

CC JCB Active Bond Fund
ARSN 610 435 302
Annual Financial Statements
for the year ended 30 June 2019

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These financial statements cover the CC JCB Active Bond Fund as an individual entity.

The Responsible Entity of the CC JCB Active Bond Fund is Channel Investment Management Limited (ABN 22 163 234 240). The Responsible Entity's registered office is Level 25, Waterfront Place, 1 Eagle Street, Brisbane, QLD 4000.

Directors' report

The Directors of Channel Investment Management Limited (ABN 22 163 234 240, AFSL 439007), the Responsible Entity of CC JCB Active Bond Fund ("the Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2019.

Principal activities

The Fund is a registered managed investment fund domiciled in Australia.

JamiesonCooteBonds Pty Ltd is the Investment Manager of the Fund.

The Fund seeks to invest in a carefully researched and actively managed portfolio using fundamental and technical analysis to make bond security selections and adjust duration exposures with a view to generating the optimal risk-adjusted portfolio. Security selections are set with hard limits on entry and exit with both floors and ceilings being pre-determined before investments are acquired. The Investment Manager aims to deliver the benefits of a defensive bond allocation with the overlay of active management.

The Fund typically invests in bond securities that are AAA or AA rated, backed by a government, supranational organisation or Public Finance Agency and issued in Australian dollars. Derivatives are used for interest rate hedging purposes or to replicate underlying bond securities in the form of futures contracts listed on the Sydney Stock Exchange. All futures will be exchange-traded. The use of futures may generate some gearing to the Fund which the management team will control using a risk-adjusted framework.

The Fund aims to deliver investors with returns that outperform its benchmark, the Bloomberg AusBond Treasury 0+ Yr Index over rolling 3 year periods.

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 Channel Investment Management Limited during or since the end of the year and up to the date of this report:

Mr G Holding
Ms K Youhanna
Mr S Jordan

The Responsible Entity has a Compliance Committee consisting of two independent persons and one non-independent person. This committee's role is to oversee the compliance requirements of the Fund operated by the Responsible Entity.

Review and results of operations

There have been no significant changes to the operations of the Fund since the beginning of financial year. The Fund continued to invest funds in accordance with target asset allocations as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

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

| | Year ended 30 June 2019 | Year ended 30 June 2018 |
|---|----------------------------|----------------------------|
| Operating profit/(loss) before finance costs attributable to unitholders (\$'000) | 43,966 | 3,627 |
| Distributions - Wholesale Class | | |
| Distributions paid and payable (\$'000) | 15,445 | 4,180 |
| Distributions (cents per unit) | 4.20 | 2.48 |
| Distributions - Retail Class | | |
| Distributions paid and payable (\$'000) | 4,614 | - |
| Distributions (cents per unit) | 2.10 | - |

Directors' report (continued)

Significant changes in state of affairs

The Fund has amended its Constitution to change the obligation to distribute trust income to unit holders effective 1 July 2018 as part of a process to become eligible to elect into the new Attribution Managed Investment Trust (AMIT) tax regime.

On 21 December 2018, the Responsible Entity registered a second class of the Fund with the Australian Securities and Investment Commission. On 22 February 2019, the Retail Class received its first application.

In the opinion of the directors, there were no other 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 2019 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years;
- (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.

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 and auditors

Insurance cover provided to either the officers of Channel Investment Management Limited or the auditors of the Fund is paid by Channel Investment Management Limited and not out of the assets of the Fund. So long as the officers of Channel Investment Management Limited act in accordance with the Fund's 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.

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 of the financial statements.

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

There were no interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 14 to the financial statements.

The value of the Fund's assets and liabilities is disclosed on the statement of financial position and derived using the basis set out in Note 2 to the financial statements.

Environmental regulation

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

Directors' report (continued)

Rounding of amounts to the nearest thousand dollars

The Funds are entities of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with that instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars unless otherwise stated.

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 of Channel Investment Management Limited, the Responsible Entity.



Ms K Youhanna
Director
Channel Investment Management Limited

Brisbane
19 September 2019



Auditor's Independence Declaration

As lead auditor for the audit of CC JCB Active Bond Fund for the year ended 30 June 2019, 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 'Ben Woodbridge', written in a cursive style.

Ben Woodbridge
Partner
PricewaterhouseCoopers

Brisbane
19 September 2019

Statement of comprehensive income

| | Notes | Year ended 30 June 2019 \$'000 | Year ended 30 June 2018 \$'000 |
|--|-------|--------------------------------------|--------------------------------------|
| Investment income | | | |
| Interest income from financial assets at fair value through profit or loss | 5 | 12,544 | 4,174 |
| Interest income from financial assets at amortised cost | 5 | 23 | 45 |
| Net gains/(losses) on financial instruments at fair value through profit or loss | 6 | 33,245 | 58 |
| Total net investment income/(loss) | | 45,812 | 4,277 |
| Expenses | | | |
| Investment management fees | 16 | 1,480 | 532 |
| Administration fees | 16 | 360 | 118 |
| Other expenses | | 6 | - |
| Total operating expenses | | 1,846 | 650 |
| Operating profit/(loss) | | 43,966 | 3,627 |
| Finance costs attributable to unitholders | | | |
| Distributions to unitholders* | 8 | - | (4,180) |
| (Increase)/decrease in net assets attributable to unitholders* | 14 | - | 553 |
| Profit/(loss) for the year | | 43,966 | - |
| Other comprehensive income | | - | - |
| Total comprehensive income for the financial year | | 43,966 | - |

* Net assets attributable to unitholders are reclassified from liabilities to equity from 1 July 2018. As a result, the Fund's distributions are no longer classified as finance costs in the statement of comprehensive income but rather as distributions paid and payable in the statement of changes in equity. Refer to Note 1 for further detail.

