

# **Advance Defensive Yield Multi-Blend Fund**

ARSN 166 771 875

**Annual report - for the year ended**

**30 June 2021**

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ARSN 166 771 875

## Annual report - for the year ended 30 June 2021

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These financial statements cover Advance Defensive Yield Multi-Blend Fund as an individual entity.

The Responsible Entity of Advance Defensive Yield Multi-Blend Fund is Advance Asset Management Limited (ABN 98 002 538 329). The Responsible Entity's registered office is Level 18, 275 Kent Street, Sydney, NSW 2000.

## Directors' report

The directors of Advance Asset Management Limited, the Responsible Entity of the Advance Defensive Yield Multi-Blend Fund ("the Fund"), present their report together with the Fund's financial statements for the year ended 30 June 2021.

### Principal activities

During the year, the Fund continued to invest in fixed interest securities, unlisted unit trusts, money market securities and derivatives in accordance with the provisions of the governing documents. Through these investments, the Fund was exposed to Australian and international fixed interest securities.

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:

Vicki Allen  
 Andrew Rutherford (appointed 23 March 2021)  
 Jonathan Sweeney  
 Susan Thomas (resigned 31 December 2020)  
 Katherine Vincent

### Review and results of operations

The Fund is currently closed to investment by new investors, however, existing investors can continue to invest in the Fund.

The directors and management continue to assess the potential financial and other impacts to the Fund of the actions taken to address the coronavirus (COVID 19) global pandemic. The severity and length of the global pandemic and the depth and duration of the associated effects on economic and business activity and on investment markets has impacted investment outcomes and increased volatility in investment performance during the year.

There have been no other significant changes to the Fund's operations since the previous financial year. The Fund continued to invest in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and the provisions of the Fund's Constitution.

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

	Year ended	
	30 June 2021	30 June 2020
Operating profit/(loss) (\$'000)	<u>27,871</u>	<u>10,664</u>
<i>Distributions</i>		
Distributions paid and payable (\$'000)	<u>41,973</u>	<u>13,934</u>
Distributions (cents per unit)	<u>3.6015</u>	<u>1.3072</u>

## Directors' report (continued)

The key differences, if any, 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:

	As at	
	30 June 2021	30 June 2020
	\$'000	\$'000
Redemption value of outstanding units	1,156,849	1,068,928
Adjustment for differences in valuation inputs	<u>111</u>	<u>32</u>
Net assets attributable to unitholders	<u>1,156,960</u>	<u>1,068,960</u>

### Significant changes in the state of affairs

Other than as noted in this report, 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 2021 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.

### Indemnity and insurance of officers

No insurance premiums are paid for out of the assets of the Fund for 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 16 to the financial statements.

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

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 16 to the financial statements.

### Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in note 8 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.

## **Directors' report (continued)**

### **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**

Amounts in the Directors' report have been rounded to the nearest thousand dollars in accordance with *Australian Securities & Investments Commission ("ASIC") Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, 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 5.

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



Director



Director

Sydney

22 September 2021



## *Auditor's Independence Declaration*

As lead auditor for the audit of Advance Defensive Yield Multi-Blend Fund for the year ended 30 June 2021, 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.

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

Andrew Wilson  
Partner  
PricewaterhouseCoopers

Sydney  
22 September 2021

**Advance Defensive Yield Multi-Blend Fund**  
**Statement of comprehensive income**  
**For the year ended 30 June 2021**

**Statement of comprehensive income**

	Notes	Year ended	
		30 June 2021 \$'000	30 June 2020 \$'000
<b>Income</b>			
Interest income	6	27,447	37,970
Distribution income		219	1,100
Net gains/(losses) on financial instruments held at fair value through profit or loss		11,364	(22,412)
Other income		<u>25</u>	<u>161</u>
<b>Total income/(loss)</b>		<b><u>39,055</u></b>	<b><u>16,819</u></b>
<b>Expenses</b>			
Responsible Entity's fees	16(d)	6,355	5,792
Performance fees	16(d)	4,766	173
Withholding tax on foreign income		1	6
Other operating expenses		<u>62</u>	<u>184</u>
<b>Total operating expenses</b>		<b><u>11,184</u></b>	<b><u>6,155</u></b>
<b>Operating profit/(loss)</b>		<b><u>27,871</u></b>	<b><u>10,664</u></b>
<b>Profit/(loss) for the year</b>	8	27,871	10,664
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<b><u>27,871</u></b>	<b><u>10,664</u></b>

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

**Advance Defensive Yield Multi-Blend Fund**  
**Balance sheet**  
**As at 30 June 2021**

**Balance sheet**

		As at	
		30 June 2021	30 June 2020
	Notes	\$'000	\$'000
<b>Assets</b>			
Cash and cash equivalents	10	117,502	67,242
Margin accounts		16,043	3,866
Unsettled sales	11	42,415	227
Accrued income		7,874	7,828
Receivables		40	66
Financial assets held at fair value through profit or loss	13	<u>1,119,594</u>	<u>1,042,371</u>
<b>Total assets</b>		<u><b>1,303,468</b></u>	<u><b>1,121,600</b></u>
<b>Liabilities</b>			
Margin accounts		1,711	5,399
Unsettled purchases	12	76,670	29,660
Distribution payable	9	39,563	13,934
Payables		5,345	832
Financial liabilities held at fair value through profit or loss	14	<u>23,219</u>	<u>2,815</u>
<b>Total liabilities</b>		<u><b>146,508</b></u>	<u><b>52,640</b></u>
<b>Net assets attributable to unitholders - equity</b>	8	<u><b>1,156,960</b></u>	<u><b>1,068,960</b></u>

