

# **Bennelong Kardinia Absolute Return Fund**

ARSN 156 292 625

Financial Report  
for the year ended 30 June 2018

# Contents

---

	Page
Directors' Report	3
Auditor's Independence Declaration	6
Statement of Profit or Loss and Other Comprehensive Income	7
Statement of Financial Position	8
Statement of Changes in Equity	9
Statement of Cash Flows	10
Notes to the Financial Report	11
Directors' Declaration	32
Auditor's Report	33

This financial report covers the Bennelong Kardinia Absolute Return Fund (ARSN 156 292 625) as an individual entity.

The Responsible Entity of the Bennelong Kardinia Absolute Return Fund is Bennelong Funds Management Ltd (ABN 39 111 214 085) (AFSL 296806). The Responsible Entity's registered office is:

Bennelong House  
Level 1, 9 Queen Street  
Melbourne VIC 3000

# Directors' Report

The directors of Bennelong Funds Management Ltd, the Responsible Entity of Bennelong Kardinia Absolute Return Fund (the "Fund"), present their report together with the financial report of the Fund, for the year ended 30 June 2018.

## Principal activities

The Fund invests in authorised investments in accordance with the Product Disclosure Statement and 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.

The various service providers for the Fund at 30 June 2018 are detailed below:

Service	Provider
Responsible Entity	Bennelong Funds Management Ltd
Investment Manager	Kardinia Capital Pty Ltd
Custodian and Prime Broker	UBS AG Australia Branch
Cash Custodian	RBC Investor & Treasury Services Pty Ltd
Administrator	Custom House Fund Services (Australia) Pty Ltd
Statutory Auditor	Deloitte Touche Tohmatsu

## Directors

The following persons held office as directors of Bennelong Funds Management Ltd during the period or since the end of the period and up to the date of this report:

Craig Bingham	Chief Executive Officer
Stephen Rix	Chairman
Andrea Waters	
Vicki Allen	
Lincoln McMahon	
Gary Toomey	

## Review and results of operations

During the year, the Fund invested monies in accordance with the investment policies set out in the Fund's Product Disclosure Statement and in accordance with the provisions of the Fund's Constitution.

## Results

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

	2018	2017
	\$	\$
Net operating profit before financing costs attributable to unitholders	<u>13,377,919</u>	<u>9,825,570</u>

The distributions for the year were as follows:

	2018		2017	
	\$	cpu (cents per unit)	\$	cpu (cents per unit)
<b>Distributions</b>				
Interim Distribution - 31 December	2,062,336	1.11	1,239,128	0.44
Full Year Distribution - 30 June	1,477,422	0.92	17,908,916	7.11
Return of Capital	-	-	-	-
	<u>3,539,758</u>		<u>19,148,044</u>	

# Directors' Report

---

## Significant changes in the state of affairs

During the year, the Fund amended its Constitution in order to allow it to elect into the Attribution Managed Investment Trust ("AMIT") regime from 1 July 2017.

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

## Matters subsequent to the end of the financial year

There has been no matter or circumstance since 30 June 2018 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 the 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.

## Indemnification and insurance of officers

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to the officers of the Responsible Entity. So long as the officers of the Responsible Entity act in accordance with the Fund Constitution and the law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

## Indemnity of auditor

The auditor of the Fund is in no way indemnified out of the assets of the Fund.

## Fees paid 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 14 to the financial report.

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 14 to the financial report.

### *Deferred Fund Expenses*

Under the terms of the Fund's constitution, the Responsible Entity is entitled to be reimbursed for all operating and administration expenses that have been incurred on behalf of the Fund. The Fund's Product Disclosure Statement (PDS) outlines in Section 7 that the Responsible Entity estimates this amount to be 0.06% per annum of the Net Asset Value (NAV) of the Fund. As at 30 June 2018, the Responsible Entity has incurred \$11,975 in reimbursable expenses in excess of the amount charged to the Fund (30 June 2017: \$691).

## Interests in the Fund

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

The value of the Fund's assets and liabilities are disclosed on the Statement of Financial Position and derived using the basis set out in Note 2 to the financial report.

# Directors' Report

---

## **Environmental regulation**

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

## **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 of Bennelong Funds Management Ltd.



Craig Bingham – Chief Executive Officer  
Director  
Melbourne, 26 September 2018

26 September 2018

The Board of Directors  
Bennelong Funds Management Limited -  
as Responsible Entity for Bennelong Kardinia Absolute Return Fund  
Level 1, 9 Queen Street  
MELBOURNE VIC 3000

Dear Directors

### **Independence Declaration – Bennelong Kardinia Absolute Return Fund**

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Bennelong Funds Management Limited, the Responsible Entity, regarding the annual financial report for Bennelong Kardinia Absolute Return Fund.

As lead audit partner for the audit of the financial statements of Bennelong Kardinia Absolute Return Fund for the financial year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Neil Brown  
Partner  
Chartered Accountants

# Statement of Profit or Loss and Other Comprehensive Income

## for the year ended 30 June 2018

	Notes	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
<b>Investment income</b>			
Interest income		2,036,987	3,957,284
Dividend income on long positions		3,836,156	3,847,419
Net loss on financial instruments held for trading	5	(2,164,325)	(6,295,153)
Net profit on financial instruments designated at fair value through profit or loss	5	16,996,831	16,244,600
Other income		26,067	602
<b>Total investment income</b>		<b>20,731,716</b>	<b>17,754,752</b>
<b>Expenses</b>			
Dividend expense on short positions		(2,222,363)	(2,562,718)
Management fees	14	(3,507,072)	(4,943,288)
Performance fees	14	(1,244,379)	-
Transaction costs		(185,149)	(166,744)
Other expenses		(194,834)	(256,432)
<b>Total expenses</b>		<b>(7,353,797)</b>	<b>(7,929,182)</b>
<b>Operating profit attributable to unitholders</b>		<b>13,377,919</b>	<b>9,825,570</b>
<b>Finance costs attributable to unitholders*</b>			
Distributions to unitholders	7	-	(19,148,044)
(Decrease)/Increase in net assets attributable to unitholders	6	-	9,322,474
<b>Profit for the year</b>		<b>13,377,919</b>	<b>-</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>13,377,919</b>	<b>-</b>

\*Effective from 1 July 2017, net assets attributable to unitholders have been reclassified from a financial liability to equity. In conjunction with this change the recognition of 'Finance costs attributable to unitholders' is no longer applicable. Refer Note 1 for further details.