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

Statement of financial position

| | Notes | As at 30 June 2019 \$'000 | As at 30 June 2018 \$'000 |
|---|-------|---------------------------------|---------------------------------|
| Assets | | | |
| Cash and cash equivalents | 9 | 6,659 | 2,985 |
| Due from brokers - receivable for securities sold | | 7,572 | 14,464 |
| Receivables | 12 | 5,127 | 1,151 |
| Financial assets at fair value through profit or loss | 10 | 644,380 | 182,114 |
| Total assets | | 663,738 | 200,714 |
| Liabilities | | | |
| Distributions payable | 8 | 16,599 | 2,760 |
| Payables | 13 | 254 | 80 |
| Due to brokers - payable for securities purchased | | 3,559 | 14,705 |
| Financial liabilities at fair value through profit or loss | 11 | - | 33 |
| Total liabilities (excluding net assets attributable to unitholders) | | 20,412 | 17,578 |
| Net assets attributable to unitholders-liability* | 14 | - | 183,136 |
| Net assets attributable to unitholders-equity* | 14 | 643,326 | - |

* Net assets attributable to unit holders are classified as equity at 30 June 2019 and as a financial liability at 30 June 2018. 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

| | Notes | Year ended 30 June 2019 \$'000 | Year ended 30 June 2018 \$'000 |
|--|-------|--------------------------------------|--------------------------------------|
| Total equity at the beginning of the financial year | 14 | - | - |
| Reclassification due to AMIT tax regime implementation* | 14 | 183,136 | - |
| Comprehensive income for the year | | | |
| Profit/(loss) for the year | | 43,966 | - |
| Other comprehensive income | | - | - |
| Total comprehensive income | | <u>43,966</u> | <u>-</u> |
| Transactions with unitholders | | | |
| Applications | 14 | 480,598 | - |
| Redemptions | 14 | (47,311) | - |
| Reinvestment of distributions | 14 | 2,996 | - |
| Distributions to unitholders | 8,14 | <u>(20,059)</u> | <u>-</u> |
| Total transactions with unitholders | | <u>416,224</u> | <u>-</u> |
| Total equity at the end of the financial year* | 14 | <u>643,326</u> | <u>-</u> |

*Effective from 1 July 2018, the Fund's units have been reclassified from financial liability to equity. Refer to Note 1 and Note 14 for further detail. As a result, equity transactions, including distributions have been disclosed in the above statement for the year ended 30 June 2019.

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

Statement of cash flows

| | Notes | Year ended 30 June 2019 \$'000 | Year ended 30 June 2018 \$'000 |
|--|--------|--------------------------------------|--------------------------------------|
| Cash flows from operating activities | | | |
| Proceeds from maturity/sales of financial instruments at fair value through profit or loss | | 1,178,686 | 566,479 |
| Purchase of financial instruments at fair value through profit or loss | | (1,611,994) | (709,598) |
| Interest income received from financial assets at fair value through profit and loss | | 8,589 | 3,475 |
| Interest income received from financial assets at amortised cost | | 21 | 43 |
| Investment management fees paid | | (1,345) | (480) |
| Administration fees paid | | (321) | (107) |
| Other expenses paid | | (25) | (29) |
| Net cash inflow/(outflow) from operating activities | 17 (a) | (426,389) | (140,217) |
| Cash flows from financing activities | | | |
| Proceeds from applications by unitholders | 14 | 480,598 | 160,707 |
| Payments for redemptions by unitholders | 14 | (47,311) | (17,148) |
| Distributions paid from operating activities | | (3,224) | (1,097) |
| Net cash inflow/(outflow) from financing activities | | 430,063 | 142,462 |
| Net increase in cash and cash equivalents | | 3,674 | 2,245 |
| Cash and cash equivalents at the beginning of the year | | 2,985 | 740 |
| Cash and cash equivalents at the end of the year | 9 | 6,659 | 2,985 |
| Non-cash financing activities | 17 (b) | 2,996 | 1,049 |

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

Notes to the financial statements

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1 General information

These financial statements cover CC JCB Active Bond Fund (the "Fund") as an individual entity. The Fund was constituted on 8 February 2016, registered as a managed investment scheme on 9 February 2016 and commenced operations on 3 August 2016, and will terminate in accordance with the provisions of the Fund's Constitution or by Law.

The Responsible Entity of the Fund is Channel Investment Management Limited (ABN 22 163 234 240) (the "Responsible Entity"). The Responsible Entity's registered office is Level 25, Waterfront Place, 1 Eagle Street, Brisbane, QLD 4000. The financial statements are presented in the Australian currency.

The Responsible Entity is incorporated and domiciled in Australia.

JamiesonCooteBonds Pty Ltd is the Investment Manager of the Fund.

The Custodian of the Fund is RBC Investor Services Trust.

