

# **Advance Mortgage Fund**

ARSN 098 112 540

## **Annual report - for the year ended 30 June 2011**

# Advance Mortgage Fund

ARSN 098 112 540

## Annual report - for the year ended 30 June 2011

### Contents

	<b>Page</b>
Directors' report	2
Auditor's independence declaration	6
Statement of comprehensive income	7
Balance sheet	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11
Directors' declaration	30
Independent audit report to the unitholders of Advance Mortgage Fund	31

These financial statements cover Advance Mortgage Fund as an individual entity.

The Responsible Entity of Advance Mortgage Fund is Advance Asset Management Limited (ABN 98 002 538 329).  
The Responsible Entity's registered office is Level 20, 275 Kent Street, Sydney, NSW 2000.

## Directors' report

The directors of Advance Asset Management Limited, the Responsible Entity of Advance Mortgage Fund, present their report together with the financial statements of Advance Mortgage Fund ("the Fund") for the year ended 30 June 2011.

### Principal activities

The Fund invests in mortgage loans and unlisted unit trusts in accordance with the provisions of the Fund's Constitution.

The Fund did not have any employees during the year.

There were no significant changes in the nature of the Fund's activities during the year.

### Directors

The following persons held office as directors of Advance Asset Management Limited during the year or since the end of the year and up to the date of this report:

J Frechtling (appointed 25 February 2009, resigned 21 February 2011)  
G McGrath (appointed 25 February 2009, resigned 28 October 2010)  
J Shuttleworth (appointed 25 February 2009)  
S Khan (appointed 1 October 2009, resigned 28 October 2010)  
D Lees (appointed 7 July 2010)  
V Poole (appointed 28 October 2010, resigned 1 March 2011)  
L Ralph (appointed 21 February 2011)  
D Plumb (appointed 1 March 2011)  
R Davies (appointed 1 March 2011)

### Review and results of operations

During the year, the Fund continued to invest in accordance with target asset allocations as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

Since 15 April 2011 the Fund is a mortgagee in possession of a property. The property is currently being marketed for sale. An impairment charge of \$207,000 was raised at 30 June 2011. This reflects estimated net sale proceeds of \$4,500,000.

The Advance Mortgage Fund was closed to applications and daily redemptions on 24 October 2008.

The investors are only able to withdraw from the Fund if Advance Asset Management Limited makes a withdrawal offer in accordance with the Fund's Constitution and the Corporations Act 2001, or unitholders who meet the hardship criteria.

There have been two opportunities during the year ended to 30 June 2011 for unitholders to access invested capital via withdrawals offers. The payments for these offers were made in October 2010 and February 2011.

Another withdrawal offer period opened from 29 August 2011 to 23 September 2011 with payments expected to be made in early October 2011.

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

	Year ended	
	30 June 2011	30 June 2010
Operating profit/(loss) before finance costs attributable to unitholders (\$'000)	<u>1,908</u>	<u>2,098</u>

**Directors' report (continued)**

	Year ended	
	30 June 2011	30 June 2010
<i>Distributions - ordinary class</i>		
Distribution paid and payable (\$'000)	<u>1,250</u>	<u>1,349</u>
Distribution (cents per unit)	<u>5.240</u>	<u>4.264</u>
<i>Distributions - wholesale class</i>		
Distribution paid and payable (\$'000)	<u>755</u>	<u>859</u>
Distribution (cents per unit)	<u>5.865</u>	<u>4.886</u>

The table below demonstrates the performance of the Fund's classes of units as represented by the total return, which is calculated as the aggregation of the percentage capital growth and percentage distribution of income. The total return is shown for the past two years to 30 June 2011 and assumes that all distributions were re-invested during that period. These are calculated in accordance with FSC Standard 6.0 Product Performance - calculation and presentation of returns.

<b>Ordinary class</b>	<b>2011</b>	<b>2010</b>
	%	%
Distribution of income	<u>5.37</u>	<u>4.35</u>
Total return	<u>5.37</u>	<u>4.35</u>
<b>Wholesale class</b>	<b>2011</b>	<b>2010</b>
	%	%
Distribution of income	<u>6.03</u>	<u>4.99</u>
Total return	<u>6.03</u>	<u>4.99</u>

Consistent with our statements in the governing documents of the Fund, future performance is not guaranteed. Investors should exercise care in using past performance as a predictor of future performance.

*Unit redemption prices*

Unit redemption prices (quoted ex-distribution) are shown as follows:

	<b>2011</b>	<b>2010</b>
	\$	\$
<b>Ordinary class</b>		
At 30 June 2011	<u>1.00</u>	<u>1.00</u>
	<b>2011</b>	<b>2010</b>
	\$	\$
<b>Wholesale class</b>		
At 30 June 2011	<u>1.00</u>	<u>1.00</u>

**Directors' report (continued)**

The key differences between net assets for unit pricing purposes and net assets as reported in the financial statements prepared under Australian Accounting Standards have been outlined below:

	30 June 2011 \$'000	30 June 2010 \$'000
Net assets for unit pricing purposes	33,956	42,045
Difference between net market value (for unit pricing) and fair value (for financial statements) of financial assets held at fair value through profit or loss	-	(110)
Effect of classification of net assets attributable to unitholders as liabilities	<u>(33,956)</u>	<u>(41,935)</u>
Net assets under Australian Accounting Standards	<u>-</u>	<u>-</u>

**Significant changes in state of affairs**

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial year.