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



**Advance Defensive Yield Multi-Blend Fund**  
**Statement of changes in equity**  
**For the year ended 30 June 2021**

**Statement of changes in equity**

	Notes	Year ended	
		30 June 2021	30 June 2020
		\$'000	\$'000
<b>Total equity at the beginning of the financial year</b>		<b>1,068,960</b>	1,012,555
<b>Comprehensive income for the year</b>			
Profit/(loss) for the year		27,871	10,664
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<b><u>27,871</u></b>	<b><u>10,664</u></b>
<b>Transactions with unitholders</b>			
Applications	8	175,157	168,032
Redemptions	8	(88,778)	(119,494)
Units issued upon reinvestment of distributions	8	15,723	11,137
Distributions paid and payable	9	<u>(41,973)</u>	<u>(13,934)</u>
<b>Total transactions with unitholders</b>		<b><u>60,129</u></b>	<b><u>45,741</u></b>
<b>Total equity at the end of the financial year</b>		<b><u>1,156,960</u></b>	<b><u>1,068,960</u></b>

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

**Advance Defensive Yield Multi-Blend Fund**  
**Statement of cash flows**  
**For the year ended 30 June 2021**

**Statement of cash flows**

		Year ended	
		30 June 2021	30 June 2020
	Notes	\$'000	\$'000
<b>Cash flows from operating activities</b>			
Proceeds from sale of financial instruments held at fair value through profit or loss		1,423,415	629,509
Purchase of financial instruments held at fair value through profit or loss		(1,478,172)	(879,283)
Interest received		27,373	37,148
Distributions received		219	1,100
Other income received		51	129
Responsible Entity's fees received/(paid)		(6,318)	(6,203)
Performance fees paid		(290)	(1,463)
Payment of other expenses		(62)	(184)
<b>Net cash inflow/(outflow) from operating activities</b>	18(a)	<u>(33,784)</u>	<u>(219,247)</u>
<b>Cash flows from financing activities</b>			
Proceeds from applications by unitholders		136,759	168,032
Payments for redemptions by unitholders		(50,380)	(119,494)
Distributions paid		(621)	(467)
<b>Net cash inflow/(outflow) from financing activities</b>		<u>85,758</u>	<u>48,071</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		51,974	(171,176)
Cash and cash equivalents at the beginning of the year		67,242	241,313
Effects of foreign currency exchange rate changes on cash and cash equivalents		(1,714)	(2,895)
<b>Cash and cash equivalents at the end of the year</b>	10	<u>117,502</u>	<u>67,242</u>
Non-cash transactions	18(b)		

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

## **1 General information**

These financial statements cover the Advance Defensive Yield Multi-Blend Fund (“the Fund”) as an individual entity. The Fund was constituted on 19 September 2012.

The Responsible Entity of the Fund is Advance Asset Management Limited (“the Responsible Entity”). The Responsible Entity’s registered office is Level 18, 275 Kent Street, Sydney, NSW 2000. The financial statements are presented in Australian currency.

During the year, the Fund continued to invest in fixed interest securities, unlisted unit trusts, money market securities and derivatives in accordance with the provisions of the governing documents. Through these investments, the Fund was exposed to Australian and international fixed interest securities.

The financial statements were authorised for issue by the directors of the Responsible Entity on 22 September 2021. 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.

### **(a) Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Accounting Standards Board and the *Corporations Act 2001* in Australia. The Fund is a for-profit unit trust for the purpose of preparing the financial statements.

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

The balance sheet is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within 12 months, except for financial assets at fair value through profit or loss.

The Fund manages financial assets and liabilities at fair value through profit or loss based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such it is expected that a portion of the portfolio will be realised within 12 months, however an estimate cannot be reliably determined at the end of the reporting period.

In the case of net assets attributable to unitholders, the units are redeemed on demand at the unitholder’s option. However holders of these instruments typically retain them for the medium to long term. As such the amount expected to be settled within 12 months cannot be reliably determined at the end of the reporting period.

#### *(i) Compliance with International Financial Reporting Standards*

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

#### *(ii) Comparatives*

Certain comparative figures have been restated to conform with the financial statement presentation adopted for the current year.

#### *(iii) New and amended standards adopted by the Fund*

Other than as noted below, there are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2020 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

### **(b) Financial instruments**

#### *(i) Recognition/derecognition*

The Fund recognises financial instruments (“investments”) on the date it becomes party to the contractual agreement and recognises changes in the fair value of the financial instruments from this date.

Financial assets and liabilities are derecognised when the contractual right to cash flows from the investments has expired or has been transferred, and the Fund has transferred substantially all of the risks and rewards of ownership.

## **2 Summary of significant accounting policies (continued)**

### **(b) Financial instruments (continued)**

#### *(ii) Classification*

The Fund classifies its financial instruments based on its business model for managing its investments and their contractual cash flow characteristics. The Fund's investments are managed and performance is 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 the investments on a fair value basis together with other related financial information.

For unlisted unit trusts and derivatives, the contractual cash flows held by the Fund are not solely principal and interest. Consequently, these investments are measured at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as financial liabilities at fair value through profit or loss.

For fixed interest and money market securities, the contractual cash flows are solely principal and interest, however they are neither held for collecting contractual cash flows nor held for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the objective of the Fund's business model. Consequently, fixed interest and money market securities are also measured at fair value through profit or loss.

#### *(iii) Measurement*

At initial recognition, a financial asset or liability is measured at fair value. Transaction costs associated with financial assets and liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets and liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of financial assets or financial liabilities at fair value through profit or loss are presented in the statement of comprehensive income within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise.

Refer to note 5 for further details on how the fair values of financial instruments are determined.

#### *(iv) Offsetting financial instruments*

Financial assets and liabilities may be 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. Refer to note 4 for further details.

### **(c) Net assets attributable to unitholders**

Units are redeemable at the unitholder's option, however applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of all unitholders. The units are classified as equity as the Fund has only one class of units and no contractual obligation to pay distributions.

A unitholder can redeem units at any time for cash based on the redemption price, which is equal to a proportionate share of the Fund's net asset value.

Units are classified as equity when they satisfy the following criteria under AASB 132 *Financial instruments: Presentation*:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Fund's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund, and it is not a contract settled in the Fund's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over its life are based substantially on the profit or loss of the Fund.

## **2 Summary of significant accounting policies (continued)**

### **(d) Cash and cash equivalents**

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

Payments and receipts relating to the purchase and sale of financial assets and liabilities 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.