The Fund seeks to invest in a carefully researched and actively managed portfolio using fundamental and technical analysis to make bond security selections and adjust duration exposures (against the Benchmark) with a view to generating the optimal risk-adjusted portfolio. Security selections are set with hard limits on entry and exit with both floors and ceilings being pre-determined before investments are acquired. The Investment Manager aims to deliver the benefits of a defensive bond allocation with the overlay of active management.

The Fund typically invests in bond securities that are AAA or AA rated, backed by a government, supranational or Public Finance Agency and issued in Australian dollars. Derivatives are used for interest rate hedging purposes or to replicate underlying bond securities in the form of futures contracts listed on the Sydney Stock Exchange. All futures are exchange-traded. The use of futures may generate some gearing to the Fund which the management team control using a risk-adjusted framework.

The Fund aims to deliver investors with returns that outperform the Bloomberg AusBond Treasury 0+ Yr Index over rolling 3 year periods.

On 5 May 2016, a new tax regime applying to Managed Investment Trusts was established under the Tax Law Amendment (New Tax System for Managed Investment Trusts) Act 2016. The Attribution Managed Investment Trust (AMIT) regime allows the funds that meet certain requirements to make an irrevocable choice to be an AMIT. The Fund's Constitution has been amended to allow it to operate as an AMIT and the conditions to adopt the AMIT tax regime have been met. The Responsible Entity elected into the AMIT regime for the Fund effective from 1 July 2018. Under the AMIT regime the units in the Fund have been reclassified from financial liability to equity from 1 July 2018. Refer to Note 2 and Note 14 for further details.

The financial statements were authorised for issue by the directors of the Responsible Entity on 19 September 2019. 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 throughout the period presented, unless otherwise stated in the following text.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* in Australia. The Fund is a for-profit fund 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 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 generally expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The Fund manages investments in financial assets based on the economic circumstances at any given point in time, as well as to meet liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within 12 months, but this amount cannot be reliably determined as at balance date.

(i) Compliance with International Financial Reporting Standards (IFRS)

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

(ii) New and amended standards adopted by the Fund

The Fund applied, for the first time, AASB 9 *Financial Instruments* ("AASB 9") and AASB 15 *Revenue from Contracts with Customers* ("AASB 15") that require restatement of previous financial statements. The nature and effect of these changes are disclosed below:

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

- AASB 9 *Financial Instruments (and applicable amendments) (effective from 1 January 2018)*

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The directors do not expect this to have a significant impact on the recognition, classification and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss. The Fund's other financial assets will continue to be classified and measured at amortised cost. The derecognition rules have not 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 did not have a material impact on the Fund.

- AASB 15 *Revenue from Contracts with Customers (effective from 1 January 2018)*

AASB 15 replaced 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 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 statements.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 January 2018 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

(iii) *New accounting standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2019 reporting periods 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 does not anticipate material impact on the financial statements of the Fund.

(b) Financial instruments

(i) *Classification*

Investments

The Fund classifies its investments based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Fund's portfolio of financial assets is managed and its performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund uses fair value information to assess performance of the portfolio and to make decisions to rebalance the portfolio or to realise fair value gains or minimise losses through sales or other trading strategies. The Fund's policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

Equity securities and derivatives are measured at fair value through profit or loss

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

Investments in financial assets previously designated at fair value through profit or loss

The Fund holds fixed interest securities of \$644,365,000 (2018: \$182,114,000) which had previously been designated at fair value through profit or loss. On adoption of AASB 9 these securities are now mandatorily classified as fair value through profit or loss. Refer to Note 10 for further details.

2 Summary of significant accounting policies (continued)

(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 the fair value of the 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, cancelled or expires.

(iii) Measurement

(a) Financial instruments at fair value through profit or loss

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

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

For further details on how the fair value of financial instruments is determined please see Note 4 to the financial statements.

(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.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests in accordance with the Fund's constitution. The units are classified as financial liabilities as the Fund is required to distribute its distributable income. The units can be put back to the Fund at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to redeem units in the Fund.

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 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 disclosed in Note 1 and Note 14, the units in the Fund have been reclassified from a financial liability to equity from 1 July 2018 following the adoption of the AMIT tax regime.

(d) Cash and cash equivalents

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

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

2 Summary of significant accounting policies (continued)

(e) Investment income

(i) Interest income

Interest income from financial assets at amortised cost is recognised on a time-proportionate basis using the effective interest method and includes interest from cash and cash equivalents.

Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities.

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. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

(f) Expenses

Any expenses which are paid by the unitholder from Fund assets are included in the Fund's financial statements and recognised in the profit or loss on an accruals basis. Any expenses that are paid directly to the Responsible Entity and/or investment manager by the unitholder as per the terms of individual agreements are not recognised in the Fund's financial statements.

(g) Distributions

Distributions are payable as set out in the Fund's product disclosure statement and/or Fund's constitution. Such distributions are recognised as payable when they are determined by the responsible entity of the Fund.

(h) Increase/decrease in net assets attributable to unit holders

Income not distributed is included in net assets attributable to unit holders. Movements in net assets attributable to unit holders are recognised within the statement of changes in equity.

(i) 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. The due from brokers balance is held for collection and consequently measured at amortised cost.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on amounts due from broker 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 shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

(j) Receivables

Receivables may include due amounts for coupon payments. Coupon payments are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in Note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Reduced Input Tax Credits (RITC) and interest receivable.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on receivables 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 shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

2 Summary of significant accounting policies (continued)

(k) Payables

Payables include liabilities and accrued expenses owed by the Fund which are unpaid as at the end of the reporting period.