*The above Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.*

## Statement of Financial Position as at 30 June 2018

	Notes	30 June 2018 \$	30 June 2017 \$
<b>Assets</b>			
Cash and cash equivalents	8	30,000,000	145,000,000
Financial assets designated at fair value through profit or loss	9	198,941,405	259,672,750
Receivables	10	637,391	1,919,667
<b>Total assets</b>		<b>229,578,796</b>	<b>406,592,417</b>
<b>Liabilities</b>			
Prime Broker overdraft facility	8	13,117,384	82,454,743
Applications pending		-	224,170
Redemptions pending		416,186	826,739
Distributions payable		1,477,422	17,908,916
Payables	11	895,727	1,771,543
Financial Liabilities held for trading	12	603,075	-
Financial liabilities designated at fair value through profit or loss	12	21,363,515	15,245,760
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>37,873,309</b>	<b>118,431,871</b>
<b>Net assets attributable to unitholders – liability*</b>	6	-	288,160,546
<b>Net assets attributable to unitholders – equity*</b>		<b>191,705,487</b>	-

\*Net assets attributable to unit holders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017. Refer to Note 1 for further detail.

*The above Statement of Financial Position should be read in conjunction with the accompanying notes.*

## Statement of Changes in Equity for the year ended 30 June 2018

	Notes	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
<b>Total equity at the beginning of the financial year</b>		-	-
Reclassification due to AMIT tax regime implementation*	6	<b>288,160,546</b>	-
<b>Comprehensive income for the financial year</b>			
Profit for the year		<b>13,377,919</b>	-
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>13,377,919</b>	-
<b>Transactions with unitholders</b>			
Applications	6	<b>58,069,627</b>	-
Redemptions	6	<b>(168,516,041)</b>	-
Units issued upon reinvestment of distributions	6	<b>4,153,194</b>	-
Distributions paid and payable	7	<b>(3,539,758)</b>	-
<b>Total transactions with unitholders</b>		<b>(109,832,978)</b>	-
<b>Total equity at the end of the financial year*</b>		<b>191,705,487</b>	-

\*Effective from 1 July 2017, the Fund's units have been reclassified from a financial liability to equity. Refer Note 1 for further detail. As a result, equity transactions, including distributions have been disclosed in the above statement for the year ended 30 June 2018.

*The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

## Statement of Cash Flows for the year ended 30 June 2018

	Notes	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
<b>Cash flows from operating activities</b>			
Proceeds from sale of financial instruments designated at fair value through profit or loss		750,462,623	979,399,997
Purchase of financial instruments designated at fair value through profit or loss		(668,177,942)	(981,809,611)
Dividends received		4,037,659	4,185,031
Interest received		3,010,087	3,690,848
GST received/(paid)		43,677	(1,070)
Management and performance fees paid		(4,699,415)	(4,924,163)
Dividends paid		(3,092,918)	(2,401,283)
Other expenses paid		(373,284)	(432,401)
Other income received		26,067	-
<b>Net cash inflow/(outflow) from operating activities</b>	15(a)	<b>81,236,554</b>	<b>(2,292,652)</b>
<b>Cash flows from financing activities</b>			
Proceeds from applications by unitholders		57,845,457	146,135,502
Payments for redemptions by unitholders		(168,926,594)	(141,410,648)
Distributions paid		(15,818,058)	(910,107)
<b>Net cash (outflow)/inflow from financing activities</b>		<b>(126,899,195)</b>	<b>3,814,747</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(45,662,641)</b>	<b>1,522,095</b>
Cash and cash equivalents at the beginning of the year		62,545,257	61,023,162
<b>Cash and cash equivalents at end of the year</b>	8	<b>16,882,616</b>	<b>62,545,257</b>

Non-cash financing and operating activities are disclosed in Note 15(b).

*The above Statement of Cash Flows should be read in conjunction with the accompanying notes.*

# Notes to the Financial Report

---

1.	General Information .....	12
2.	Summary of significant accounting policies.....	12
3.	Financial risk management .....	16
4.	Auditor's remuneration .....	24
5.	Net gain/(loss) on financial instruments .....	24
6.	Net assets attributable to unitholders.....	24
7.	Distributions to unitholders.....	25
8.	Cash and cash equivalents .....	26
9.	Financial assets designated at fair value through profit or loss.....	26
10.	Receivables .....	26
11.	Payables .....	27
12.	Financial liabilities designated at fair value through profit or loss.....	27
13.	Derivative financial instruments .....	27
14.	Related party transactions .....	28
15.	Reconciliation of profit/(loss) to net cash flow from operating activities.....	30
16.	Events subsequent to reporting date .....	31
17.	Prime brokerage arrangements .....	31
18.	Contingent assets and liabilities and commitments.....	31

# Notes to the Financial Report (continued)

---

## 1. General Information

These financial statements cover the Bennelong Kardinia Absolute Return Fund (the "Fund") as an individual entity. The Fund was constituted on 29 November 2005. The Fund commenced operations on 1 May 2006.

The Responsible Entity of the Fund is Bennelong Funds Management Ltd (the "Responsible Entity"). The Responsible Entity's registered office is Bennelong House, Level 1, 9 Queen Street Melbourne, VIC 3000.