### **(e) Margin accounts and collateral**

Margin accounts comprise cash held, or owed, as collateral for derivative transactions and short sales. The cash is held by or owed to the broker and is only available to meet margin calls.

Cash collateral provided by the Fund is disclosed in the balance sheet as margin accounts and is not included as a component of cash and cash equivalents.

Cash collateral paid and receivable comprises cash paid as collateral for over-the-counter derivative transactions. The cash is held by the broker and is receivable by the Fund.

Cash collateral received and payable comprises cash received as collateral for over-the-counter derivative transactions. The cash is held by the Fund and is payable to the broker.

### **(f) Accrued income**

Accrued income may include amounts owed to the Fund for interest. Interest is accrued from the time of last payment. Amounts are generally received within 45 days of being recorded as receivables.

### **(g) Unsettled sales/purchases**

Unsettled sales/purchases represent receivables for securities sold and/or payables for securities purchased that have been contracted for but not yet delivered by the end of the reporting period.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund measures the loss allowance on unsettled sales/purchases at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund measures the loss allowance at an amount equal to 12-month expected credit losses. The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses.

### **(h) Receivables**

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

### **(i) Payables**

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

Where the Responsible Entity has income that is distributable to unitholders, a separate distribution payable is recognised in the balance sheet as at the end of each reporting period where this amount remains unpaid as at the end of the reporting period.

### **(j) Investment income**

Interest income is recognised in the statement of comprehensive income for all financial instruments that are not held at fair value through profit or loss as it accrues.

Interest income and expenses are recognised in the statement of comprehensive income for all debt instruments using the effective interest method.

## **2 Summary of significant accounting policies (continued)**

### **(j) Investment income (continued)**

Interest income is recognised in the statement of comprehensive income as it accrues, using the original effective interest rate of the instrument calculated at acquisition or origination date. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. Interest income includes the amortisation of any discount or premium or other differences between initial carrying amount of an interest-bearing instrument and its amount calculated on an effective interest rate basis.

Trust distributions (including distributions from cash management trusts) are recognised on an entitlements basis.

### **(k) Expenses**

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

### **(l) Transaction costs**

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the statement of comprehensive income as an expense.

### **(m) Income tax**

Under current legislation, the Fund is not subject to income tax provided it attributes or distributes (as appropriate) the entirety of its taxable income to its unitholders.

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 included in the Fund's taxable income for distribution/attribution, 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 or attributed to unitholders.

To the extent allowable by taxation legislation, the benefits of imputation credits and foreign tax paid are passed on to unitholders.

### **(n) Distributions**

In accordance with the Fund's Constitution, the Responsible Entity is entitled to determine the amounts to be distributed to unitholders. The distributions are recognised in the statement of changes in equity.

### **(o) 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"). This is the Australian dollar, which reflects the currency of the economy in which the Fund operates and is regulated. The Australian dollar is also the 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.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined. Translation differences on assets and liabilities carried at fair value are reported in the statement of comprehensive income on a net basis within net gains/(losses) on financial instruments held at fair value through profit or loss.

## **2 Summary of significant accounting policies (continued)**

### **(p) Goods and Services Tax (“GST”)**

The GST incurred on the costs of various services provided to the Fund, such as management fees, has been passed onto the Fund. The Fund qualifies for RITC, hence 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.

### **(q) Use of estimates**

Management makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated 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 financial instruments held, 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, independent of the area that created them.

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 unsettled sales and purchases and payables, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

For more information on how fair value is calculated refer to note 5.

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

A number of new accounting standards and interpretations have been published that are not mandatory for the 30 June 2021 reporting period. None of these are expected to have a material effect on the financial statements of the Fund.

### **(s) Rounding of amounts**

The Fund is an entity of the kind referred to in *Australian Securities & Investments Commission (“ASIC”) Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191*, relating to the ‘rounding off’ amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars, 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 program focuses on ensuring compliance with its governing documents and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Derivative financial instruments may also be used (or are used) to alter certain risk exposures. Financial risk management is carried out by the investment manager in accordance with board approved policies.

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 price risks and ratings analysis for credit risk.

The investment manager mitigates these financial risks through diversification and a careful selection of securities and other financial instruments within specified limits.

The Fund's performance exceptions to its benchmark are reported to the board on a regular basis.

The directors and management continue to assess the potential financial and other impacts to the Fund of the actions taken to address the coronavirus (COVID-19) global pandemic. The severity and length of the global pandemic and the depth and duration of the associated effects on economic and business activity and on investment markets has impacted investment outcomes and increased volatility in investment performance during the year.

### 3 Financial risk management (continued)

At the date of signing there is a high level of uncertainty regarding the depth and duration of the impacts on global and domestic economies, business activity and investment market indices from actions taken to address the COVID-19 global pandemic. The directors and management will continue to manage and monitor this situation.

#### (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.

##### (ii) Foreign exchange risk

The Fund holds monetary and non-monetary assets denominated in currencies other than the Australian dollar. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk and not foreign exchange risk. Foreign exchange risk arises as the value of monetary securities denominated in other currencies fluctuates due to changes in exchange rates.

Foreign currency contracts and other derivatives are used to manage foreign exchange risk. Alternatively these instruments are used to increase exposure to preferred foreign currencies. For accounting purposes, no derivatives are designated as hedges in a hedging relationship, and hence these derivative financial instruments are classified as at fair value through profit or loss.

Exceptions to compliance are reported to the board on a regular basis.

The table below summarises the assets and liabilities, monetary and non-monetary, which are denominated in a currency other than the Australian dollar.