As the Fund has a contractual obligation to distribute its distributable income, a separate distribution payable is recognised in the statement of financial position as at the end of each reporting period where this amount remains unpaid as at the end of the reporting period.

(l) Applications and redemptions

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

(m) Goods and Services Tax (GST)

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

(n) Use of estimates

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

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

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

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

The adoption of AASB 9 introduced a new expected credit loss impairment model, which has not materially impacted the fund. Please see Note 3 for more information on credit risk.

(o) Rounding of amounts

The Funds are entities of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with that instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars unless otherwise stated.

(p) Comparative revisions

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Financial risk management

(a) Objectives, strategies, policies and processes

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

The Fund's overall risk management program focuses on ensuring compliance with the Fund's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Financial risk management is carried out by an Investment Manager under policies approved by the Board of Directors of the Responsible Entity (the Board).

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 risk and ratings analysis for credit risk.

As part of its risk management strategy, the Fund uses derivatives and other investments, including interest rate futures, to manage exposures resulting from changes in interest rates, and exposures arising from forecast transactions. These methods are explained below.

(b) Market risk

(i) Price Risk

The Funds are exposed to securities and derivatives price risk. This arises from investments held by the Funds for which prices in the future are uncertain. Securities and derivatives are classified in the statements of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital.

The Funds' overall market positions are reported to the Board on a regular basis.

Net assets attributable to unitholders include investments in fixed interest securities and derivatives.

Sensitivity analysis

An increase of 10% at the reporting date of the market prices attributable to the assets held by the Funds would have the following impact on the Funds' operating profit/(loss) and net assets attributable to unitholders. This analysis assumes that all other variables remain constant. A decrease of 10% would have an equal, but the opposite effect to the amounts shown below, on the basis that all other variables remain constant.

| | Effect on net profit attributable to unitholders | |
|---|--|------------------------|
| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
| +10% Price movement - Impact on the Fund's operating profit/(loss) and net assets attributable to unitholders | 64,438 | 18,211 |
| -10% Price movement - Impact on the Fund's operating profit/(loss) and net assets attributable to unitholders | (64,438) | (18,211) |

(ii) Interest rate risk

The Fund's interest bearing financial assets 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 risk is measured using sensitivity analysis.

The Fund's main interest rate risk arises from its investments in fixed interest securities.

Interest rate risk is managed by using model-based, risk adjusted systems which allocate bond and futures investments and risk using a strict and disciplined approach honed over years of global market experience. Systems used in this process include Bloomberg AIM (ranked no 1 in global Greenwich survey for OMS providers) and Bloomberg PORT.

3 Financial risk management (continued)

(b) Market risk (continued)

(ii) Interest rate risk (continued)

The table below summarises the Fund's exposure to interest rate risk at the end of the reporting period.

| 30 June 2019 | Weighted Average Effective Interest Rate | Floating Interest Rate \$'000 | Fixed Interest \$'000 | Non-interest Bearing \$'000 | Total \$'000 |
|---|--|----------------------------------|--------------------------|-----------------------------------|-----------------|
| Financial Assets | | | | | |
| Cash and cash equivalents | 0.50% | 6,659 | - | - | 6,659 |
| Due from brokers - receivable for securities sold | | - | - | 7,572 | 7,572 |
| Receivables | | - | - | 5,127 | 5,127 |
| Financial assets at fair value through profit or loss | 4.19% | - | 644,365 | 15 | 644,380 |
| Total Financial Assets | | 6,659 | 644,365 | 12,714 | 663,738 |
| Financial Liabilities | | | | | |
| Distributions payable | | - | - | 16,599 | 16,599 |
| Payables | | - | - | 254 | 254 |
| Due to brokers - payable for securities purchased | | - | - | 3,559 | 3,559 |
| Financial liabilities at fair value through profit or loss | | - | - | - | - |
| Total Financial Liabilities | | - | - | 20,412 | 20,412 |

| 30 June 2018 | Weighted Average Effective Interest Rate | Floating Interest Rate \$'000 | Fixed Interest \$'000 | Non-interest Bearing \$'000 | Total \$'000 |
|---|--|----------------------------------|--------------------------|-----------------------------------|-----------------|
| Financial Assets | | | | | |
| Cash and cash equivalents | 1.34% | 2,985 | - | - | 2,985 |
| Due from brokers - receivable for securities sold | | - | - | 14,464 | 14,464 |
| Receivables | | - | - | 1,151 | 1,151 |
| Financial assets at fair value through profit or loss | 3.83% | - | 182,114 | - | 182,114 |
| Total Financial Assets | | 2,985 | 182,114 | 15,615 | 200,714 |
| Financial Liabilities | | | | | |
| Distributions payable | | - | - | 2,760 | 2,760 |
| Payables | | - | - | 80 | 80 |
| Due to brokers - payable for securities purchased | | - | - | 14,705 | 14,705 |
| Financial liabilities at fair value through profit or loss | | - | - | 33 | 33 |
| Total Financial Liabilities | | - | - | 17,578 | 17,578 |

The table at Note 3(c) summarises the impact of an increase/decrease of interest rates on the Fund's operating profit and net assets attributable to unit holders through changes in fair value of changes in future cash flows. The analysis is based on the assumption that the interest rates changed by +/- 100 basis points from the period end rates with all other variables held constant.