**Matters subsequent to the end of the financial year**

No matter or circumstance has arisen since 30 June 2011 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.

**Likely developments and expected results of operations**

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing 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.

**Indemnity and insurance of officers**

No insurance premiums were paid for out of the assets of the Fund in regards to insurance cover provided to the officers of the Responsible Entity.

**Indemnity of auditors**

The auditors of the Fund are in no way indemnified out of the assets of the Fund.

**Fees paid to and interests held in the Fund by the Responsible Entity or its associates**

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in note 12 to the financial statements.

No fees were paid out of Fund property to the directors of the Responsible Entity during the year.

**Directors' report (continued)**

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 12 to the financial statements.

**Interests in the Fund**

The movement in units on issue in the Fund during the year is disclosed in note 6 to the financial statements.

The value of the Fund's assets and liabilities is disclosed in the balance sheet and derived using the basis set out in note 2 to the financial statements.

**Environmental regulation**

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

**Rounding of amounts to the nearest thousand dollars**

The Fund is an entity of a kind referred to in Class Order 98/100 (as amended) 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 thousand dollars in accordance with that Class Order, unless otherwise indicated.

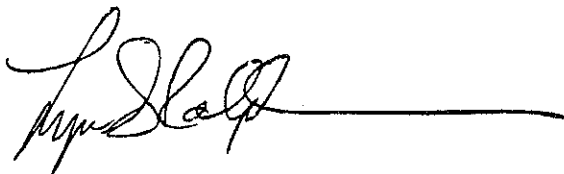
**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

This report is made in accordance with a resolution of the directors.



Director



Director

Sydney  
23 September 2011



### Auditor's independence declaration

As lead auditor for the audit of Advance Mortgage Fund for the year ended 30 June 2011, I declare that 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.

This declaration is in respect of Advance Mortgage Fund during the period.

A handwritten signature in black ink, appearing to read 'CK', is positioned above the printed name of the auditor.

Claire Keating  
Partner  
PricewaterhouseCoopers

Sydney  
23 September 2011

**PwC, ABN 52 780 433 757**

Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171

DX 77 Sydney, Australia

Telephone +61 2 8266 0000, Facsimile +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation

**Statement of comprehensive income**

		Year ended	
		30 June 2011	30 June 2010
	Notes	\$'000	\$'000
<b>Investment income</b>			
Interest income	4	2,515	2,725
Distribution income		51	98
Other investment income		13	7
<b>Total net investment income/(loss)</b>		<u>2,579</u>	<u>2,830</u>
<b>Expenses</b>			
Responsible Entity's fees	12	352	453
Other operating expenses	5	112	139
Impairment charge	10	207	140
<b>Total operating expenses</b>		<u>671</u>	<u>732</u>
<b>Operating profit/(loss)</b>		<u>1,908</u>	<u>2,098</u>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	7	(2,005)	(2,208)
(Increase)/decrease in net assets attributable to unitholders	6	97	110
<b>Profit/(loss) for the year</b>		-	-
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<u>-</u>	<u>-</u>

*The above statement of comprehensive income should be read in conjunction with the accompanying notes.*



**Balance sheet**

		As at	
	Notes	30 June 2011 \$'000	30 June 2010 \$'000
<b>Assets</b>			
Cash and cash equivalents	8	2,332	1,705
Accrued income		120	118
Receivables		1	5
Loans and receivables	10	30,971	39,230
Financial assets held at fair value through profit or loss	9	766	1,111
<b>Total assets</b>		<u>34,190</u>	<u>42,169</u>
<b>Liabilities</b>			
Distribution payable	7	199	187
Payables		35	47
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>234</u>	<u>234</u>
<b>Net assets attributable to unitholders - liability</b>	6	<u>33,956</u>	<u>41,935</u>

*The above balance sheet should be read in conjunction with the accompanying notes.*

**Statement of changes in equity**

	Year ended	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>Total equity at the beginning of the financial year</b>	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<u>-</u>	<u>-</u>
Transactions with owners in their capacity as owners	-	-
<b>Total equity at the end of the financial year</b>	<u>-</u>	<u>-</u>

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or end of the year.