As at 30 June 2021	US Dollars A\$'000	Euro A\$'000	New Zealand Dollars A\$'000	British Pounds A\$'000	Other currencies A\$'000	Total A\$'000
Cash and cash equivalents	84,650	17	29	93	7	84,796
Margin accounts	11,131	-	-	-	-	11,131
Unsettled sales	42,415	-	-	-	-	42,415
Accrued income	2,165	550	11	4,063	42	6,831
Financial assets held at fair value through profit or loss	412,728	44,251	5,899	314,098	896	777,872
Margin accounts	(1,500)	(71)	-	-	-	(1,571)
Unsettled purchases	(72,100)	-	-	(1,271)	-	(73,371)
Financial liabilities held at fair value through profit or loss	(19,646)	(285)	(18)	(2,408)	-	(22,357)
Net increase/(decrease) in exposure from forward currency contracts						
- sell foreign currency	(838,478)	(44,652)	(5,864)	(317,753)	-	(1,206,747)
- buy foreign currency	368,234	-	-	829	-	369,063
<b>Total exposure</b>	<b>(10,401)</b>	<b>(190)</b>	<b>57</b>	<b>(2,349)</b>	<b>945</b>	<b>(11,938)</b>
Total monetary assets/(liabilities) exposure	(27,862)	95	75	60	945	(26,687)



### 3 Financial risk management (continued)

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

##### (ii) Foreign exchange risk (continued)

As at 30 June 2020	US Dollars A\$'000	Euro A\$'000	New Zealand Dollars A\$'000	British Pounds A\$'000	Other currencies A\$'000	Total A\$'000
Cash and cash equivalents	5,072	82	11	7,451	7	12,623
Margin accounts	1,723	-	-	-	-	1,723
Unsettled sales	227	-	-	-	-	227
Accrued income	2,113	189	-	4,522	44	6,868
Financial assets held at fair value through profit or loss	393,026	23,978	651	240,686	992	659,333
Margin accounts	(667)	(92)	-	-	-	(759)
Unsettled purchases	(17,670)	(697)	-	(6,706)	-	(25,073)
Financial liabilities held at fair value through profit or loss	(2,206)	(171)	-	-	(46)	(2,423)
Net increase/(decrease) in exposure from forward currency contracts						
- sell foreign currency	(396,754)	(24,191)	(589)	(245,233)	(17)	(666,784)
- buy foreign currency	19,417	779	-	-	13	20,209
Total exposure	<u>4,281</u>	<u>(123)</u>	<u>73</u>	<u>720</u>	<u>993</u>	<u>5,944</u>
Total monetary assets/(liabilities) exposure	<u>3,415</u>	<u>47</u>	<u>73</u>	<u>721</u>	<u>1,022</u>	<u>5,278</u>

Foreign exchange risk is measured using sensitivity analysis. The table presented in note 3(b) summarises sensitivity analysis to foreign exchange risk.

##### (iii) Interest rate risk

Interest rate risk is the risk that the fair value of 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's interest bearing financial assets expose it to interest rate risk. Interest rate risk from these investments is reported as a component of interest rate risk for the purposes of the sensitivity analysis.

Interest rate risk is mitigated through ensuring activities are transacted in accordance with the investment mandate, overall investment strategy and within approved limits.

Exceptions to compliance are reported to the board on a regular basis.

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

#### (b) Summarised sensitivity analysis

The following table summarises the sensitivity of the operating profit and net assets attributable to unitholders to interest rate risk and foreign exchange risk. The analysis is based on reasonably possible movements in the risk variables applied to the Fund's net assets. 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 indices, 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. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

### 3 Financial risk management (continued)

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

The reasonably possible movements in the risk variables are based on long term averages consistent with the investing profile of the Fund.

As at	Impact on operating profit/(loss)/ Net assets attributable to unitholders			
	Interest rate risk		Foreign exchange risk*	
	- 0.10%	+0.50%	-10%	+10%
	(2020: -0.25%)	(2020: +0.50%)	(2020: -10%)	(2020: +10%)
	\$'000	\$'000	\$'000	\$'000
<b>30 June 2021</b>	<b>638</b>	<b>(3,192)</b>	<b>(2,669)</b>	<b>2,669</b>
30 June 2020	1,374	(2,748)	528	(528)

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.

\* The foreign exchange risk is calculated using the reasonably possible percentage times the total monetary assets/(liabilities) exposure calculated in note 3(a)(ii). The foreign exchange risk of a positive reasonably possible percentage represents the strengthening of the Australian dollar against other currencies and a negative reasonably possible percentage represents the weakening of the Australian dollar.

#### (c) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts in full when they fall due, causing a financial loss to the Fund.

Credit risk primarily arises from investments in debt securities and from trading in derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers.

The assets of the Fund are not impaired.

The Fund determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. Management considers the probability of default to be close to zero as these financial assets have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be insignificant to the Fund.

Investments in unlisted unit trusts are exposed to credit risk.

All transactions in listed securities are settled or paid for upon delivery using approved brokers. The risk of default is considered minimal as the delivery of securities sold is only made once the broker has received payment. Payment is made on the purchase of securities once the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

Concentrations of direct credit risk are minimised primarily by:

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

Exceptions to compliance are reported to the board on a regular basis.

### 3 Financial risk management (continued)

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

##### *Fixed interest securities and money market securities*

The Fund invests in fixed interest securities and money market securities which have an investment grade as rated by an independent rating agency.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. An analysis by rating is set out in the table below:

	As at	
	30 June 2021	30 June 2020
	\$'000	\$'000
<b>Fixed interest and money market securities</b>		
<b>Rating</b>		
AAA	120,144	123,609
AA	61,370	42,139
A	162,494	261,120
BBB	589,482	400,233
BB	73,297	43,840
B	9,597	4,613
CCC	16,431	14,826
CC	16,098	9,119
C	1,251	1,237
D	1,884	1,373
Not rated	<u>29,637</u>	<u>19,813</u>
Total	<u><b>1,081,685</b></u>	<u><b>921,922</b></u>

#### (d) Liquidity risk

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

The Fund is exposed to daily cash redemptions of redeemable units and daily margin calls on derivatives. The liquidity risk associated with the need to meet redemption requests is mitigated by maintaining adequate liquidity to fulfil usual redemption volumes. The Fund therefore primarily holds investments that are traded in an active market and can be disposed of readily.

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 the board on a regular basis.

From time to time, investments may be held in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. These investments may not be able to be quickly liquidated at an amount close to their fair value to meet liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer or counterparty. Any such investments held at the end of each reporting period are disclosed in the note on derivative financial instruments below.