3 Financial risk management (continued)

(c) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unit holders to market risks. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in foreign exchange rates, interest rates and the historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market movements resulting from changes in the performance of and/or correlation between the performances of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variances in the risk variables.

| | Impact on operating profit/net assets attributable to unit holders |
|---------------------------|---|
| | Interest rate risk Increase/(decrease) |
| | 15%/(15%) |
| | \$'000 |
| As at 30 June 2019 | 4,051/(4,051) |
| As at 30 June 2018 | 1,052/(1,052) |

The sensitivity of the interest income is the effect of the assumed changes in interest rates on the interest income for the year, based on the floating rate financial assets held at 30 June 2019 with all other variables remaining constant.

(d) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Fund holds no collateral as security or any other credit enhancement. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. None of these assets are impaired nor past their due date.

(i) Debt securities

The Fund invests in debt securities which have an investment grade categorisation as rated by Standard and Poor's/Moody's. For unrated assets a rating is assigned by the Investment Manager using an approach that is consistent with the approach used by rating agencies. All debt securities must have a minimum investment grade as outlined in the Fund's Product Disclosure Statement.

An analysis of debt by rating is set out in the table below.

| | As at 30 June 2019 \$'000 | As at 30 June 2018 \$'000 |
|--|---------------------------------|---------------------------------|
| Australian debt security rating | | |
| AAA | 609,091 | 172,590 |
| AA | 35,273 | 10,638 |
| Total | 644,365 | 183,228 |

(ii) Derivative financial instruments

For derivative financial instruments, the Investment Manager has the ability to use gearing in the form of interest rate futures. Derivatives are used for interest rate hedging purposes or to replicate underlying bond securities in the form of futures contracts listed on the Sydney Stock Exchange. Futures can have the ability to magnify both profits and losses. There is also a liquidity risk associated with futures in that it may be difficult in times of volatility to trade in reasonable size.

(iii) Settlement of securities transactions

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

3 Financial risk management (continued)

(d) Credit risk (continued)

(iv) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of AA (as determined by Standard and Poor's/Moody's) or higher.

(v) Other

The Fund is not materially exposed to credit risk on other financial assets.

(vi) Maximum exposure to credit risk

The maximum exposure to credit risk before any credit enhancements at the end of each reporting period is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

(e) Liquidity risk

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

In accordance with the Fund's policy, the Responsible Entity monitors the Fund's liquidity position on a daily basis. The Fund's policy is reviewed annually. In order to manage the Fund's overall liquidity, the responsible entity has the discretion to reject an application for units and to defer or adjust redemption of units if the exercise of such discretion is in the best interests of unitholders. The Fund did not reject or withhold any redemptions during 2019 and 2018.

The Fund's Constitution provides for daily application and redemption of units and it is therefore exposed to liquidity risk of meeting unitholder redemptions at any time. Units are redeemed on demand at the unitholder's option. At 30 June 2019, net assets attributable to unitholders was \$643,326 (2018: \$183,136). Refer to Note 14.

(i) Maturities of non-derivative financial liabilities

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

| At 30 June 2019 | Less than 1 month \$'000 | 1 to 6 months \$'000 | 6 to 12 months \$'000 | Over 12 months \$'000 | Total \$'000 |
|--|--------------------------------|----------------------------|-----------------------------|-----------------------------|-----------------|
| Distribution payable | 16,599 | - | - | - | 16,599 |
| Payables | 254 | - | - | - | 254 |
| Payable for units redeemed | - | - | - | - | - |
| Due to brokers - payable for securities purchased | 3,559 | - | - | - | 3,559 |
| Contractual cashflows (excluding derivatives) | 20,412 | - | - | - | 20,412 |
| | | | | | |
| At 30 June 2018 | Less than 1 month \$'000 | 1 to 6 months \$'000 | 6 to 12 months \$'000 | Over 12 months \$'000 | Total \$'000 |
| Distribution payable | 2,760 | - | - | - | 2,760 |
| Payables | 80 | - | - | - | 80 |
| Payable for units redeemed | - | - | - | - | - |
| Due to brokers - payable for securities purchased | 14,705 | - | - | - | 14,705 |
| Net asset attributable to unit holders - liability | 183,136 | - | - | - | 183,136 |
| Contractual cashflows (excluding derivatives) | 200,681 | - | - | - | 200,681 |

4 Fair value measurement

The Fund measures and recognises financial assets and liabilities at fair value through profit or loss on a recurring basis.

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

Fair value hierarchy

Classification of financial assets and financial liabilities

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

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

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

The fair value of financial assets and liabilities traded in active markets (such as fixed interest securities and futures) are based on quoted market prices at the close of trading at the end of the reporting period without any deduction for estimated future selling costs.

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

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

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

(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 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.