The Investment Manager of the Fund is Kardinia Capital Pty Ltd.

The Responsible Entity is incorporated and domiciled in Australia.

The principal activity of the Fund during the year was the investment of unitholders' funds as per the objectives stated in the Fund's PDS and in accordance with the provisions of the Fund's Constitution. There has been no significant change in the nature of this activity during the year.

The financial report was authorised for issue by the directors on 26 September 2018.

On 5 May 2016, a new tax regime applying to Managed Investment Trusts ("MITs") was established under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. The Attribution Managed Investment Trust ("AMIT") regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. In order to allow the Fund to elect into the AMIT tax regime, the Fund's Constitution has been amended and the other conditions to adopt the AMIT tax regime have been met effective 1 July 2017. The Responsible Entity is therefore no longer contractually obligated to pay distributions. Consequently the units in the Fund have been reclassified from a financial liability to equity on 1 July 2017. See Note 6 for further information.

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of this financial report are set out below. These policies have been consistently applied, unless otherwise stated in the following text.

### (a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Interpretations and the *Corporations Act 2001* in Australia.

The Fund is a for-profit entity for the purposes of preparing the financial report.

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

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled within 12 months after the end of each reporting year in relation to these balances cannot be reliably determined.

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

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

### (b) New accounting standards and interpretations

Except for the below, the accounting policies applied in these financial statements are the same as those applied to the Fund's financial statements for the year ended 30 June 2017.

There were no other new standards, interpretations or amendments to existing standards that were effective for the first time for the financial year beginning 1 July 2017 that have had a material impact on the fund.

# Notes to the Financial Report (continued)

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

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

#### (i) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Fund. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

AASB 9 Financial Instruments and applicable amendments ("AASB 9") (effective from 1 January 2018).

AASB 9 addresses the classification, measurement, impairment and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The standard is not applicable until 1 January 2018 but is available for early adoption. The directors do not expect this to have a significant impact on the recognition and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements and the Fund does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Fund's investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Fund. The Fund has not yet decided when to adopt AASB 9.

AASB 15 Revenue from Contracts with Customers ("AASB 15") (effective from 1 January 2018).

AASB 15 will replace AASB 118 *Revenue* which covers contracts for goods and services and AASB 111 *Construction Contracts* which covers construction contracts. AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The Fund's main sources of income are interest and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the directors do not expect the adoption of AASB 15 to have a significant impact on the Fund's accounting policies or the amounts recognised in the financial report. The Fund has not yet decided when to adopt AASB 15.

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

### (c) Cash and cash equivalents

For the purpose of presentation in the Statement of Cash Flows, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, the short term overdraft facility with the Prime Broker, and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are not subject to a significant risk of change in value.

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.

### (d) Receivables

Receivables may include amounts for dividends, interest and outstanding settlements on the sale of investments. Dividends are accrued when the right to receive payment is established. Receivables are recognised and carried at their original amounts and subsequently at amortised cost less impairment. Amounts are generally received within 30 days of being recorded as receivables.

### (e) 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 normally settled within two 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 into bankruptcy or financial reorganisation and default in payments.

# Notes to the Financial Report (continued)

---

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

### (f) Financial instruments

#### (i) Classification

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

- Financial instruments designated at fair value through profit or loss upon initial recognition  
These include financial assets and financial liabilities (which include short sold equities) that are not held for trading purposes and which may be sold. These are investments in listed equity securities and term deposits.
- Financial instruments held for trading  
Derivative financial instruments such as futures, forward currency contracts, options and swaps are included under this classification.

#### (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 financial assets or financial liabilities from this date.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liabilities are discharged.

#### (iii) Measurement

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs of financial assets designated at fair value through profit or loss are expensed in the Statement of Profit or Loss and Other Comprehensive Income. 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. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices. In the unlikely event that no bid price is available for a financial asset, the Responsible Entity will determine the most suitable price based on all relevant information available.

Details on how the fair values of financial instruments are determined are disclosed in Note 3(e).

#### (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### (g) Applications and redemptions

Applications received for units in the Fund are recorded net of any buy spread, payable upon application for units in the Fund. Redemptions from the Fund are recorded gross of any sell spread payable upon redemption of units.

### (h) Distributions

In accordance with the Fund's Constitution, the Fund distributes income adjusted for amounts determined by the Responsible Entity to unitholders by cash or through reinvestment. As a result of the reclassification of net assets attributable to unitholders from liability to equity, the Fund's distributions are no longer classified as finance costs in the Statement of Profit or Loss and Other Comprehensive Income, but rather as distributions paid/payable in the Statement of Changes in Equity.

### (i) Payables

Payables are recognised for amounts to be paid in the future for goods and services received whether or not billed to the Fund, and include outstanding settlements on the purchase of investments. Amounts are generally paid within 30 days of being recorded as payables.

# Notes to the Financial Report (continued)

---

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

### (j) Net assets attributable to unitholders

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 unfavorable 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 the life are based substantially on the profit or loss.

As at 30 June 2017, net assets attributable to unitholders are classified as a financial liability. Effective from 1 July 2017, the Fund's units have been reclassified from financial liability to equity as they satisfied all the above criteria.

### (k) Investment income

Interest income is recognised in the Statement of Profit or Loss and Other Comprehensive Income using the accruals method. Dividend income is recognised on the ex-dividend date with any related withholding tax recorded as an expense.

Changes in fair value of financial instruments are recorded in accordance with the policies described in Note 2(f) to the financial report.

### (l) Expenses

All expenses, including management fees, are recognised in the Statement of Profit or Loss and Other Comprehensive Income on an accruals basis.