### 3 Financial risk management (continued)

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

##### (i) Maturities of non-derivative financial liabilities

The non-derivative financial liabilities of the Fund comprise distribution payable, margin accounts, unsettled purchases and payables. These have no contractual maturities but are typically settled within 30 days.

Unsettled purchases relating to bond and fixed income forwards securities are closed by notification typically within 60 to 90 days.

##### (ii) Maturities of derivative financial instruments liabilities

The table below details the contractual maturities of the derivative financial instruments liabilities which are measured at fair value and considered important to understanding the timing of cash flows.

	<b>Less than 1 month \$'000</b>	<b>1 - 3 months \$'000</b>	<b>Greater than 3 months \$'000</b>
<b>As at 30 June 2021</b>			
Net settled derivatives			
Forward currency contracts	(15,868)	(4,567)	-
Australian fixed interest futures	-	(203)	-
International fixed interest futures	-	(1,671)	-
Interest rate swaps	-	-	659
Credit default swaps	-	-	251
	<b>Less than 1 month \$'000</b>	<b>1 - 3 months \$'000</b>	<b>Greater than 3 months \$'000</b>
<b>As at 30 June 2020</b>			
Net settled derivatives			
Forward currency contracts	(1,457)	(46)	(337)
Australian fixed interest futures	-	(61)	-
International fixed interest futures	-	(81)	-
Interest rate swaps	-	-	(4)
Credit default swaps	-	-	(829)

#### 4 Offsetting financial assets and financial liabilities

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. The gross and net positions of financial assets and liabilities that have been offset in the balance sheet are disclosed in the first three columns of the tables below.

Financial assets	Effects of offsetting on the balance sheet			Related amounts not offset		
	Gross amounts of financial assets \$'000	Gross amounts set off in the balance sheet \$'000	Net amount of financial assets presented in the balance sheet \$'000	Amounts subject to enforceable netting arrangements \$'000	Cash collateral \$'000	Net amount \$'000
<b>As at 30 June</b>						
<b>2021</b>						
Margin accounts	16,043	-	16,043	-	-	16,043
Derivatives	37,909	-	37,909	(4,174)	-	33,735
Total	53,952	-	53,952	(4,174)	-	49,778
<b>2020</b>						
Margin accounts	3,866	-	3,866	-	(1,781)	2,085
Derivatives	10,557	-	10,557	(1,495)	(4,549)	4,513
Total	14,423	-	14,423	(1,495)	(6,330)	6,598
<b>Financial liabilities</b>						
<b>As at 30 June</b>						
<b>2021</b>						
Margin accounts	(1,711)	-	(1,711)	-	-	(1,711)
Derivatives	(23,219)	-	(23,219)	4,174	-	(19,045)
Total	(24,930)	-	(24,930)	4,174	-	(20,756)
<b>2020</b>						
Margin accounts	(5,399)	-	(5,399)	-	5,307	(92)
Derivatives	(2,815)	-	(2,815)	1,495	1,023	(297)
Total	(8,214)	-	(8,214)	1,495	6,330	(389)

*(i) Enforceable netting arrangement – not currently enforceable*

Most agreements with derivative counterparties are based on the International Swaps and Derivatives Association (“ISDA”) Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Fund does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet and have been presented separately in the above table.

## 5 Fair value measurement

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

- 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 or indirectly (level 2),  
or
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

Investments are valued in accordance with the accounting policies set out in note 2 to the financial statements.

### (a) Fair value in an active market (level 1)

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.

Interest bearing financial assets are valued at quoted market prices at the end of the reporting period as provided by independent pricing services.

Exchange traded futures are valued at the market closing price.

### (b) 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 by using quoted market prices, dealer quotes and/or valuation techniques.

Fixed interest securities, such as mortgage backed securities, corporate bonds and floating rate notes, are valued using quoted market prices or dealer quotes at the end of the reporting period for similar instruments.

Bond and fixed income forwards are valued using quoted market prices or dealer quotes at the end of the reporting period.

Unlisted unit trusts are valued at the redemption value per unit as reported by the managers of such funds.

Forward currency contracts are valued using quoted exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts as at the valuation date.

Over-the-counter options are valued by applying the Black-Scholes option valuation model.

Management uses a variety of valuation methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Valuation techniques used for swaps and over-the-counter options include the use of discounted cash flow techniques, option pricing models or any other valuation technique that is commonly used by market participants.

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

Where option pricing models are used, inputs are based on market data at the end of the reporting period. 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 a high degree of certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions held.

## 5 Fair value measurement (continued)

### (i) Recognised fair value measurements

The following table presents the financial assets and liabilities measured and recognised at fair value by fair value hierarchy levels:

As at 30 June 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets held at fair value through profit or loss:				
Money market securities	14,077	-	-	14,077
Fixed interest securities	5,464	1,062,144	-	1,067,608
Unlisted unit trusts	-	-	-	-
Derivatives	<u>268</u>	<u>37,641</u>	-	<u>37,909</u>
<b>Total</b>	<u>19,809</u>	<u>1,099,785</u>	-	<u>1,119,594</u>
<b>Financial liabilities</b>				
Financial liabilities held at fair value through profit or loss:				
Derivatives	<u>(1,874)</u>	<u>(21,345)</u>	-	<u>(23,219)</u>
<b>Total</b>	<u>(1,874)</u>	<u>(21,345)</u>	-	<u>(23,219)</u>
As at 30 June 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets held at fair value through profit or loss:				
Money market securities	85,241	-	-	85,241
Fixed interest securities	3,669	833,012	-	836,681
Unlisted unit trusts	-	109,892	-	109,892
Derivatives	<u>101</u>	<u>10,456</u>	-	<u>10,557</u>
<b>Total</b>	<u>89,011</u>	<u>953,360</u>	-	<u>1,042,371</u>
<b>Financial liabilities</b>				
Financial liabilities held at fair value through profit or loss:				
Derivatives	<u>(142)</u>	<u>(2,673)</u>	-	<u>(2,815)</u>
<b>Total</b>	<u>(142)</u>	<u>(2,673)</u>	-	<u>(2,815)</u>

Transfers into and transfers out of the fair value hierarchy levels are recognised at the end of the reporting period.