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

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

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

4 Fair value measurement (continued)

(b) Fair value in an inactive or unquoted market (Level 2 and Level 3) (continued)

The following table presents the Fund's financial assets and liabilities measured and recognised at fair value according to the fair value hierarchy at 30 June 2019 and 30 June 2018:

| At 30 June 2019 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|------------------------------------|-------------------|-------------------|-------------------|-----------------|
| Financial assets | | | | |
| Fixed interest securities | - | 644,365 | - | 644,365 |
| Futures | 15 | - | - | 15 |
| Total financial assets | 15 | 644,365 | - | 644,380 |
| Financial liabilities | | | | |
| Futures | - | - | - | - |
| Total financial liabilities | - | - | - | - |
| | | | | |
| At 30 June 2018 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
| Financial assets | | | | |
| Fixed interest securities | - | 182,114 | - | 182,114 |
| Total financial assets | - | 182,114 | - | 182,114 |
| Financial liabilities | | | | |
| Futures | 33 | - | - | 33 |
| Total financial liabilities | 33 | - | - | 33 |

There were no transfers between levels during the year.

5 Interest income

| | Year ended 30 June 2019 \$'000 | Year ended 30 June 2018 \$'000 |
|--|--------------------------------------|--------------------------------------|
| Interest income from financial assets at amortised cost | 23 | 45 |
| Interest income from financial assets at fair value through profit or loss | 12,544 | 4,174 |
| Total interest income | 12,567 | 4,219 |

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

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

| | Year ended 30 June 2019 \$'000 | Year ended 30 June 2018 \$'000 |
|---|--------------------------------------|--------------------------------------|
| Financial assets | | |
| Net gain/(loss) on financial assets at fair value through profit or loss | 33,245 | 58 |
| Net gains/(losses) on financial assets | 33,245 | 58 |
| | | |
| Net realised* gain/(loss) on financial assets at fair value through profit or loss | 12,093 | (1,225) |
| Net unrealised gain/(loss) on financial assets at fair value through profit or loss | 21,152 | 1,283 |
| Net gains/(losses) on financial assets | 33,245 | 58 |
| Total net gains/(losses) on financial instruments at fair value through profit or loss | 33,245 | 58 |

*Realised gains and losses are recorded using the historical cost information.

7 Auditor's remuneration

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

| | Year ended 30 June 2019 \$ | Year ended 30 June 2018 \$ |
|--|----------------------------------|----------------------------------|
| PricewaterhouseCoopers Australia Firm | | |
| (i) Audit and other assurance services | | |
| Audit and review of financial statements | 18,750 | 18,000 |
| Audit of compliance plan | 9,000 | 6,500 |
| Total remuneration for audit and other assurance services | 27,750 | 24,500 |
| (ii) Non-audit services | | |
| Tax compliance services | 3,250 | 3,250 |
| Total remuneration for non-audit services | 3,250 | 3,250 |

The fees for audit, other assurance services and non-audit services are paid by the Responsible Entity out of the administration fees it receives.

8 Distribution to unitholders

The distributions declared during the year were as follows:

| | Year ended 30 June 2019 | | Year ended 30 June 2018 | |
|--|----------------------------|-------------|----------------------------|-------------|
| | \$'000 | CPU | \$'000 | CPU |
| Distributions - Wholesale Class | | | | |
| December | 3,460 | 1.23 | 1,420 | 1.01 |
| June (payable) | 11,985 | 2.97 | 2,760 | 1.47 |
| Total distributions | 15,445 | 4.20 | 4,180 | 2.48 |
| Distributions - Retail Class | | | | |
| June (payable) | 4,614 | 2.10 | - | - |
| Total distributions | 4,614 | 2.10 | - | - |
| Total distributions | 20,059 | | 4,180 | |

9 Cash and cash equivalents

| | As at 30 June 2019 \$'000 | As at 30 June 2018 \$'000 |
|--|---------------------------------|---------------------------------|
| Cash at bank | 6,659 | 2,985 |
| Total cash and cash equivalents | 6,659 | 2,985 |

10 Financial assets at fair value through profit or loss

| | As at 30 June 2019 \$'000 | As at 30 June 2018 \$'000 |
|--|---------------------------------|---------------------------------|
| Financial assets | | |
| Fixed interest securities | 644,365 | 182,114 |
| Futures | 15 | - |
| Total financial assets at fair value through profit or loss | 644,380 | 182,114 |
| Total financial assets at fair value through profit or loss | 644,380 | 182,114 |

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 4 to the financial statements.

11 Financial liabilities at fair value through profit or loss

| | As at 30 June 2019 \$'000 | As at 30 June 2018 \$'000 |
|---|---------------------------------|---------------------------------|
| Financial liabilities | | |
| Futures | - | 33 |
| Total financial liabilities at fair value through profit or loss | <u>-</u> | <u>33</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 4 to the financial statements.

12 Receivables

| | As at 30 June 2019 \$'000 | As at 30 June 2018 \$'000 |
|--------------------------|---------------------------------|---------------------------------|
| Interest receivable | 5,075 | 1,118 |
| GST receivable | 52 | 33 |
| Total receivables | <u>5,127</u> | <u>1,151</u> |

13 Payables

| | As at 30 June 2019 \$'000 | As at 30 June 2018 \$'000 |
|-------------------------|---------------------------------|---------------------------------|
| Management fees payable | 201 | 66 |
| Administration fees | 53 | 14 |
| Total payables | <u>254</u> | <u>80</u> |

14 Net assets attributable to unitholders

Under AASB 132 Financial Instruments: Presentation, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Fund shall classify 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 2018, the Fund classified its net assets attributable to unitholders as liabilities in accordance with AASB 132. Effective 1 July 2018, the Fund has elected into the AMIT tax regime. 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 2018 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 condensed interim statement of comprehensive income, but rather as distributions to unitholders in the condensed interim statement of changes in equity.