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

Income not distributed is included in net assets attributable to unitholders. Prior to 1 July 2017, movements in net assets attributable to unitholders were recognised in the Statement of Profit or Loss and Other Comprehensive Income as finance costs. Effective from 1 July 2017, as a result of the reclassification of net assets attributable to unitholders from liability to equity, the Fund's distributions are no longer classified as finance costs in the Statement of Profit or Loss and Other Comprehensive Income, but rather as distributions paid/payable in the Statement of Changes in Equity.

### (n) Income tax

The Fund was a "flow-through" entity for Australian income tax purposes and elected into the Attribution Managed Investment Trusts rules from the 2018 income year, such that the determined trust components of the Fund will be taxable in the hands of the beneficiaries (the unitholders) on an attribution basis.

Accordingly, deferred taxes have not been recognised in the financial statements in relation to differences between the carrying amount of assets and liabilities and their respective tax bases, including taxes on capital gains/losses which could arise in the event of a sale of investments for the amount at which they are stated in the financial statements.

Realised capital losses are not attributed to unitholders but instead are retained within the Fund to be offset against realised capital gains. The benefit of any carried forward capital losses are also not recognised in the financial statements. If in any period realised capital gains exceed realised capital losses, including those carried forward from earlier periods and eligible for offset, the excess is included in taxable income attributed to unitholders as noted above.

## Notes to the Financial Report (continued)

---

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

#### (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 and custodial services has been passed on to the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 55%; hence investment management fees, custodial fees and other expenses have been recognised in the Statement of Profit or Loss and Other Comprehensive Income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Payables are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

#### (p) Use of estimates

From time to time the Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the current and 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. As at 30 June 2018 there are no material estimates (2017: nil).

#### (q) Rounding of amounts

The Fund is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 relating to the "rounding off" of amounts in the financial report. Amounts in the financial report have been rounded to the nearest dollar unless otherwise indicated.

### 3. Financial risk management

The Fund is exposed to credit risk, liquidity risk and market risk (including price risk and interest rate risk) arising from the financial instruments it holds. The Responsible Entity has outsourced the investment management for managing these risks to the Investment Manager who does so through a process of ongoing identification, measurement and monitoring.

The Fund's overall risk management program focuses on ensuring compliance with the Fund's Constitution, the Product Disclosure Statement and the investment guidelines of the Fund. It also seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance.

All securities investments present a risk of loss of capital. The maximum loss of capital on long equity securities is limited to the fair value of those positions. The maximum loss of capital on short equity securities is unlimited.

Risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Fund from reasonably foreseeable changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below. Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is also monitored by the Responsible Entity. These mandate limits reflect the investment strategy and market environment of the Fund, as well as the level of risk that the Responsible Entity is willing to accept.

This information is prepared and regularly reported to relevant parties within the Responsible Entity.

As part of its risk management strategy, the Fund may use derivatives to manage certain risk exposures.

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

In order to avoid excessive concentration of risk, the Fund monitors its exposure to ensure concentrations of risk remain within acceptable levels and either reduces exposure or uses derivative instruments to manage the excessive risk concentrations when they arise.

## Notes to the Financial Report (continued)

---

### 3. Financial risk management (continued)

#### (a) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates and equity prices. The Fund's investment activities are undertaken in accordance with established mandate limits and investment strategies.

##### (i) Price Risk

The Fund is exposed to equity securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. These investments are classified in the Statement of Financial Position at fair value through profit or loss. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

The table at Note 3(b) summarises the sensitivity of the Fund's assets and liabilities to price risk. The analysis is based on the assumption that the markets in which the Fund invests move by +/-10% (2017: +/-10%).

##### (ii) Foreign Exchange Risk

The Fund has the right to invest in non-AUD denominated listed equities, therefore exposing the Fund to foreign exchange risk.

Any non-AUD denominated investments are translated using the spot rate at balance sheet date. Non-AUD denominated income is translated at the prevailing spot rate on the date of receipt.

As at 30 June 2018, the foreign exchange risk was immaterial.

##### (iii) Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest bearing financial assets and financial liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Fund has established limits on investments in interest bearing assets, which are monitored on a daily basis. The Fund may use derivatives to hedge against unexpected increases in interest rates and/or multiple rollover dates for debt instruments to manage repricing risk. The interest rate risk is measured using sensitivity analysis.

## Notes to the Financial Report (continued)

### 3. Financial risk management (continued)

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

The table at Note 3(b) summarises the sensitivity of the Fund's assets and liabilities to interest rate risk.

30 June 2018	Floating Interest Rate \$	Fixed interest rate			Non – interest bearing \$	Total \$
		3 months or less \$	4 to 12 months \$	Over 12 months \$		
<b>Assets</b>						
Cash and cash equivalents	-	30,000,000	-	-	-	30,000,000
Receivables	-	-	-	-	637,391	637,391
Financial assets designated as fair value through profit and loss	-	-	40,000,000	-	158,941,405	198,941,405
<b>Total Assets</b>	-	30,000,000	40,000,000	-	159,578,796	229,578,796
<b>Liabilities</b>						
Prime Broker overdraft facility	(13,117,384)	-	-	-	-	(13,117,384)
Distribution payable	-	-	-	-	(1,477,422)	(1,477,422)
Payables	-	-	-	-	(895,727)	(895,727)
Applications pending	-	-	-	-	-	-
Redemptions pending	-	-	-	-	(416,186)	(416,186)
Financial Liabilities held for trading	-	-	-	-	(603,075)	(603,075)
Financial liabilities designated as fair value through profit and loss	-	-	-	-	(21,363,515)	(21,363,515)
<b>Total liabilities</b>	(13,117,384)	-	-	-	(24,755,925)	(37,873,309)
<b>Net exposure</b>	(13,117,384)	30,000,000	40,000,000	-	134,822,871	191,705,487