*The above statement of changes in equity should be read in conjunction with the accompanying notes.*

**Statement of cash flows**

		Year ended	
		30 June 2011 \$'000	30 June 2010 \$'000
	Notes		
<b>Cash flows from operating activities</b>			
Proceeds from sale of financial instruments held at fair value through profit or loss		345	5,620
Proceeds from discharge of mortgages		8,267	6,619
Interest received		2,296	2,725
Distributions received		53	111
Other income received		17	10
Responsible Entity's fees received/(paid)		(361)	(460)
Payment of other expenses		(115)	(140)
<b>Net cash inflow/(outflow) from operating activities</b>	13(a)	<u>10,502</u>	<u>14,485</u>
<b>Cash flows from financing activities</b>			
Payments for redemptions by unitholders		(7,882)	(12,296)
Distributions paid		(1,993)	(2,206)
<b>Net cash inflow/(outflow) from financing activities</b>		<u>(9,875)</u>	<u>(14,502)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>627</b>	<b>(17)</b>
Cash and cash equivalents at the beginning of the year		<u>1,705</u>	<u>1,722</u>
<b>Cash and cash equivalents at the end of the year</b>	8	<u>2,332</u>	<u>1,705</u>

*The above statement of cash flows should be read in conjunction with the accompanying notes.*

## 1 General information

These financial statements cover Advance Mortgage Fund ("the Fund") as an individual entity. The Fund was constituted on 21 September 2001.

The Responsible Entity of the Fund is Advance Asset Management Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 20, 275 Kent Street, Sydney, NSW 2000. The financial statements are presented in Australian currency.

The financial statements were authorised for issue by the directors on 23 September 2011. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

## 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 to all years presented, unless otherwise stated in the following text.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001* in Australia.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

#### *Compliance with International Financial Reporting Standards*

The financial statements of the Fund also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### (b) Financial instruments

#### (i) Classification

The Fund's investments are classified as at fair value through profit or loss. They comprise:

- Financial instruments held for trading

Derivative financial instruments such as futures, forward contracts, warrants, options and swaps are included under this classification. The Fund does not designate any derivatives as hedges in a hedging relationship.

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

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold. These are investments in exchange traded debt and equity instruments, unlisted unit trusts, unlisted equity instruments and commercial paper.

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy.

The Fund's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

#### (ii) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments has expired or the Fund has transferred substantially all risks and rewards of ownership.

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

#### (iii) Measurement

##### Financial assets and liabilities held at fair value through profit or loss

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the reporting date without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Fund is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Fund recognises the difference in profit or loss to reflect a change in factors, including time, which market participants would consider in setting a price.

Further details on how the fair values of financial instruments are determined are disclosed in note 3.

##### Loans and receivables

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of comprehensive income.

#### (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

### (c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are classified as financial liabilities as the Fund is required to distribute its distributable income. The units can be put back to the Fund at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the reporting date if unitholders exercised their right to redeem units in the Fund.

### (d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, cash management trusts and bank overdrafts.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

## 2 Summary of significant accounting policies (continued)

### (e) Investment income

Trust distributions (including distributions from cash management trusts) are recognised on a present entitlement basis.

### (f) Expenses

All expenses, including Responsible Entity's fees, are recognised in the statement of comprehensive income on an accruals basis.

### (g) Income tax

Under current legislation, the Fund is not subject to income tax provided the taxable income of the Fund is fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Fund).

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Fund is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefit of imputation credits and foreign tax paid are passed on to unitholders.

### (h) Distributions

In accordance with the Fund's Constitution, the Fund distributes its distributable income, and any other amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as finance costs attributable to unitholders.

### (i) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the statement of comprehensive income as finance costs attributable to unitholders.

### (j) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and for equities normally settled within three business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

### (k) Accrued income

Accrued income may include amounts for dividends, trust distributions and interest. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment. Amounts are generally received within 45 days of being recorded as receivables.

## 2 Summary of significant accounting policies (continued)

### (l) Receivables

Receivables include such items as Reduced Input Tax Credits (RITC) and application monies receivable from unitholders.

### (m) Payables

Payables include liabilities, accrued expenses and redemption monies owing by the Fund which are unpaid as at the reporting date.

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the balance sheet when unitholders are presently entitled to the distributable income under the Fund's Constitution.

### (n) 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 are recorded gross of any exit fees payable after the cancellation of units redeemed.

### (o) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as investment management fees have been passed onto the Fund. The Fund qualifies for RITC at a rate of 75%; hence investment management fees, custodial fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the balance sheet. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

### (p) Classes of units

The Fund has the following classes of units:

- ordinary class, and
- wholesale class.

All classes of units in the Fund are exposed to the same underlying pool of assets. The rights attached to the unit classes are differentiated only by the management fee structures as detailed in note 12.

### (q) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them. Models are calibrated by back testing to actual transactions to ensure that outputs are reliable.

To the extent practicable, models use observable data. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

## 2 Summary of significant accounting policies (continued)

### (r) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2011 reporting period. Management's 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 AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010 Amendment to Australian Accounting Standards arising from AASB 9 (December 2010)* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption.

AASB 9 permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not traded.

The Fund has not yet decided when to adopt AASB 9. Management does not expect this will have a significant impact on the Fund's financial statements as the Fund does not hold any available-for-sale investments.

(ii) *Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards* (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government related entities to disclose details of all transactions with the government and other government related entities. The Fund will apply the amended standard from 1 July 2011. The amendments are not expected to have any effect on the Fund's financial statements.