14 Net assets attributable to unitholders (continued)

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

| | Year ended 30 June 2019 | | Year ended 30 June 2018 | |
|---|----------------------------|-------------------|----------------------------|-------------------|
| | Units '000 | Dollars \$'000 | Units '000 | Dollars \$'000 |
| Wholesale Class | | | | |
| Opening balance* | 188,249 | 183,136 | 40,342 | 39,081 |
| Applications | 253,467 | 253,742 | 164,412 | 160,707 |
| Redemptions | (41,437) | (41,329) | (17,584) | (17,148) |
| Reinvestment of distributions | 3,056 | 2,996 | 1,079 | 1,049 |
| Distributions paid and payable | - | (15,445) | - | - |
| Increase/(decrease) in net assets attributable to unitholders | - | - | - | (553) |
| Profit/(loss) for the year | - | 32,721 | - | - |
| Closing balance* | 403,335 | 415,821 | 188,249 | 183,136 |
| Retail Class | | | | |
| Opening balance* | - | - | - | - |
| Applications | 225,120 | 226,856 | - | - |
| Redemptions | (5,771) | (5,982) | - | - |
| Reinvestment of distributions | - | - | - | - |
| Distributions paid and payable | - | (4,614) | - | - |
| Increase/(decrease) in net assets attributable to unitholders | - | - | - | - |
| Profit/(loss) for the year | - | 11,245 | - | - |
| Closing balance* | 219,349 | 227,505 | - | - |
| Closing balance* | | 643,326 | | 183,136 |

* Net assets attributable to unitholders are classified as equity at 30 June 2019 and as a financial liability at 30 June 2018. Refer to Note 1 and Note 2 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 attracting to it as all other units of the Fund.

On 21 December 2018, the Responsible Entity registered a second class of the Fund with the Australian Securities and Investment Commission. On 22 February 2019, the Retail Class received its first application.

Capital risk management

The Fund manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability until 30 June 2018 and as equity from 1 July 2018. 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.

The Fund monitors the level of daily applications and redemptions relative to the liquid assets in the Fund. The Fund's strategy is to hold a certain portion of the net assets attributable to unitholders in liquid investments. Liquid assets include cash and cash equivalents. 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.

15 Derivative financial instruments

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

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

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

- hedging to protect an asset or liability of the Fund against a fluctuation in market values, foreign exchange risk or to reduce volatility;
- a substitution for trading of physical securities; and
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.
- While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Fund.

The Fund holds the following derivative instruments:

(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. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange. Futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

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

| As at 30 June 2019 | Fair Value Contractual/ notional \$'000 | Fair Value Assets \$'000 | Fair Value Liabilities \$'000 |
|---------------------------|--|---|--|
| Futures | 70,310 | 15 | #REF! |
| Total | 70,310 | 15 | #REF! |

| As at 30 June 2018 | Fair Value Contractual/ notional \$'000 | Fair Value Assets \$'000 | Fair Value Liabilities \$'000 |
|---------------------------|--|---|--|
| Futures | 18,521 | - | 33 |
| Total | 18,521 | - | 33 |

(b) Risk exposures and fair value measurements

Information about the Fund's exposure to credit risk and interest rate risk and about the methods and assumptions used in determining fair values is provided in Note 3 and Note 4 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

The Responsible Entity of CC JCB Active Bond Fund is Channel Investment Management Limited.

Channel Investment Management Limited has appointed JamiesonCooteBonds Pty Ltd as the Investment Manager of the Fund, RBC Investor Services Trust to act as Custodian for the Fund, and Mainstream Fund Services Pty Ltd (formerly known as FundBPO) to act as Administrator for the Fund.

The following fees are charged by the Responsible Entity:

(i) Management fee

The Fund's constitution permits the Responsible Entity to charge a management fee of up to 0.45% per annum (including GST less RITC) of the net asset value of the Class A Units. From this, the Responsible Entity pays JamiesonCooteBonds Pty Ltd a fee for acting as the Investment Manager.

The management fee is calculated and accrued daily and is paid monthly in arrears.

(ii) Administration fee

Administration fee is charged by the Responsible Entity for administering the Fund. The maximum Administration Fee is 0.10% per annum (including GST less RITC) of the net asset value of the Fund and is calculated and accrued daily and paid monthly in arrears.

The administration fees for Channel Investment Management Limited are payable by the Fund.

This fee covers the costs and expenses of providing administration services to the Fund. These costs and expenses include: registry, administration, custodial, compliance and operational costs, without including extraordinary expenses.