## Notes to the Financial Report (continued)

### 3. Financial risk management (continued)

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

30 June 2017	Fixed interest rate				Non – interest bearing	Total
	Floating Interest Rate	3 months or less	4 to 12 months	Over 12 months		
	\$	\$	\$	\$	\$	\$
<b>Assets</b>						
Cash and cash equivalents	-	145,000,000	-	-	-	145,000,000
Receivables	-	-	-	-	1,919,667	1,919,667
Financial assets designated as fair value through profit and loss	-	-	75,000,000	-	184,672,750	259,672,750
<b>Total Assets</b>	-	145,000,000	75,000,000	-	186,592,417	406,592,417
<b>Liabilities</b>						
Prime Broker overdraft facility	(82,454,743)	-	-	-	-	(82,454,743)
Distribution payable	-	-	-	-	(17,908,916)	(17,908,916)
Payables	-	-	-	-	(1,771,543)	(1,771,543)
Applications pending	-	-	-	-	(224,170)	(224,170)
Redemptions pending	-	-	-	-	(826,739)	(826,739)
Financial Liabilities held for trading	-	-	-	-	-	-
Financial liabilities designated as fair value through profit and loss	-	-	-	-	(15,245,760)	(15,245,760)
<b>Total liabilities</b> (excluding net assets attributable to unitholders)	(82,454,743)	-	-	-	(35,977,128)	(118,431,871)
<b>Net exposure</b>	(82,454,743)	145,000,000	75,000,000	-	150,615,289	288,160,546

#### (b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unit holders to price and interest rate risk. The movements in the risk variables have been determined based on the Investment Manager's and the Responsible Entity's best estimates, having regard to a number of factors, including historical levels of changes in the correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may differ due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables. The price risk variables relate to a weighted average percentage movement in the price of net equities owned at 30 June 2018.

	Impact on operating profit / net assets attributable to unitholders			
	Price risk		Interest rate risk	
	-10%	+10%	-1%	+1%
	\$	\$	\$	\$
30 June 2018	(13,697,482)	13,697,482	(568,826)	568,826
30 June 2017	(16,942,699)	16,942,699	(1,375,453)	1,375,453

# Notes to the Financial Report (continued)

## 3. Financial risk management (continued)

### (c) Credit risk

Credit (or counterparty) risk is the risk that one party to a financial instrument will fail to perform contractual obligations and cause the Fund to incur a financial loss.

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

In relation to equity and derivative financial instruments, credit risk arises from the potential failure of counterparties to meet their obligations under the contract or arrangement. The risk associated with these contracts is minimised by undertaking transactions with counterparties on recognised exchanges, or, where applicable, ensuring that transactions are undertaken with a large number of counterparties.

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

There are no financial assets that are past due or impaired.

Counterparty credit limits and the list of authorised brokers are reviewed by the relevant parties on a regular basis as deemed appropriate. At 30 June 2018, the Fund's counterparties had the following ratings:

#### 30 June 2018

Counterparty	Standard & Poor's Rating
UBS AG Australia Branch	"A-"
National Australia Bank	"AA-"

#### 30 June 2017

Counterparty	Standard & Poor's Rating
UBS AG Australia Branch	"A+"
Bank of Queensland	"BBB+"
National Australia Bank	"AA-"

In accordance with the Fund's policy, the Responsible Entity monitors the Fund's credit position on a regular basis. This information and the compliance with the Fund's policy are reported to the relevant parties on a regular basis.

### (d) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial assets and liabilities. Cash flow risk is the risk that future cash flows associated with financial instruments will fluctuate in amount or timing.

These risks are controlled through the Fund's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Fund maintains sufficient cash and cash equivalents to meet normal operating requirements.

Financial liabilities of the Fund comprise prime broker overdraft facility, trade and other payables, distributions payable and net assets attributable to unitholders. Trade and other payables and distributions payable have no contractual maturities but are typically settled within 30 days of the obligation arising.

The table below details the Fund's financial liabilities into the relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date.

## Notes to the Financial Report (continued)

### 3. Financial risk management (continued)

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

	Less than 1 month	1-12 months	Greater than 12 months	No stated maturity	Total
<b>At 30 June 2018</b>					
Applications pending	-	-	-	-	-
Redemptions pending	(416,186)	-	-	-	(416,186)
Distributions payable	(1,477,422)	-	-	-	(1,477,422)
Prime broker overdraft facility	-	-	-	(13,117,384)	(13,117,384)
Payables	(895,727)	-	-	-	(895,727)
Financial liabilities at fair value through profit or loss	-	-	-	(21,363,515)	(21,363,515)
Financial liabilities held for trading	-	(603,075)	-	-	(603,075)
Net assets attributable to unit holders	-	-	-	-	-
<b>Total financial liabilities - Contractual cash flows</b>	<b>(2,789,335)</b>	<b>(603,075)</b>	<b>-</b>	<b>(34,480,899)</b>	<b>(37,873,309)</b>

	Less than 1 month	1-12 months	Greater than 12 months	No stated maturity	Total
<b>At 30 June 2017</b>					
Applications pending	(224,170)	-	-	-	(224,170)
Redemptions pending	(826,739)	-	-	-	(826,739)
Distributions payable	(17,908,916)	-	-	-	(17,908,916)
Prime broker overdraft facility	-	-	-	(82,454,743)	(82,454,743)
Payables	(1,771,543)	-	-	-	(1,771,543)
Financial liabilities at fair value through profit or loss	-	-	-	(15,245,760)	(15,245,760)
Financial liabilities held for trading	-	-	-	-	-
Net assets attributable to unit holders	(288,160,546)	-	-	-	(288,160,546)
<b>Total financial liabilities - Contractual cash flows</b>	<b>(308,891,914)</b>	<b>-</b>	<b>-</b>	<b>(97,700,503)</b>	<b>(406,592,417)</b>

# Notes to the Financial Report (continued)

---

## 3. Financial risk management (continued)

### (e) Fair value estimation

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

Financial assets and liabilities designated at fair value through profit and loss are measured initially at fair value including any transaction costs that are attributable to the acquisition or issue of the financial asset or financial liability. Subsequent to initial recognition, all instruments designated at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Profit or Loss and Other Comprehensive Income.