### (ii) Transfers between levels

There were no transfers between levels as at 30 June 2021.

The following table presents the transfers between levels:

As at 30 June 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Transfers between levels 2 and 3:			
Fixed interest securities	-	694	(694)

The transfer from level 3 to level 2 relates to certain fixed interest securities which had more observable market inputs for the year ended 30 June 2020.

## 5 Fair value measurement (continued)

### (iii) Valuation processes

Management undertakes regular portfolio reviews to identify securities that may not be actively traded or have stale security pricing and could be regarded as level 2 or level 3 securities. Further analysis, should it be required, is undertaken to determine the accounting significance of the identified securities. In the event that the security is not actively traded, an assessment is performed by management to determine the appropriate valuation price to use that is most representative of fair value.

### (c) Fair values of non-financial instruments

Due to their short-term nature, the carrying value of receivables and payables are assumed to approximate their fair values.

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

The following table presents the movement in level 3 instruments by class of financial instrument (30 June 2021: \$Nil).

30 June 2020	Fixed interest securities \$'000
Opening balance	624
Transfers out of Level 3	(694)
Gains/(losses) recognised in the statement of comprehensive income	<u>70</u>
<b>Closing balance</b>	<u>-</u>
Total gains/(losses) for the year included in the statement of comprehensive income for the financial assets and liabilities held at the end of the year	<u>70</u>

## 6 Interest income

	Year ended	
	30 June 2021 \$'000	30 June 2020 \$'000
Interest income from debt securities designated at fair value through profit or loss	27,435	37,832
Interest income from financial assets that are not at fair value through profit or loss:		
Cash and cash equivalents	<u>12</u>	<u>138</u>
Total interest income	<u>27,447</u>	<u>37,970</u>



## 7 Remuneration of auditors

	Year ended	
	30 June 2021	30 June 2020
	\$	\$
<i>Audit and other assurance services</i>		
Audit of financial statements	25,123	23,622
Other services*	<u>1,898</u>	<u>1,356</u>
Total remuneration for audit and other assurance services	<u>27,021</u>	<u>24,978</u>

\* Other services include compliance plan audit and controls reporting.

Audit fees were paid by the Responsible Entity for the years ended 30 June 2021 and 30 June 2020.

## 8 Net assets attributable to unitholders

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

	30 June 2021	30 June 2020	30 June 2021	30 June 2020
	No. '000	No. '000	\$'000	\$'000
Opening balance	1,065,944	1,007,118	1,068,960	1,012,555
Profit/(loss) for the year	-	-	27,871	10,664
Applications	172,550	165,034	175,157	168,032
Redemptions	(87,608)	(117,285)	(88,778)	(119,494)
Units issued upon reinvestment of distributions	15,663	11,077	15,723	11,137
Distributions paid and payable	-	-	<u>(41,973)</u>	<u>(13,934)</u>
Closing balance	<u>1,166,549</u>	<u>1,065,944</u>	<u>1,156,960</u>	<u>1,068,960</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 no separate classes of units and each unit has the same rights attached to it as all other units of the Fund.

### (a) Capital risk management

Management manages the Fund's net assets attributable to unitholders as capital. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Management monitors the level of daily applications and redemptions relative to the liquid assets in the Fund. In the event of a significant redemption, as permitted under the governing documents, management may decide to pay a special distribution and/or may delay payment of the redemption amount.

## 9 Distributions to unitholders

	Year ended			
	30 June 2021	30 June 2021	30 June 2020	30 June 2020
	\$'000	CPU	\$'000	CPU
Distributions paid				
- 30 September	2,410	0.2100	-	-
Distribution payable				
- 30 June	<u>39,563</u>	<u>3.3915</u>	<u>13,934</u>	<u>1.3072</u>
	<u>41,973</u>	<u>3.6015</u>	<u>13,934</u>	<u>1.3072</u>

## 10 Cash and cash equivalents

	As at	
	30 June 2021	30 June 2020
	\$'000	\$'000
Cash at bank	32,706	54,619
Foreign currency holdings	<u>84,796</u>	<u>12,623</u>
Total cash and cash equivalents	<u>117,502</u>	<u>67,242</u>

## 11 Unsettled sales

	As at	
	30 June 2020	30 June 2020
	\$'000	\$'000
Unsettled fixed interest securities	<u>42,415</u>	<u>227</u>
Total unsettled sales	<u>42,415</u>	<u>227</u>

## 12 Unsettled purchases

	As at	
	30 June 2020	30 June 2020
	\$'000	\$'000
Unsettled bond and fixed interest forwards	72,100	2,645
Unsettled fixed interest securities	<u>4,570</u>	<u>27,015</u>
Total unsettled purchases	<u>76,670</u>	<u>29,660</u>

During July 2021 and August 2021, the unsettled bonds and fixed interest forwards have been closed by notification either by being paired off to the corresponding unsettled sales or by allocating the Fund underlying fixed income securities. The corresponding unsettled sales are set out in note 11.

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

	As at	
	30 June 2021	30 June 2020
	Fair value \$'000	Fair value \$'000
<b>Financial assets held at fair value through profit or loss</b>		
Money market securities	14,077	85,241
Fixed interest securities	1,067,608	836,681
Unlisted unit trusts	-	109,892
Derivatives (note 15)	<u>37,909</u>	<u>10,557</u>
<b>Total financial assets held at fair value through profit or loss</b>	<b><u>1,119,594</u></b>	<b><u>1,042,371</u></b>
<b>Comprising:</b>		
<b>Money market securities</b>		
Negotiable certificates of deposits	<u>14,077</u>	<u>85,241</u>
Total money market securities	<u>14,077</u>	<u>85,241</u>
<b>Fixed interest securities</b>		
Commonwealth government securities	5,464	3,669
Other public sector securities	3,141	3,141
International fixed interest securities	20,993	29,399
Other bonds*	<u>1,038,010</u>	<u>800,472</u>
Total fixed interest securities	<u>1,067,608</u>	<u>836,681</u>
<b>Unlisted unit trusts</b>		
Units in money market trusts	-	<u>109,892</u>
Total unlisted unit trusts	-	<u>109,892</u>
<b>Derivatives</b>		
Bond and fixed income forwards	33,358	2,661
Forward currency contracts	3,584	6,823
Australian fixed interest futures	237	-
International fixed interest futures	31	101
Interest rate swaps	699	730
Credit default swaps	-	191
Options in respect of fixed interest securities	-	<u>51</u>
Total derivatives	<u>37,909</u>	<u>10,557</u>
<b>Total financial assets held at fair value through profit or loss</b>	<b><u>1,119,594</u></b>	<b><u>1,042,371</u></b>

\* Other bonds include mortgage backed securities, corporate bonds and floating rate notes.

