designated at fair value through profit or loss:				
Equity securities - short	144,977	-	-	144,977
Listed unit trusts - short	238,405	-	-	238,405
<b>Total</b>	<b>383,382</b>	<b>-</b>	<b>-</b>	<b>383,382</b>

## 5 Fair value measurement (continued)

### Recognised fair value measurement (continued)

As at 30 June 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets held for trading:				
Derivatives	610	-	-	610
Financial assets designated at fair value through profit or loss:				
Equity securities	198,284	-	4,295*	202,579
Listed unit trusts	102,309	-	-	102,309
Listed hybrid securities	<u>40,932</u>	<u>-</u>	<u>-</u>	<u>40,932</u>
<b>Total</b>	<u>342,135</u>	<u>-</u>	<u>4,295</u>	<u>346,430</u>
<b>Financial liabilities</b>				
Financial liabilities held for trading:				
Derivatives	366	-	-	366
Financial liabilities designated at fair value through profit or loss:				
Equity securities - short	74,727	-	-	74,727
Listed unit trusts - short	<u>113,200</u>	<u>-</u>	<u>-</u>	<u>113,200</u>
<b>Total</b>	<u>188,293</u>	<u>-</u>	<u>-</u>	<u>188,293</u>

\*The unlisted Level 3 equity securities were subsequently listed in July 2016 on the Australian Stock Exchange. The purchase of the Level 3 unlisted equities were made in June 2016 and their fair value at 30 June 2016 was based on their total IPO purchase value of \$4,295,000.

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

The following table presents the transfers between levels for the year ended 30 June 2017. There were no transfers between levels for the year ended 30 June 2016.

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

The following table presents the movement in level 3 instruments for the years ended 30 June 2017 and 30 June 2016 by class of financial instrument.

## 5 Fair value measurement (continued)

### Recognised fair value measurement (continued)

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

	Unlisted equities \$'000
<b>Opening balance 30 June 2016</b>	<b>4,295</b>
Purchases	-
Sales	-
Transfers	<b>(4,295)</b>
Gains and losses recognised in profit and loss	-
<b>Closing balance 30 June 2017</b>	<b>-</b>

	Unlisted equities \$'000
<b>Opening balance 30 June 2015</b>	-
Purchases	4,295
Sales	-
Transfers	-
Gains and losses recognised in profit and loss	-
<b>Closing balance 30 June 2016</b>	<b>4,295</b>

(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 5(ii) for the valuation techniques adopted.

Description	Fair value \$'000	Valuation techniques	Unobservable inputs	Range
<b>As at 30 June 2017</b>				
Unlisted equities	-	-	-	-
	Fair value \$'000	Valuation techniques	Unobservable inputs	Range
<b>As at 30 June 2016</b>				
Unlisted equities	4,295	Recent transactions	-	-

(iv) Fair values of other financial instruments

The Fund held 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 approximate fair value.

## 6 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 2017 \$'000	30 June 2016 \$'000
Net loss on financial instruments held for trading	(3,284)	(951)
Net gain on financial instruments designated as at fair value through profit or loss	<u>24,469</u>	<u>19,114</u>
<b>Total net gains on financial instruments held at fair value through profit or loss</b>	<u><b>21,185</b></u>	<u><b>18,163</b></u>

## 7 Financial assets held at fair value through profit or loss

	As at	
	30 June 2017 \$'000	30 June 2016 \$'000
<b>Held for trading</b>		
Derivatives (Note 9)	<u>686</u>	610
Total held for trading	<u>686</u>	<u>610</u>
<b>Designated at fair value through profit or loss</b>		
Equity securities	386,945	202,579
Listed unit trusts	195,648	102,309
Listed hybrid securities	<u>39,840</u>	<u>40,932</u>
Total designated at fair value through profit or loss	<u>622,433</u>	<u>345,820</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u><b>623,119</b></u>	<u><b>346,430</b></u>

## 8 Financial liabilities held at fair value through profit or loss

	As at	
	30 June 2017 \$'000	30 June 2016 \$'000
<b>Held for trading</b>		
Derivatives (Note 9)	-	(366)
Total held for trading	-	(366)
<b>Designated at fair value through profit or loss</b>		
Listed equity securities - short	(144,977)	(74,727)
Listed unit trusts - short	<u>(238,405)</u>	<u>(113,200)</u>
Total designated at fair value through profit or loss	<u>(383,382)</u>	<u>(187,927)</u>
<b>Total financial liabilities held at fair value through profit or loss</b>	<u><b>(383,382)</b></u>	<u><b>(188,293)</b></u>

## 9 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.

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:

### (a) 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 \$'000	Fair Values	
		Assets \$'000	Liabilities \$'000
<b>30 June 2017</b>			
Options	<u>113,064</u>	<u>686</u>	<u>-</u>
	<u>113,064</u>	<u>686</u>	<u>-</u>

	Contract/ Notional \$'000	Fair Values	
		Assets \$'000	Liabilities \$'000
<b>30 June 2016</b>			
Options	<u>25,856</u>	<u>610</u>	<u>366</u>
	<u>25,856</u>	<u>610</u>	<u>366</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.