#### *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 end of the reporting period without any deduction for estimated future selling costs.

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 ask price. When the Fund holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or ask 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.

#### *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 end of the reporting period applicable for an instrument with similar terms and conditions.

### (f) Fair value hierarchy

AASB 13 requires the Fund to classify 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.

## Notes to the Financial Report (continued)

### 3. Financial risk management (continued)

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

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 not 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 2018.

<b>30 June 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Financial Instruments</b>				
Listed investments – Long*	<b>158,569,405</b>	<b>372,000</b>	-	<b>158,941,405</b>
Listed investments - Short	<b>(21,363,515)</b>	-	-	<b>(21,363,515)</b>
Term deposits	<b>40,000,000</b>	-	-	<b>40,000,000</b>
Derivative held for trading Futures	-	<b>(603,075)</b>	-	<b>(603,075)</b>
	<b>177,205,890</b>	<b>(231,075)</b>	-	<b>176,974,815</b>

<b>30 June 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Financial Instruments</b>				
Listed investments - Long	184,672,750	-	-	184,672,750
Listed investments - Short	(15,245,760)	-	-	(15,245,760)
Term deposits	75,000,000	-	-	75,000,000
Derivative held for trading Futures	-	-	-	-
	<b>244,426,990</b>	-	-	<b>244,426,990</b>

\* As at 30 June 2018, the fund has confirmed allocation of securities in the Initial Public Offer of Pivotal Systems Corporation for the total amount of \$372,000. The allotment and official listing were completed on 2 July 2018.

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equities and exchange traded derivatives.

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 over-the-counter derivatives. 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 liquidity and/or non-transferability, which are generally based on available market information.

The Fund's policy is to recognise transfers in and transfers out of fair value hierarchy level as at the end of the reporting period.

## Notes to the Financial Report (continued)

### 4. Auditor's remuneration

During the year, Deloitte Touche Tohmatsu conducted the audit of the Fund. The following are the fees paid or payable for services provided by Deloitte Touche Tohmatsu as the auditor of the Fund.

	30 June 2018	30 June 2017
	\$	\$
<b>Audit services</b>		
<i>Audit services</i>		
Deloitte Touche Tohmatsu		
Audit of the Financial Report of the Fund	10,404	10,200
Review of the Half Year Financial Report of the Fund	5,202	5,140
Audit of the Compliance Plan of the Fund	2,081	2,500
<b>Total remuneration for audit services</b>	<b>17,687</b>	<b>17,840</b>

### 5. Net gain/(loss) on financial instruments

	30 June 2018	30 June 2017
	\$	\$
<b>Held for Trading</b>		
Net realised loss on financial instruments held for trading	(1,561,250)	(6,540,078)
Net unrealised (loss)/gain on financial instruments held for trading	(603,075)	244,925
<b>Total net loss on financial instruments held for trading</b>	<b>(2,164,325)</b>	<b>(6,295,153)</b>
<b>Designated as fair value through profit or loss</b>		
Net unrealised gain/(loss) on financial instruments designated at fair value through profit or loss	10,618,244	(9,483,712)
Net realised gain on financial instruments designated at fair value through profit or loss	6,378,587	25,728,312
<b>Total net gain on financial instruments designated at fair value through profit or loss</b>	<b>16,996,831</b>	<b>16,244,600</b>

### 6. Net assets attributable to unitholders

Under AASB 132 *Financial Instruments: Presentation* ("AASB 132"), puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Fund classifies a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

Prior to 1 July 2017, the Fund classified its net assets attributable to unitholders as liabilities in accordance with AASB 132. On 1 July 2017, the Fund elected into the AMIT tax regime. The Fund's Constitution has been amended during the half-year and it no longer has a contractual obligation to pay distributions to unitholders. Therefore the net assets attributable to unitholders of the Fund meet the criteria set out under AASB 132 and are classified as equity from 1 July 2017 onwards.

As a result of the reclassification of net assets attributable to unitholders from liabilities to equity, the Fund's distributions are no longer classified as finance costs in the Statement of Profit or Loss and Other Comprehensive Income, but rather as distributions paid in the Statement of Changes in Equity.

## Notes to the Financial Report (continued)

### 6. Net assets attributable to unitholders (continued)

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

	30 June 2018	30 June 2017
<b>Units on issue</b>	<b>Units</b>	<b>Units</b>
Opening balance	252,014,797	249,433,907
Applications	49,425,356	121,961,407
Redemptions	(144,736,935)	(119,662,147)
Units issued upon reinvestment of distributions	3,615,449	281,630
	<u>160,318,667</u>	<u>252,014,797</u>
<b>Closing balance</b>	<b>160,318,667</b>	<b>252,014,797</b>
	<b>30 June 2018</b>	<b>30 June 2017</b>
<b>Net Assets Attributable to Unitholders</b>	<b>\$</b>	<b>\$</b>
Opening Balance	288,160,546	292,998,530
Applications	58,069,627	146,196,149
Redemptions	(168,516,041)	(142,040,680)
Units issued upon reinvestment of distributions	4,153,194	329,021
Increase in net assets attributable to unitholders	-	(9,322,474)
Distribution paid and payable	(3,539,758)	-
Profit for the year	13,377,919	-
	<u>191,705,487</u>	<u>288,160,546</u>
<b>Closing Balance</b>	<b>191,705,487</b>	<b>288,160,546</b>

\*Net assets attributable to unit holders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017. Refer to Note 1 for further details.

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 in the underlying assets of the Fund.