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in note 3 and note 5.

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

	As at	
	30 June 2021 Fair value \$'000	30 June 2020 Fair value \$'000
<b>Financial liabilities held at fair value through profit or loss</b>		
Derivatives (note 15)	<u>23,219</u>	<u>2,815</u>
<b>Total financial liabilities held at fair value through profit or loss</b>	<u>23,219</u>	<u>2,815</u>
<b>Derivatives</b>		
Forward currency contracts	20,435	1,840
Australian fixed interest futures	203	61
International fixed interest futures	1,671	81
Interest rate swaps	659	4
Credit default swaps	<u>251</u>	<u>829</u>
Total derivatives	<u>23,219</u>	<u>2,815</u>
<b>Total financial liabilities held at fair value through profit or loss</b>	<u>23,219</u>	<u>2,815</u>

An overview of the risk exposures and fair value measurements relating to financial liabilities at fair value through profit or loss is included in note 3 and note 5.

## 15 Derivative financial instruments

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, credit index or other variable.

Derivative transactions are entered into in the normal course of business.

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 forward currency contracts, 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 against a fluctuation in market values or to reduce volatility,
- a substitution for trading of physical securities, and
- 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 occurs if the level of exposure to the markets exceeds the underlying value of the Fund.

The following derivative financial instruments were held during the year:

### (a) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price, established in an organised market. Futures contracts are collateralised by cash or marketable securities. Changes in the values of futures contracts are usually settled net daily with the exchange or broker.

## 15 Derivative financial instruments (continued)

### (b) Options

Options are arrangements 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 price risk. Options held are exchange-traded and over the counter.

### (c) Forward currency contracts

Forward currency contracts are agreements to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are primarily used to hedge against foreign currency exchange rate risks on non-Australian dollar denominated securities.

### (d) Interest rate swaps

Interest rate swaps are agreements between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

### (e) Credit default swaps

Credit default swaps ("CDS") are a form of insurance which protects the buyer of the CDS in the case of a loan default. If the loan defaults, the buyer of the CDS can exchange or "swap" the defaulted loan (or in some CDSs the reduced cash value of the defaulted loan) for the face value of the loan. One difference between a traditional insurance policy and a CDS is that anyone can purchase a CDS, even those who have no direct "insurable interest" in the lender. The buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if the loan or any credit instrument named in the contract (typically a bond or loan) defaults, creating a credit event.

### (f) Bond and fixed income forwards

Bond and fixed income forwards are agreements between two counterparties to exchange fixed interest securities at an agreed price and time in the future.

The derivative financial instruments held at the end of each reporting period are detailed below:

	As at	
	30 June 2021	30 June 2020
	Contract/ notional \$'000	Contract/ notional \$'000
<b>Buy</b>		
Bond and fixed income forwards	33,358	2,661
Forward currency contracts	369,063	20,209
Australian fixed interest futures	11,000	-
International fixed interest futures	102,902	41,831
Options in respect of fixed interest securities	8,161	9,200
Interest rate swaps	-	44,300
Credit default swaps	180,274	67,779
<b>Sell</b>		
Forward currency contracts	1,206,747	666,784
Australian fixed interest futures	122,097	37,845
International fixed interest futures	64,897	40,740
Interest rate swaps	-	44,300
Credit default swaps	180,274	67,779

### Risk exposures and fair value measurements

Information about the exposure to credit risk, foreign exchange risk and interest rate risk and about the methods and assumptions used in determining fair values is provided in note 3 and note 5 to the financial statements. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial instruments disclosed above.

## 16 Related party transactions

### (a) Responsible Entity

The Responsible Entity of the Fund is Advance Asset Management Limited (ABN 98 002 538 329), a wholly owned subsidiary of Westpac Financial Services Group Ltd (ABN 50 000 326 312). 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 18, 275 Kent Street, Sydney, NSW 2000.

### (b) Directors

The directors of Advance Asset Management Limited during the financial year or since the end of the year and up to the date of this report were as follows:

Vicki Allen  
 Andrew Rutherford (appointed 23 March 2021)  
 Jonathan Sweeney  
 Susan Thomas (resigned 31 December 2020)  
 Katherine Vincent

### (c) Other key management personnel

Name	Position	Employer
Jason Yetton	Chief Executive, Specialist Businesses	Westpac Banking Corporation
Melinda Howes	Managing Director, BT Superannuation, Specialist Businesses	Westpac Banking Corporation

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

### (d) Responsible Entity's/manager's fees and other transactions

For the year ended 30 June 2021, in accordance with the Fund's governing documents, the Fund incurred a total management fee of 0.55% (inclusive of GST, net of RITC available to the Fund) per annum (2020: 0.55%).

This fee is partially paid out of the Fund and partially out of the assets of the underlying funds into which the Fund invests. The latter is reflected in the daily unit prices for the underlying funds.

In addition to the above fee, a performance fee is payable to certain underlying investment managers when they exceed specific investment performance targets. This fee is paid out of the assets of the underlying fund in which performance fees are charged and reflected in the daily unit prices for that underlying fund.

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/(receivable) at the end of each reporting period between the Fund and the Responsible Entity were as follows:

	<b>30 June 2021 \$'000</b>	30 June 2020 \$'000
Management fees incurred by the Fund#	<b>6,355</b>	5,792
Performance fees incurred by the Fund	<b>4,766</b>	173
Aggregate amounts payable/(receivable) to/(from) the Responsible Entity at the end of the reporting period	<b>5,345</b>	832

# This represents the amount paid out of the Fund to the Responsible Entity. In addition to this amount, the total fees charged also include the fees charged in the underlying funds.