The transactions during the year and amounts payable at year end between the Fund and the Responsible Entity were as follows:

| | Year ended 30 June 2019 \$ | Year ended 30 June 2018 \$ |
|--|----------------------------------|----------------------------------|
| Management and administration fees for the year paid by the Fund to the Responsible Entity | 1,839,114 | 649,993 |
| Aggregate amounts payable to the Responsible Entity at the end of the reporting period | 253,924 | 80,200 |

(a) Key management personnel

(i) Responsible Entity

The key management personnel of Channel Investment Management Limited are:

Name

Mr G Holding
Ms K Youhanna
Mr S Jordan

(ii) Investment Manager

The key management personnel of JamiesonCooteBonds Pty Ltd are:

Name

Mr C Jamieson
Mr A Coote

16 Related party transactions (continued)

(b) Related party unit holdings

Parties related to the Fund (including Channel Investment Management Limited, its related parties and other schemes managed by Channel Investment Management Limited and the Investment Manager) held units in the Fund as follows:

| Year ended 30 June 2019 | | | | | |
|-----------------------------|-------------------|--------------------------------------|----------------------------------|----------------------------------|--------------------------------------|
| <i>Number of units held</i> | | | | | |
| Related party | Interest held (%) | Number of units held opening (Units) | Number of units acquired (Units) | Number of units disposed (Units) | Number of units held closing (Units) |
| Charles Jamieson* | 0.02% | 80,000 | - | - | 80,000 |

| Year ended 30 June 2018 | | | | | |
|-----------------------------|-------------------|--------------------------------------|----------------------------------|----------------------------------|--------------------------------------|
| <i>Number of units held</i> | | | | | |
| Related party | Interest held (%) | Number of units held opening (Units) | Number of units acquired (Units) | Number of units disposed (Units) | Number of units held closing (Units) |
| Charles Jamieson* | 0.04% | 80,000 | - | - | 80,000 |

Fair value of investments held and distributions paid/payable by the Fund

| Related party | Fair value of investments | Distributions paid/payable by the Fund | Fair value of investments | Distributions paid/payable by the Fund |
|-------------------|---------------------------|--|---------------------------|--|
| | As at 30 June 2019 | | As at 30 June 2018 | |
| | \$ | \$ | \$ | \$ |
| Charles Jamieson* | 84,896 | 2,377 | 79,040 | 1,173 |

* Units were held indirectly by Williamjoy Pty Ltd.

(c) Key management personnel compensation

Key management personnel are paid by Channel Capital Pty Ltd, the parent entity of Channel Investment Management Limited. Payments made from the Fund to Channel Investment Management Limited do not include any amounts directly attributable to key management personnel remuneration.

(d) Key management personnel loan disclosures

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

(e) Other transactions within the Fund

From time to time directors of Channel Investment Management Limited or their director related entities, may invest in or withdraw from the Fund. These investments or withdrawals are on the same terms and conditions as those entered into by other Fund investors and are trivial in nature.

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

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

| | Year ended 30 June 2019 \$'000 | Year ended 30 June 2018 \$'000 |
|---|--------------------------------------|--------------------------------------|
| (a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities | | |
| Profit/(loss) for the year | 43,966 | - |
| Increase/(decrease) in net assets attributable to equity/unit holders | - | (553) |
| Proceeds from sale of financial instruments at fair value through profit or loss | 1,178,686 | 566,479 |
| Purchase of financial instruments at fair value through profit or loss | (1,611,994) | (709,598) |
| Net (gains)/losses on financial instruments at fair value through profit or loss | (33,245) | (58) |
| Distribution to equity/unit holders | - | 4,180 |
| (Increase)/decrease in receivables | (3,976) | (730) |
| Increase/(decrease) in payables | 174 | 63 |
| Net cash inflow/(outflow) from operating activities | (426,389) | (140,217) |
| (b) Non-cash financing and investment activities | | |
| The following distribution payments to unit holders were satisfied by the issue of units under the distribution reinvestment plan | 2,996 | 1,049 |
| Total non-cash financing and investment activities | 2,996 | 1,049 |

18 Events occurring after the reporting period

No significant events have occurred since the end of the period which would impact on the financial position of the Fund as disclosed in the statement of financial position as at 30 June 2019 or on the results and cash flows of the Fund for the year ended on that date.

19 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2019 and 30 June 2018.

Directors' declaration

In the opinion of the Directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 28 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian 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 2019 and of its performance for the 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.

Note 2(a) confirms that the financial statements also 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.



Ms K Youhanna
Director
Channel Investment Management Limited

Brisbane
19 September 2019



Independent auditor's report

To the unitholders of CC JCB Active Bond Fund

Our opinion

In our opinion:

The accompanying annual financial statements of CC JCB Active Bond Fund (the Registered Scheme) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Registered Scheme's financial position as at 30 June 2019 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 annual financial statements comprises:

- the statement of financial position as at 30 June 2019
- 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 a summary of significant accounting policies
- the directors of the Responsible Entity's declaration.

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 annual financial statements* 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 Registered Scheme 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 annual financial statements in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The Directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Directors' report for the year ended 30 June 2019, including the Directors' report, but does not include the annual financial statements and our auditor's report thereon.

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

In connection with our audit of the annual financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the annual financial statements 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.

Responsibilities of the directors of the Responsible Entity for the annual financial statements

The directors of the Responsible Entity of the Registered Scheme are responsible for the preparation of the annual financial statements 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 determine is necessary to enable the preparation of the annual financial statements that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the annual financial statements, the directors of the Responsible Entity are responsible for assessing the ability of the Registered Scheme 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 intend to liquidate the Registered Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the annual financial statements

Our objectives are to obtain reasonable assurance about whether the annual financial statements 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 annual financial statements.

A further description of our responsibilities for the audit of the annual financial statements is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Ben Woodbridge' in a cursive script.

Ben Woodbridge
Partner

Brisbane
19 September 2019