There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

#### Capital risk management

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. Applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Investment Manager. Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

### 7. Distributions to unitholders

The distributions for the year were as follows:

	2018	2017
	\$	\$
<b>Distributions</b>		
Interim Distribution - 31 December	2,062,336	1,239,128
Full Year Distribution - 30 June	1,477,422	17,908,916
Return of Capital	-	-
	<u>3,539,758</u>	<u>19,148,044</u>

## Notes to the Financial Report (continued)

### 8. Cash and cash equivalents

	30 June 2018	30 June 2017
	\$	\$
Term Deposits (maturing within 3 months)	30,000,000	145,000,000
Prime Broker overdraft facility	<u>(13,117,384)</u>	<u>(82,454,743)</u>
<b>Total cash and cash equivalents</b>	<b><u>16,882,616</u></b>	<b><u>62,545,257</u></b>

The Term Deposits are earning fixed interest rate of between 2.53% and 2.64% as at 30 June 2018 (30 June 2017 2.21% to 2.65%).

The Prime Broker overdraft facility is incurring a floating interest rate of between 2.14% and 2.57% as at 30 June 2018 (30 June 2017 2.16% to 2.42%).

#### (a) Reconciliation to cash flow statement

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the year as follows:

	30 June 2018	30 June 2017
	\$	\$
Balance per above	<u>16,882,616</u>	<u>62,545,257</u>
<b>Balance per statement of cash flows</b>	<b><u>16,882,616</u></b>	<b><u>62,545,257</u></b>

### 9. Financial assets designated at fair value through profit or loss

	30 June 2018	30 June 2017
	\$	\$
<b>Designated at fair value through profit or loss</b>		
Listed equity securities	158,941,405	184,672,750
Term deposits (i)	<u>40,000,000</u>	<u>75,000,000</u>
<b>Total designated at fair value through profit or loss</b>	<b><u>198,941,405</u></b>	<b><u>259,672,750</u></b>

(i) The Fund holds term deposits returning a fixed rate of interest. The weighted average interest rate on these securities is 2.65% per annum (2017: 2.47%). The term deposits have maturity dates ranging between 4 to 6 months from the end of the reporting period.

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

### 10. Receivables

	30 June 2018	30 June 2017
	\$	\$
Interest receivable	286,851	1,323,947
Dividend receivable	266,150	467,653
GST receivable	84,390	128,067
Other receivable	<u>-</u>	<u>-</u>
	<b><u>637,391</u></b>	<b><u>1,919,667</u></b>

## Notes to the Financial Report (continued)

### 11. Payables

	30 June 2018	30 June 2017
	\$	\$
Management fees payable	247,300	385,052
Performance fees payable	189,788	-
Dividends payable on short sold securities	377,905	1,248,460
Transaction costs payable	80,734	138,031
	<u>895,727</u>	<u>1,771,543</u>

### 12. Financial liabilities designated at fair value through profit or loss

	30 June 2018	30 June 2017
	\$	\$
<b>Designated at fair value through profit and loss</b>		
Listed equities	<u>21,363,515</u>	<u>15,245,760</u>
<b>Classified as held for trading</b>		
Futures	<u>(603,075)</u>	<u>-</u>

### 13. Derivative financial instruments

Derivative financial instruments are categorised as held for trading. The Fund does not designate any derivatives as a hedging instrument for hedge accounting purposes. Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivative financial instruments are recognised as assets when their fair value is positive, and as liabilities when their fair value is negative. Any gains or losses arising from changes in the fair value of derivative financial instruments are taken directly to the Statement of Profit or Loss and Other Comprehensive Income.

Where the Fund's derivative assets and liabilities are traded on an exchange, they are fair valued based on quoted market prices or binding dealer quotations at the balance date.

#### (b) Futures

Futures contracts are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. Equity and interest rate futures contracts are fair valued according to the last quoted sale price in the relevant futures exchange at balance date.

## Notes to the Financial Report (continued)

### 13. Derivative financial instruments (continued)

#### (b) Futures (continued)

The Fund's derivative financial instruments at year end are detailed below:

30 June 2018	Fair Values		
	Contract/ notional \$	Assets \$	Liabilities \$
Exchange traded futures	<u>(60,096,700)</u>	<u>-</u>	<u>(603,075)</u>

  

30 June 2017	Fair Values		
	Contract/ notional \$	Assets \$	Liabilities \$
Exchange traded futures	<u>-</u>	<u>-</u>	<u>-</u>

### 14. Related party transactions

#### Responsible Entity

The Responsible Entity of the Bennelong Kardinia Absolute Return Fund is Bennelong Funds Management Ltd (ABN 39 111 214 085) (AFSL 296806). Accordingly, transactions with entities related to Bennelong Funds Management Ltd are disclosed below.

#### Key management personnel

The following persons held office as directors of the Responsible Entity during the year or since the end of the year and up to the date of this report:

Craig Bingham	Chief Executive Officer
Stephen Rix	Chairman
Andrea Waters	
Vicki Allen	
Lincoln McMahan	
Gary Toomey	

Other key management personnel:

Jeff Phillips	Chief Financial Officer/Company Secretary
---------------	---

#### Key management personnel compensation

Key management personnel are paid by the parent company of 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 year.

#### 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.

## Notes to the Financial Report (continued)

### 14. Related party transactions (continued)

#### Responsible Entity's/Investment Manager's fees and other transactions

Under the terms of the Fund's Constitution and the current Product Disclosure Statement for the Fund, the Responsible Entity is entitled to receive fees.