## 16 Related party transactions (continued)

### (e) Related party unitholdings

Parties related to the Fund (including the Responsible Entity, its related parties and other funds managed by the Responsible Entity) held units in the Fund as follows:

#### 30 June 2021

Unitholder	Number of units held opening 000's Units	Number of units held closing 000's Units	Interest held %	Number of units acquired 000's Units	Number of units disposed 000's Units	Distributions paid/payable by the Fund \$'000
BT Multi-manager Protector Fund	464,341	451,502	38.70	29,611	(42,450)	16,321

#### 30 June 2020

Unitholder	Number of units held opening 000's Units	Number of units held closing 000's Units	Interest held %	Number of units acquired 000's Units	Number of units disposed 000's Units	Distributions paid/payable by the Fund \$'000
BT Multi-manager Protector Fund	438,613	464,341	43.56	47,539	(21,811)	6,070

Other funds related to the Responsible Entity hold units in the Fund but these funds do not meet the definition of related parties under the Australian Accounting Standards and as such unitholdings are not required to be disclosed.

### (f) Transactions with key management personnel

Key management personnel services are provided by Advance Asset Management Limited and included in the management fees disclosed in (d) above. There is no separate charge for these services. There was no compensation paid directly by the Fund to any of the key management personnel.

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.

#### *Key management personnel unitholdings*

At 30 June 2021, no key management personnel held units in the Fund (2020: Nil).

### (g) Investments

The Fund held the following investments including funds which are also managed by the Trustee or its related parties.

#### 30 June 2021

	Fair value of investment \$'000	Interest held %	Distributions received/receivable \$'000	Units acquired during the year 000's Units	Units disposed during the year 000's Units
Advance Cash Multi-Blend Fund	-	-	219	3,925	(111,736)

#### 30 June 2020

	Fair value of investment \$'000	Interest held %	Distributions received/receivable \$'000	Units acquired during the year 000's Units	Units disposed during the year 000's Units
Advance Cash Multi-Blend Fund	109,892	3.01	1,100	107,811	-

## **16 Related party transactions (continued)**

### **(h) 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 the end of the reporting period.

## **17 Structured entities**

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. Depending on the Fund's power over the activities of the entity and its exposure to and ability to influence its own returns, it may control the entity. However the Fund applies the Investment Entity Exemption available under AASB 10 *Consolidated Financial Statements* therefore does not consolidate its controlled entities. In other cases it may have exposure to such an entity but not control it.

An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Fund. Such interests include holdings of units in unlisted trusts. The nature and extent of the Fund's interests in structured entities are summarised in note 13. Income earned and realised and unrealised gains/(losses) from structured entity investments are disclosed within the statement of comprehensive income.

The Fund has exposures to unconsolidated structured entities through its investment activities. The Fund's maximum exposure to loss is restricted to the carrying value of the asset.

During the year ended 30 June 2021 total income distributions from investments in structured entities were \$219,000 (2020: \$1,100,000).

During the year ended 30 June 2021 total net gain incurred on investments in structured entities were \$44,000 (2020: loss \$108,000).

The Fund has exposures to unconsolidated structured entities through its investment activities. The Fund's maximum exposure to loss is restricted to the carrying value of the asset.

The Fund's overall risk management program focuses on ensuring compliance with its governing documents and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. The risks associated with the investments are referred to in note 3.

During the year the Fund did not provide financial support to unconsolidated structured entities and has no intention of providing financial or other support.

The Fund's investment strategy entails investments in other funds on a regular basis. The Fund intends to continue investing in other funds.

As at 30 June 2021, there were no capital commitment obligations other than what is in unsettled sales or unsettled purchases in the balance sheet (2020: \$Nil).



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

	Year ended	
	30 June	30 June
	2021	2020
	\$'000	\$'000
<b>(a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Operating profit/(loss) for the year	27,871	10,664
Proceeds from sale of financial instruments held at fair value through profit or loss	1,423,415	629,509
Purchase of financial instruments held at fair value through profit or loss	(1,478,172)	(879,283)
Net (gains)/losses on financial instruments held at fair value through profit or loss	(11,364)	22,412
Net change in accrued income and receivables	(47)	(848)
Net change in payables	<u>4,513</u>	<u>(1,701)</u>
<b>Net cash inflow/(outflow) from operating activities</b>	<b><u>(33,784)</u></b>	<b><u>(219,247)</u></b>
<b>(b) Non-cash transactions</b>		
Distribution payments satisfied by the issue of units under the distribution reinvestment plan	15,723	11,137
Applications received as non-cash contributions	38,398	-
Redemptions settled as non-cash withdrawals	<u>(38,398)</u>	<u>-</u>

## 19 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the balance sheet as at 30 June 2021 or on the results and cash flows of the Fund for the year ended on that date.

## 20 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2021 and 30 June 2020.

## **Directors' declaration**

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 32 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2021 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

22 September 2021



## *Independent auditor's report*

To the unitholders of Advance Defensive Yield Multi-Blend Fund

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### *Our opinion*

In our opinion:

The accompanying financial report of Advance Defensive Yield Multi-Blend Fund (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 2021 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### ***What we have audited***

The financial report comprises:

- the balance sheet as at 30 June 2021
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors declaration.

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

### ***Independence***

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 & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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.

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### *Other information*

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Fund's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

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

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***PricewaterhouseCoopers, ABN 52 780 433 757***

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In connection with our audit of the financial report, our responsibility is to read the other information identified above 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 on the other information obtained prior to the date of this auditor's report, 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.

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### *Responsibilities of the directors of the Responsible Entity for the financial report*

The directors of the Responsible Entity 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 of the Responsible Entity determines 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 of the Responsible Entity are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

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### *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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). This description forms part of our auditor's report.

A stylized, handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to be 'Andrew Wilson'.

Andrew Wilson  
Partner

Sydney  
22 September 2021