(iii) *AASB 2010-6 Amendments to Australian Accounting Standards - Disclosures on Transfers of Financial Assets* (effective for annual reporting periods beginning on or after 1 July 2011)

In November 2010, the AASB issued AASB 2010-6 *Disclosures on Transfers of Financial Assets* which amends AASB 1 *First-time Adoption of Australian Accounting Standards* and AASB 7 *Financial Instruments: Disclosures* to introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. The amendments are not expected to have any impact on the Fund's disclosures. The Fund intends to apply the amendment from 1 July 2011.

(iv) *Amendments to AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project* (effective for annual reporting periods beginning on or after 1 July 2010 / 1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Fund does not expect that any adjustments will be necessary as the result of applying the revised rules.

### (s) Rounding of amounts

The Fund is an entity of the kind referred to in Class Order 98/100 (as amended), issued by ASIC, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.



### 3 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the governing documents of the Fund and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Financial risk management is carried out by the investment manager of the underlying unit trust.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ratings analysis for credit risk.

The Fund invests into unlisted unit trusts with an external responsible entity and managed by an external manager. The name of that trust is disclosed in financial assets held at fair value through profit and loss note. As such management has access to publicly available information on the financial risks and financial risk management policies of the external manager's unit trust. The financial risk management disclosures for the Fund have been made without reference to the underlying unit trust's financial risk management disclosures as at 30 June 2011 as this data was not available at the time the Fund financial statements were prepared.

The Fund's performance exceptions to the UBS Bank Bill Index, which is the Fund's benchmark, are reported to a senior management committee on a regular basis.

#### (a) Market risk

##### (i) Price risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices. There is no significant direct price risk in this Fund.

The Fund invests into an unlisted mortgage unit trust and mortgages. The risks associated with these investment is disclosed under interest rate risk.

##### (ii) Foreign exchange risk

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

There is no significant direct foreign exchange risk in this Fund.

##### (iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Changes in interest rates can have a direct or indirect impact on the investment value and/or returns of all types of assets.

The Fund holds units in an unlisted mortgage unit trust and has mortgage loans and is exposed to interest rate through those investments.

The table presented in note 3(b) summarises sensitivity analysis to interest rate risk.

### 3 Financial risk management (continued)

#### (b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to interest rate risk. The analysis is based on reasonably possible movements in the benchmark with all other variables held constant and the fair value of the Fund's portfolio moving according to the movement in the benchmark. The reasonably possible movements in the risk variables have been determined based on management estimates, having regard to a number of factors, including historical levels of changes in market index, security prices and/or benchmark returns, interest rates and foreign exchange rates. 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 performance of the economies, markets and securities to which the variable is exposed. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

	Interest rate risk Impact on operating profit/Net assets attributable to unitholders	
	-1.00% (2010: -1.00%) \$'000	+1.00% (2010: +1.00%) \$'000
<b>30 June 2011</b>	(280)	280
30 June 2010	(266)	266

In determining the impact of an increase/decrease in net assets attributable to unitholders arising from market risk, the Responsible Entity has considered prior period and expected future movements of the portfolio based on market information.

#### (c) Credit risk

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part, under a contract.

Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired nor past due but not impaired.

The Fund invests into an unlisted unit trust which has suspended applications and redemptions.

Concentrations of direct credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limits, are approved
- ensuring that transactions are undertaken with a number of counterparties.

### 3 Financial risk management (continued)

#### (c) Credit risk (continued)

Exceptions to compliance with the Fund's credit risk policy are reported to management on a regular basis.

The Fund is a mortgagee in possession of a property with a value of \$4,500,000 or 13.25% of the net assets of the Fund as at 30 of June 2011.

The Fund's investment policy was to only invest in mortgages where first mortgage security is held. When loans were being established the portfolio manager undertook with each loan a credit assessment to be satisfied to ensure that the borrowers have the capacity to service and repay the loan, based on the cash flows provided. The borrowers must satisfy this requirement by providing appropriate financial information to enable the Responsible Entity to assess the financial capacity of the borrower. The maximum loan to valuation ratio of any mortgage is 66% of an independent valuation from an approved valuer at the time of loan approval.

The portfolio manager has adopted the policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the risk of financial loss from default. The exposure and the credit worthiness of counterparties are continuously monitored by the portfolio manager. For loans with a higher loan to valuation ratio ("LVR")/interest rate applied, this may be as frequently as monthly with the general monitoring on a quarterly basis. As they approach the maturity date this increases in frequency regardless of LVR or interest rate applied.

Concentrations of credit risk are minimised primarily by:

- when loans were being established ensuring counterparties for mortgages, together with the respective credit limits, are subject to stringent credit criteria in accordance with the Mortgage Investment Policy; and
- ensuring that transactions for mortgages and money market securities are undertaken with a large number of counterparties.

The following table details the spread of mortgages.