## 10 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 are as follows:

	Year ended	
	30 June 2017 No. ('000)	30 June 2016 No. ('000)
<b>Class A units</b>		
Opening balance	447,768	92,545
Applications	234,949	376,132
Redemptions	(120,341)	(21,374)
Units issued upon reinvestment of distributions	3,694	465
Closing balance	<u>566,070</u>	<u>447,768</u>
<b>Class B units</b>		
Opening balance	32,731	7,899
Applications	5,775	44,876
Redemptions	(34,155)	(20,432)
Units issued upon reinvestment of distributions	1,221	388
Closing balance	<u>5,572</u>	<u>32,731</u>
<b>Total units on issue</b>	<u>571,642</u>	<u>480,499</u>

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

### 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.

## 11 Distributions to unitholders

The distributions for the year were as follows:

	30 June 2017 \$'000	30 June 2017 CPU	As at	
			30 June 2016 \$'000	30 June 2016 CPU
<b>Distributions - Class A units</b>				
Distributions payable	<u>28,328</u>	<u>5.00</u>	15,229	3.40
<b>Total - Class A units</b>	<u>28,328</u>	<u>5.00</u>	<u>15,229</u>	<u>3.40</u>
<b>Distributions - Class B units</b>				
Distributions paid	-	-	299	0.78
Distributions payable	<u>424</u>	<u>7.60</u>	1,440	4.40
<b>Total - Class B units</b>	<u>424</u>	<u>7.60</u>	<u>1,739</u>	<u>5.18</u>
<b>Total</b>	<u>28,752</u>	<u>12.60</u>	<u>16,969</u>	<u>8.58</u>

## 12 Cash and cash equivalents

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

	As at	
	30 June 2017 \$'000	30 June 2016 \$'000
Cash at bank	71,794	284,784
Cash at broker	<u>416,029</u>	<u>111,964</u>
<b>Total</b>	<u>487,823</u>	<u>396,748</u>

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

Cash at broker includes margin accounts and cash held as collateral which are restricted.

### 13 Reconciliation of (loss)/profit to net cash outflow from operating activities

	Year ended	
	30 June 2017 \$'000	30 June 2016 \$'000
<b>(a) Reconciliation of (loss)/profit to net cash outflow from operating activities</b>		
(Decrease)/Increase in net assets attributable to unitholders	(2,350)	1,704
Distributions to unit holders	28,752	16,969
Proceeds from sale of financial instruments held at fair value through profit or loss	2,227,690	1,269,740
Purchase of financial instruments held at fair value through profit or loss	(2,242,517)	(1,384,683)
Net gains on financial instruments held at fair value through profit or loss	(21,185)	(18,163)
Net change in receivables	(3,393)	(7,937)
Net change in payables	5,223	4,557
Dividend/distribution income reinvested	(996)	-
Unrealised foreign exchange gains	14	8
<b>Net cash outflow from operating activities</b>	<b>(8,762)</b>	<b>(117,805)</b>
<b>(b) Non-cash financing activities</b>		
Reinvestment of unitholder distributions	5,646	962

### 14 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 2017 \$	30 June 2016 \$
<b>Audit and other assurance services</b>		
Audit and review of financial statements	30,886	17,760
<b>Non-audit services</b>		
Taxation services	14,108	14,108
<b>Total remuneration for assurance services</b>	<b>44,994</b>	<b>31,868</b>

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



## 15 Other operating expenses

	30 June 2017 \$'000	30 June 2016 \$'000
Custody and administration fees	514	403
Broker and derivatives fees	35	40
Stock lending fees	1,824	526
Other expenses	92	73
<b>Total</b>	<b>2,465</b>	<b>1,042</b>

## 16 Other receivables

	As at	
	30 June 2017 \$'000	30 June 2016 \$'000
GST refund receivable	46	129
<b>Total</b>	<b>46</b>	<b>129</b>

## 17 Other payables

	As at	
	30 June 2017 \$'000	30 June 2016 \$'000
Custody and administration fees payable	399	290
Redemption payable	8,037	34
<b>Total</b>	<b>8,436</b>	<b>324</b>

## 18 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 Responsible Entity and 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