Transactions with related parties have taken place at arm's length and in the ordinary course of business. The transactions during the year and amounts at year end between the Fund and the Responsible Entity and Investment Manager were as follows:

	30 June 2018	30 June 2017
	\$	\$
Management fees	3,507,072	4,943,288
Performance fees	1,244,379	-
Aggregate amounts payable to the Responsible Entity at the reporting date	437,088	385,052

#### Key management personnel and related party Fund unitholdings

Key management personnel and parties related to the Fund, including the Responsible Entity, its associates and other schemes managed by Bennelong Funds Management Ltd, held the following units in the Fund at the end of the year:

30 June 2018	Number of Units held	Interest held %	No. of units acquired during the year	No. of units disposed during the year	Distributions paid / payable during the year \$
Rendsburg Pty Ltd ATF K & A Rehder Superannuation Fund	486,551	0.30%	32,604	-	4,477
I & HA Rehder ATF Rehder Superannuation Fund	1,900,252	1.18%	127,338	-	17,484
Mevo Pty Ltd	2,026,741	1.42%	135,814	-	20,961
Windward Capital Pty Ltd	-	-	3,723	(63,753)	-
Windward Capital Pty Ltd ATF S & L Rix Superannuation Fund	128,683	0.08%	68,653	-	1,184
Amber Clare Rehder	107,039	0.07%	7,173	-	985
Heather Rehder	99,061	0.06%	6,638	-	911
SDPL Pty Ltd ATF Hunter Super Fund	84,665	0.05%	84,665	-	779

## Notes to the Financial Report (continued)

### 14. Related party transactions (continued)

30 June 2017	Number of Units held	Interest held %	No. of units acquired during the year	No. of units disposed during the year	Distributions paid / payable during the year \$
Rendsburg Pty Ltd ATF K & A Rehder Superannuation Fund	453,947	0.18%	302,749	-	34,256
I & HA Rehder ATF Rehder Superannuation Fund	1,772,914	0.70%	449,342	-	131,841
Mevo Pty Ltd	1,890,927	0.84%	6,955	-	160,506
Windward Capital Pty Ltd	60,030	0.02%	221	-	4,530
Windward Capital Pty Ltd ATF S & L Rix Superannuation Fund	60,030	0.02%	221	-	4,530
Amber Clare Rehder	99,866	0.04%	367	-	7,536
Heather Rehder	92,423	0.04%	1,975	(444,456)	8,923

#### Investments

The Fund did not hold any investments in Bennelong Funds Management Ltd or its related parties during the year.

### 15. Reconciliation of profit/(loss) to net cash flow from operating activities

	30 June 2018 \$	30 June 2017 \$
<b>(a) Reconciliation of net profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Net profit	13,377,919	-
Distributions to unitholders	-	19,148,044
Increase in net assets attributable to unitholders	-	(9,322,474)
Proceeds from sale of financial instruments designated at fair value through profit or loss	750,462,623	979,399,997
Purchase of financial instruments designated at fair value through profit or loss	(668,177,942)	(981,809,611)
Net gains on financial instruments designated at fair value through profit and loss and derivative financial instruments	(14,832,506)	(9,949,447)
Net change in receivables and other assets excluding amounts receivable from brokers	1,282,276	64,110
Net change in payables and other liabilities	(875,816)	176,729
<b>Net cash inflow/(outflow) from operating activities</b>	<b>81,236,554</b>	<b>(2,292,652)</b>
<b>(b) Non-cash financing and investing activities</b>		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	4,153,194	329,021

## Notes to the Financial Report (continued)

---

### 16. Events subsequent to reporting date

No significant events have occurred since the reporting date which could impact on the financial report disclosures or the financial position of the Fund disclosed in the Statement of Financial Position as at 30 June 2018 or on the results of operations and cash flows of the Fund for the year ended on that date.

### 17. Prime brokerage arrangements

UBS AG Australia Branch has been appointed Prime Broker for the Fund. The services provided by the Prime Broker may include the provision to the Responsible Entity of borrowing and lending securities, settlement of transactions and cash loans. The assets of the Fund have been charged by the Responsible Entity under the Prime Brokerage Agreement for the Fund.

### 18. Contingent assets and liabilities and commitments

Under the terms of the Fund's constitution, the Responsible Entity is entitled to be reimbursed for all operating and administration expenses that have been incurred on behalf of the Fund. The Fund's PDS outlines in Section 7 that the Responsible Entity estimates this amount to be 0.06% per annum of the Net Asset Value (NAV) of the Fund.

As at 30 June 2018, the Responsible Entity has incurred \$11,975 reimbursable expenses in excess of the amount charged to the Fund (30 June 2017: \$691). This amount represents expenses that have been incurred by the Responsible Entity on behalf of the Fund, for which the Responsible Entity is entitled. This amount has subsequently been reimbursed to the Responsible Entity post 30 June 2018.

There were no other contingencies for the Fund at the reporting date.

## Directors' Declaration

---

The directors of the Responsible Entity declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable;
- (b) in the directors' opinion, the attached financial report is in compliance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board interpretations and International Financial Reporting Standards as stated in Note 2 to the financial report;
- (c) in the directors' opinion, the attached financial report and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Fund.

Signed in accordance with a resolution of the directors of the Responsible Entity made pursuant to s.295(5) of the *Corporations Act 2001*.



Craig Bingham  
Director  
Melbourne, 26 September 2018

## Independent Auditor's Report to the Unit Holders of Bennelong Kardinia Absolute Return Fund

### *Opinion*

We have audited the financial report of Bennelong Kardinia Absolute Return Fund (the "Fund") which comprises the statement of financial position as at 30 June 2018, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the declaration by Directors.

In our opinion, the accompanying financial report of the 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 2018 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### *Basis for Opinion*

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the Directors of the Responsibility Entity of the Fund ("the Directors"), would be in the same terms if given to Directors as at the time of this auditor's report.

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

### *Other Information*

The Directors are responsible for the other information. The other information comprises the information included in the Directors' report for the year ended 30 June 2018, 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 we do not express any form of assurance conclusion thereon.

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

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

### *Responsibilities of Directors for the Financial Report*

The Directors are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, Directors 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 either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

# Deloitte.

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



DELOITTE TOUCHE TOHMATSU



Neil Brown  
Partner  
Chartered Accountants

Melbourne, 26 September 2018