Range of loan values \$'000	No of Loans	30 June 2011 \$'000
Under 249	0	-
250 - 499	7	2,473
500 - 999	8	5,571
1,000 - 1,999	4	5,576
2,000 - 3,999	0	-
4,000 - 4,999	2	8,501
5,000 - 7,999	0	-
8,000 - 8,999	1	8,850
<b>Total</b>	<b>22</b>	<b>30,971</b>

### 3 Financial risk management (continued)

#### (c) Credit risk (continued)

Range of loan values \$'000	No of Loans	30 June 2010 \$'000
Under 249	4	748
250 - 499	13	4,736
500 - 999	10	6,814
1,000 - 1,999	5	7,242
2,000 - 3,999	1	2,295
4,000 - 4,999	2	8,545
5,000 - 7,999	0	-
8,000 - 8,999	1	8,850
<b>Total</b>	<b>36</b>	<b>39,230</b>

#### (d) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Advance Mortgage Fund was closed to applications and daily redemptions on 24 October 2008.

The investors are only able to withdraw from the Fund if Advance Asset Management Limited makes a withdrawal offer in accordance with the Fund's Constitution and the Corporations Act 2001, or unitholders who meet the hardship criteria.

There have been two opportunities during the year ended to 30 June 2011 for unitholders to access invested capital via withdrawals offers. The payments for these offers were made in October 2010 and February 2011.

The risk management guidelines adopted are designed to minimise liquidity risk through:

- ensuring that there is no significant exposure to illiquid or thinly traded financial instruments, and
- applying limits to ensure there is no concentration of liquidity risk to a particular counterparty.

Exceptions to the above are reported to management on a regular basis.

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date at the end of the reporting period. The amounts in the table are contractual undiscounted cash flows.

	Less than 1 month \$'000	1-3 months \$'000	Greater than 3 months \$'000
<b>At 30 June 2011</b>			
Distribution payable	199	-	-
Payables	35	-	-
Net assets attributable to unitholders	-	-	33,956
<b>Total financial liabilities (excluding net settled derivatives)</b>	<b>234</b>	<b>-</b>	<b>33,956</b>

### 3 Financial risk management (continued)

#### (d) Liquidity risk (continued)

	Less than 1 month	1-3 months	Greater than 3 months
	\$'000	\$'000	\$'000
At 30 June 2010			
Distribution payable	187	-	-
Payables	147	-	-
Net assets attributable to unitholders	-	-	41,935
Total financial liabilities (excluding net settled derivatives)	<u>334</u>	<u>-</u>	<u>41,935</u>

#### (e) Fair value estimation

The carrying amounts of the Fund's assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

##### (i) Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the reporting date without any deduction for estimated future selling costs.

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

The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Fund holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair value for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

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

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 reporting date applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the reporting date. 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.

### 3 Financial risk management (continued)

#### (e) Fair value estimation (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 reporting date 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. The fair value of an option contract is determined by applying the Black-Scholes option valuation model.

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.

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

Included in unlisted unit trusts is an investment in MacarthurCook Mortgage Fund ("MacarthurCook Fund") of \$766,000 (30 June 2010: \$1,111,000). MacarthurCook Limited (the responsible entity of MacarthurCook Mortgage Fund) has suspended withdrawals from its fund and is offering quarterly redemption windows.

#### (f) Fair value hierarchy

##### (i) Classification of financial assets and financial liabilities

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2);
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2011 and 30 June 2010.

As at 30 June 2011	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	-	-	766	766
<b>Total</b>	-	-	766	766

### 3 Financial risk management (continued)

#### (f) Fair value hierarchy (continued)

As at 30 June 2010	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	-	-	1,111	1,111
<b>Total</b>	<b>-</b>	<b>-</b>	<b>1,111</b>	<b>1,111</b>

Investments, whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active unlisted unit trusts, active listed equities, exchange traded derivatives, currency contracts, money market securities, government bonds and listed corporate debt.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include certain unlisted corporate debt and floating rate notes, warrants, swaps, certain unlisted unit trusts and certain listed equities. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded. Level 3 instruments include certain unlisted shares, certain corporate debt securities and unlisted unit trusts with suspended applications and withdrawals. As observable prices are not available for these securities, the Responsible Entity has used valuation techniques to derive fair value.

As disclosed in note 3(e), the Advance Mortgage Fund invests in the MacarthurCook Mortgage Fund (the "MacarthurCook Fund"). As MacarthurCook Limited has suspended applications and withdrawals in the MacarthurCook Fund, this investment has been classified under level 3. MacarthurCook Limited continues to supply daily unit prices and valuations of the MacarthurCook Fund. The unit prices provided to Advance Asset Management Limited by MacarthurCook Limited have been used in the accounts for valuation purposes. The unit price used in the financial statements is at 30 June 2011.

#### (ii) Transfers between levels

There have been no transfers between levels for the year ended 30 June 2011 and 30 June 2010.

#### (iii) Movement in level 3 instruments

The following table presents the movement in level 3 instruments for the year ended 30 June 2011 by class of financial instrument.