## 18 Related party transactions (continued)

### Details of Key Management Personnel (continued)

#### (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.

### Unitholding of Related Parties

30 June 2017

Unitholder	Number of units held opening (No.)	Number of units held closing (No.)	Fair value of investment (\$)	Interest held (%)	Number of units acquired (No.)	Number of units disposed (No.)	Distributions paid/ payable by the Trust (\$)
Ellerston Capital Offshore SPC for and on behalf of the Australian Market Neutral Fund SP	32,731,284	5,571,878	6,473,840	0.97	6,995,815	(34,155,221)	423,535

30 June 2016

Unitholder	Number of units held opening (No.)	Number of units held closing (No.)	Fair value of investment (\$)	Interest held (%)	Number of units acquired (No.)	Number of units disposed (No.)	Distributions paid/ payable by the Trust (\$)
Ellerston Global Equity Managers Fund	8,172,733	–	–	–	116,765	8,289,498	–
Ellerston Capital Offshore SPC for and on behalf of the Australian Market Neutral Fund SP	7,898,797	32,731,284	37,860,277	6.81	45,264,095	20,431,608	1,739,688

As at 30 June 2017, 1,220,767 of the units acquired by Ellerston Capital Offshore SPC, are units issued upon reinvestment of distributions (2016: 116,765).

Ellerston Capital Limited is the investment manager of both the Ellerston Global Equity Managers Fund and Ellerston Capital Offshore SPC. During financial year 2015, Ellerston Capital Limited, the Investment Manager and Responsible Entity for the Fund, entered into an agreement with Ellerston Capital Offshore SPC. The Fund and Ellerston Capital Offshore SPC are related through a common Investment Manager. The Responsible Entity entered into the agreement for the purposes of investing in a cash-like investment on arm's length terms with Ellerston Capital Offshore SPC. The interests of the Fund are secured against the units held by Ellerston Capital Offshore SPC. At year end, the balance of \$1,129,662 (2016: \$2,321,741) was invested with a return ranging from 1.50% to 1.75% per annum during the financial year (2016: 2.45%), secured against units valued at \$6,473,840 (2016: \$37,860,277).

For the purposes of the accounting standards, the facility has been treated as a loan receivable.

## 18 Related party transactions (continued)

### Unitholding of Key Management Personnel

30 June 2017

Unitholder	Number of units held opening (No.)	Number of units held closing (No.)	Fair value of investment (\$)	Interest held (%)	Number of units acquired (No.)	Number of units disposed (No.)	Distributions paid/payable by the Trust (\$)
Brian O'Sullivan	33,689	–	–	–	1,000	34,689	–
Paul Drzewucki	410,584	422,777	483,777	0.07	12,193	–	21,157

30 June 2016

Unitholder	Number of units held opening (No.)	Number of units held closing (No.)	Fair value of investment (\$)	Interest held (%)	Number of units acquired (No.)	Number of units disposed (No.)	Distributions paid/payable by the Trust (\$)
Brian O'Sullivan	33,214	33,689	38,486	0.01	475	–	1,146
Paul Drzewucki	404,801	410,584	469,052	0.09	5,783	–	13,965

As at 30 June 2017, 1,000 of the units acquired by Brian O'Sullivan and 12,193 of the units acquired by Paul Drzewucki, are units issued upon reinvestment of distributions (2016: 475 and 5,783).

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.

### Transactions with the Responsible Entity

The Responsible Entity receives from the Fund a management fee of 1.20% (30 June 2016: 1.20%) per annum of the net asset value of the units in Class A.

The Responsible Entity receives a performance fee of 20% (30 June 2016: 20%) which is applicable to the Class A units of the Fund only. The calculation of the performance fee is based on the accumulated investment return of the units in Class A exceeding the accumulated return of the RBA cash rate (the benchmark) during each year to 30 June (the calculation period). If the Fund underperforms 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.

The Responsible Entity receives no fee from Class B.

## 18 Related party transactions (continued)

### Transactions with the Responsible Entity (continued)

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

	<b>30 June 2017</b>	30 June 2016
	\$	\$
Management fees expense	<b>8,006,576</b>	3,012,000
Performance fees expense	<b>4,665,198</b>	3,022,713
Management fees payable	<b>655,969</b>	481,977
Performance fees payable	<b>4,025,892</b>	2,949,671

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

## 19 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.

## 20 Contingent assets and liabilities and commitments

The Fund did not have any contingent assets, liabilities or commitments as at 30 June 2017 and 30 June 2016.

## 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 2017 and of its performance for the year ended 30 June 2017; 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  
22 September 2017

## Independent Auditor's Report to the Unitholders of Ellerston Australian Market Neutral Fund

### Opinion

We have audited the financial report of Ellerston Australian Market Neutral Fund (the "Fund"), which comprises the statement of financial position as at 30 June 2017, 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 to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Fund is in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Fund's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

### Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the Directors 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

## Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Ernst & Young*

Ernst & Young

*Rohit Khanna*

Rohit Khanna  
Partner  
Sydney  
22 September 2017