	Opening balance	Purchases	Sales	Transfers into/(out of) level 3	Gains and (losses) recognised in the statement of comprehensive income	Closing balance	Total gains/(losses) for the year included in the statement of comprehensive income for financial assets and liabilities held at the end of the year
As at 30 June 2011	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Unlisted unit trust	1,111	-	(345)	-	-	766	-
<b>Total</b>	<b>1,111</b>	<b>-</b>	<b>(345)</b>	<b>-</b>	<b>-</b>	<b>766</b>	<b>-</b>

### 3 Financial risk management (continued)

#### (f) Fair value hierarchy (continued)

The following table presents the movement in level 3 instruments for the year ended 30 June 2010 by class of financial instrument.

As at 30 June 2010	Opening balance \$'000	Purchases \$'000	Sales \$'000	Transfers into/(out of) level 3 \$'000	Gains and (losses) recognised in the statement of comprehensive income \$'000	Closing balance \$'000	Total gains/(losses) for the year included in the statement of comprehensive income for financial assets and liabilities held at the end of the year \$'000
Fixed interest securities	6,731	-	(5,620)	-	-	1,111	-
<b>Total</b>	<b>6,731</b>	<b>-</b>	<b>(5,620)</b>	<b>-</b>	<b>-</b>	<b>1,111</b>	<b>-</b>

### 4 Interest income

The following table details the interest income earned by the Fund during the year:

	Year ended	
	30 June 2011 \$'000	30 June 2010 \$'000
Interest income from financial assets that are not at fair value through profit or loss:		
Cash and cash equivalents	139	152
Mortgage loans	2,376	2,573
<b>Total interest income</b>	<b>2,515</b>	<b>2,725</b>

### 5 Other operating expenses

	Year ended	
	30 June 2011 \$'000	30 June 2010 \$'000
Property expenses	34	9
Legal expenses	8	16
Other expenses	70	114
<b>Total</b>	<b>112</b>	<b>139</b>

Auditor's remuneration for auditing the financial statements of \$8,258 (2010: \$10,591) and other services of \$760 (2010: \$760) were paid by the Responsible Entity out of their fees.



## 6 Net assets attributable to unitholders

Movements in number of units and net assets attributable to unitholders during the year were as follows:

	30 June 2011 No. '000	30 June 2010 No. '000	30 June 2011 \$'000	30 June 2010 \$'000
<b>Net assets attributable to unitholders - ordinary class</b>				
Opening balance	27,304	34,925	27,265	34,925
Redemptions	(5,151)	(7,621)	(5,151)	(7,621)
Increase/(decrease) in net assets attributable to unitholders	-	-	(95)	(39)
Closing balance	<u>22,153</u>	<u>27,304</u>	<u>22,019</u>	<u>27,265</u>
	30 June 2011 No. '000	30 June 2010 No. '000	30 June 2011 \$'000	30 June 2010 \$'000
<b>Net assets attributable to unitholders - wholesale class</b>				
Opening balance	14,741	19,416	14,670	19,416
Redemptions	(2,731)	(4,675)	(2,731)	(4,675)
Increase/(decrease) in net assets attributable to unitholders	-	-	(2)	(71)
Closing balance	<u>12,010</u>	<u>14,741</u>	<u>11,937</u>	<u>14,670</u>

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are two classes of unitholders in the Fund being ordinary and wholesale.

### Capital risk management

The Advance Mortgage Fund was closed to applications and daily redemptions on 24 October 2008.

The investors are only able to withdraw from the Fund if Advance Asset Management Limited makes a withdrawal offer in accordance with the Fund's Constitution and the Corporations Act 2001, or unitholders who meet the hardship criteria.

There have been two opportunities during the year ended to 30 June 2011 for unitholders to access invested capital via withdrawals offers. The payments for these offers were made in October 2010 and February 2011.

## 7 Distributions to unitholders

	Year ended			
	30 June 2011 \$'000	30 June 2011 CPU	30 June 2010 \$'000	30 June 2010 CPU
<b>Distributions - ordinary class</b>				
Distributions paid				
- 31 July	42	0.150	114	0.327
- 31 August	118	0.430	111	0.318
- 30 September	109	0.400	87	0.250
- 31 October	86	0.340	111	0.338
- 30 November	102	0.424	125	0.397
- 31 December	104	0.434	108	0.344
- 31 January	103	0.431	119	0.379
- 28 February	73	0.320	107	0.340
- 31 March	139	0.624	120	0.382
- 30 April	122	0.550	114	0.375
- 31 May	127	0.574	117	0.398
Distribution payable				
- 30 June	<u>125</u>	<u>0.563</u>	<u>116</u>	<u>0.416</u>
	<u>1,250</u>	<u>5,240</u>	<u>1,349</u>	<u>4,264</u>

	Year ended			
	30 June 2011 \$'000	30 June 2011 CPU	30 June 2010 \$'000	30 June 2010 CPU
<b>Distributions - wholesale class</b>				
Distributions paid				
- 31 July	31	0.208	74	0.380
- 31 August	71	0.483	72	0.371
- 30 September	66	0.452	59	0.301
- 31 October	54	0.392	72	0.391
- 30 November	61	0.475	79	0.448
- 31 December	63	0.486	70	0.396
- 31 January	62	0.484	76	0.432
- 28 February	45	0.367	67	0.388
- 31 March	81	0.677	75	0.435
- 30 April	72	0.600	71	0.426
- 31 May	75	0.627	73	0.451
Distribution payable				
- 30 June	<u>74</u>	<u>0.614</u>	<u>71</u>	<u>0.467</u>
	<u>755</u>	<u>5,865</u>	<u>859</u>	<u>4,886</u>

## 8 Cash and cash equivalents

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Cash at bank	<u>2,332</u>	<u>1,705</u>
	<u>2,332</u>	<u>1,705</u>

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

	As at	
	30 June 2011 Fair value \$'000	30 June 2010 Fair value \$'000
<b>Designated at fair value through profit or loss</b>		
Unlisted unit trusts	<u>766</u>	<u>1,111</u>
Total designated at fair value through profit or loss	<u>766</u>	<u>1,111</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>766</u>	<u>1,111</u>
<b>Comprising:</b>		
<b>Unlisted unit trusts</b>		
Units in mortgage trust (MacarthurCook Mortgage Fund)	<u>766</u>	<u>1,111</u>
Total unlisted unit trusts	<u>766</u>	<u>1,111</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>766</u>	<u>1,111</u>

An overview of the risk exposures relating to financial assets held at fair value through profit or loss is included in note 3.

## 10 Loans and receivables

	As at	
	30 June 2011 \$'000	30 June 2010 \$'000
Mortgage assets	<u>30,971</u>	<u>39,230</u>
	<u>30,971</u>	<u>39,230</u>

Loans where interest payments are overdue more than seven days will be considered to be interest in arrears. A loan will be considered to be in default if the borrower does not meet a second consecutive interest payment. Loans in arrears or in default are reported on a monthly basis. Further action as to management of the default loan and security if required will be discussed by the underlying manager and the Responsible Entity to determine an appropriate course of action to protect investor's funds. Where it is determined that the amounts are not recoverable from the mortgagee, an independent valuation of the property is obtained. An impairment charge will then be recognised being the difference between the principal outstanding and the valuation amount. Any outstanding amounts of interest will not be recognised as interest income.

During the year ended 30 June 2009, a loan in the Advance Mortgage Fund with an original principal amount of \$825,000 was deemed to be in default. An amount of \$135,000 was recognised as an impairment charge in the year ended 30 June 2009. In September 2009, an independent valuation appraised the market value of the property to be \$660,000. Subsequently, a further amount of \$30,000 was recognised as an impairment charge in the six months ended 31 December 2009. On the 26 July 2010 contracts for sale were exchanged for a price of \$550,000 and as a result a further \$110,000 was recognised as an impairment charge as at 30 June 2010, taking the total impairment charge for 30 June 2010 to \$140,000. Settlement occurred in October 2010.

## **10 Loans and receivables (continued)**

Since 15 April 2011 the Fund is a mortgagee in possession of a property. This has arisen due to the default of one of the Fund's borrower's on another loan with an unrelated lender that had a second mortgage over the property for which the Fund has the first mortgage. As first mortgagee, the Fund's loan including all outstanding interest and costs must be paid out in full before the 2nd mortgagee receives any proceeds. All rental income from the property is being banked into the bank account of the Fund and based on the rental schedule there is income to meet the interest payments at the normal rate but insufficient income to meet the interest payments at the higher default rate. All legal and selling costs in relation to the recovery of the loan will be added to the debt of the borrower. The property is currently being marketed for sale. An impairment charge of \$207,000 was raised at 30 June 2011. This reflects estimated net sale proceeds of \$4,500,000.

## **11 Derivative financial instruments**

In the normal course of business the Fund enters into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include many different instruments, such as forwards, futures and options. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Fund's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Fund against a fluctuation in market values or to reduce volatility
- a substitution for trading of physical securities
- adjusting asset exposures within the parameters set in the investment strategy, and/or adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Fund.

As at the end of the reporting period, there were no derivative financial instruments held by the Fund (2010: \$Nil).

## **12 Related party transactions**

### **Responsible Entity**

The Responsible Entity of the Fund is Advance Asset Management Limited (ABN 98 002 538 329), a wholly owned subsidiary of St. George Procurement Management Pty Limited (ABN 23 000 305 573). The ultimate parent entity is Westpac Banking Corporation (ABN 33 007 457 141). The registered office of the Responsible Entity and the Fund is Level 20, 275 Kent Street, Sydney, NSW, 2000.

## 12 Related party transactions (continued)

### Key management personnel

#### (a) Directors

Key management personnel includes persons who were directors of Advance Asset Management Limited at any time during the financial year as follows:

J Frechtling (appointed 25 February 2009, resigned 21 February 2011)  
G McGrath (appointed 25 February 2009, resigned 28 October 2010)  
J Shuttleworth (appointed 25 February 2009)  
S Khan (appointed 1 October 2009, resigned 28 October 2010)  
D Lees (appointed 7 July 2010)  
V Poole (appointed 28 October 2010, resigned 1 March 2011)  
L Ralph (appointed 21 February 2011)  
D Plumb (appointed 1 March 2011)  
R Davies (appointed 1 March 2011)

#### (b) Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year:

Name	Position	Employer
B Cooper	CEO, BT Financial Group	Westpac Banking Corporation

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

### Responsible Entity's/manager's fees and other transactions

For the year ended 30 June 2011, in accordance with the Fund's Constitution, the Responsible Entity received a total fee (inclusive of GST, net of RITC available to the Fund) as follows:

- (i) Ordinary class: 1.20% per annum (2010: 1.20%);
- (ii) Wholesale class: 0.58% per annum (2010: 0.58%);

All expenses in connection with the preparation of accounting records and the maintenance of the unit register are fully borne by the Responsible Entity.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Fund and the Responsible Entity were as follows:

	30 June 2011 \$'000	30 June 2010 \$'000
Management fees for the year paid/(received) by the Fund to/(from) the Responsible Entity	<u>352</u>	<u>453</u>
Aggregate amounts payable/(receivable) to/(from) the Responsible Entity at the reporting date	<u>29</u>	<u>38</u>

### Related party schemes' unitholdings

Parties related to the Fund (including the Responsible Entity, its related parties and other schemes managed by the Responsible Entity), hold no units in the Fund (2010: Nil).

### Key management personnel unitholdings

At 30 June 2011 no key management personnel held units in the Fund (2010: Nil).

## 12 Related party transactions (continued)

### Key management personnel compensation

Key management personnel are paid by Westpac Banking Corporation or the Responsible Entity. Payments made from the Fund to the Responsible Entity do not include any amounts directly attributable to the compensation of key management personnel.

### Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

### Investments

The Fund did not hold any investments in the Responsible Entity or its related parties during the year (2010: Nil).

### Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial year and there were no material contracts involving key management personnel's interests existing at year end.

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

	Year ended	
	30 June 2011 \$'000	30 June 2010 \$'000
<b>(a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Operating profit/(loss) for the year	1,908	2,098
Proceeds from sale of financial instruments held at fair value through profit or loss	345	5,620
Proceeds from discharge of mortgages	8,267	6,619
Funding of mortgages / Interest	(215)	-
Net change in accrued income and receivables	2	16
Net change in payables	(12)	(8)
Impairment charge	207	140
<b>Net cash inflow/(outflow) from operating activities</b>	<b>10,502</b>	<b>14,485</b>

## 14 Events occurring after the reporting period

No significant events have occurred since the reporting date which would impact on the financial position of the Fund disclosed in the balance sheet as at 30 June 2011 or on the results and cash flows of the Fund for the year ended on that date.

## 15 Contingent assets and liabilities and commitments

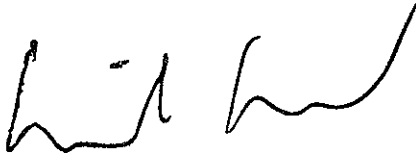
There are no outstanding contingent assets, liabilities or commitments as at 30 June 2011 and 30 June 2010.

## Directors' declaration

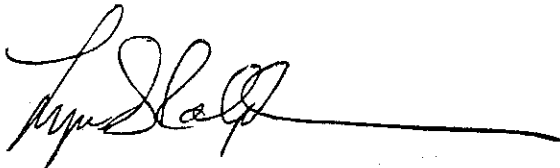
In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 7 to 29 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
  - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2011 and of its performance for the financial year ended on that date,
- (b) 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
- (c) note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors.



Director



Director

Sydney  
23 September 2011



## Independent audit report to the unitholders of Advance Mortgage Fund

### Report on the financial report

We have audited the accompanying financial report of Advance Mortgage Fund, which comprises the balance sheet as at 30 June 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Advance Mortgage Fund ("the Fund").

#### *Directors' responsibility for the financial report*

The directors of the Responsible Entity are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Fund 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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 judgement, 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 control relevant to the entity's preparation and fair presentation of the financial report 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. 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.

Our procedures include reading the other information in the annual report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of the business decisions made by the directors or management.

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*.

---

**PwC, ABN 52 780 433 757**

Darling Park Tower 2, 201 Sussex Street, GPO BOX 2650, SYDNEY NSW 1171

DX 77 Sydney, Australia

Telephone +61 2 8266 0000, Facsimile +61 2 8266 9999, [www.pwc.com.au](http://www.pwc.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.





*Auditor's opinion on the financial report*

In our opinion:

- (a) the financial report of Advance Mortgage 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 2011 and its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in note 2(a).

A handwritten signature in cursive script, appearing to read 'PricewaterhouseCoopers', is written above the printed name.

PricewaterhouseCoopers

A handwritten signature in cursive script, appearing to read 'ck', is written below the printed name.

Claire Keating  
Partner

Sydney  
23 September 2011

