

# **Altius Bond Fund**

ARSN 150 873 395

## **Annual financial report for the year ended 30 June 2016**

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## Directors' report

The directors of Australian Unity Funds Management Limited (ABN 60 071 497 115), the Responsible Entity of Altius Bond Fund ("the Scheme"), present their report together with the financial statements of the Scheme for the year ended 30 June 2016.

### Directors

The following persons were directors of the Responsible Entity during the whole of the financial year and up to the date of this report (unless otherwise stated):

Rohan Mead, Chairman and Group Managing Director (appointed Chairman 30 June 2016)  
 David Bryant, Chief Executive Officer, Investments and Chief Investment Officer  
 Kevin McCoy, Chief Financial Officer  
 Glenn Barnes, Chairman (resigned 30 March 2016)  
 Melinda Cilento, Non-Executive Director (resigned 30 June 2016)  
 Stephen Maitland, Non-Executive Director (resigned 30 June 2016)  
 Su McCluskey, Non-Executive Director (appointed 27 January 2016, resigned 30 June 2016)  
 Peter Promnitz, Non-Executive Director and appointed Chairman from 30 March 2016 (resigned 30 June 2016)  
 Greg Willcock, Non-Executive Director (resigned 30 June 2016)

### Principal activities

The Scheme is an active and diversified fixed income fund which aims to optimise returns for investors in all market conditions. The investment strategy applies a high conviction approach and seeks opportunities to take advantage of the mispricing of bonds at all stages of the economic cycle. A comprehensive risk management framework is employed, which includes diversification at the security and sector level.

The Scheme's assets are managed by Altius Asset Management Pty Ltd. Australian Unity Strategic Holdings Pty Ltd owns 45% of Altius Asset Management Pty Ltd. The remaining ownership interest is held by key investment personnel and associates of Altius Asset Management Pty Ltd.

### Review and results of operations

For the year ended 30 June 2016 the Scheme posted a total return of 4.71% (split between a distribution return of 3.65% and a growth return of 1.07%).\*

Unit prices (ex distribution) as at 30 June 2016 (2015) are as follows:  
 Wholesale units \$1.0145 (\$1.0038)\*

\* The reported performance numbers and reported unit prices (which are not audited) have been derived based on the declared unit prices calculated in accordance with the Responsible Entity's unit pricing policy, and are not based on the net assets of these IFRS compliant financial statements. Return calculations assume reinvestment of distributions.

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

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Profit before finance costs attributable to unitholders	<u>9,641</u>	<u>4,355</u>
<i>Distributions</i>		
Distributions paid and payable	<u>7,548</u>	<u>5,766</u>

### Significant changes in the state of affairs

In the opinion of the directors, there were no significant changes in the state of the affairs of the Scheme that occurred during the year, except those mentioned elsewhere in the report.

### Events occurring after end of the financial year

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the operations of the Scheme, the results of operations, or the state of the Scheme's affairs in future years.

### Likely developments and expected results of operations

The Scheme will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

Further information on likely developments in the operations of the Scheme 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 Scheme.

## Directors' report (continued)

### Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of Australian Unity Funds Management Limited or the auditors of the Scheme. So long as the officers of Australian Unity Funds Management Limited act in accordance with the Scheme's Constitution and the *Corporations Act 2001*, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditors of the Scheme are in no way indemnified out of the assets of the Scheme.

### Fees paid to and interests held in the Scheme by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Scheme property during the year are disclosed in Note 14 to the financial statements.

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

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the year are disclosed in Note 14 to the financial statements.

### Units in the Scheme

The movement in units on issue in the Scheme during the year are disclosed in Note 6 to the financial statements.

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

### Environmental regulation

The Scheme operations are not subject to environmental regulations under Australian law.

### Rounding of amounts to the nearest thousand dollars

The Scheme is an entity of the kind referred to in ASIC Corporations Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with that Class Order, where indicated.

### Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

Signed in accordance with a resolution of the directors of Australian Unity Funds Management Limited.



Director



Director

8 September 2016



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## Auditor's Independence Declaration to the Directors of Australian Unity Funds Management Limited as responsible entity for Altius Bond Fund

As lead auditor for the audit of Australian Unity Funds Management Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

Luke Slater  
Partner  
Melbourne

8 September 2016

**Altius Bond Fund**  
**Statement of comprehensive income**  
**For the year ended 30 June 2016**

**Statement of comprehensive income**

	Notes	2016 \$'000	2015 \$'000
<b>Investment income</b>			
Interest income	3	6,481	6,195
Net foreign exchange loss		(6)	1
Net gains/(losses) on financial instruments held at fair value through profit or loss	4	4,447	(712)
Other income		<u>125</u>	<u>-</u>
<b>Total investment income</b>		<b><u>11,047</u></b>	<b><u>5,484</u></b>
<b>Expenses</b>			
Responsible Entity's fees	14	1,402	1,066
Transaction costs		<u>4</u>	<u>63</u>
<b>Total expenses</b>		<b><u>1,406</u></b>	<b><u>1,129</u></b>
<b>Profit before finance costs attributable to unitholders</b>		<b><u>9,641</u></b>	<b><u>4,355</u></b>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	7	(7,548)	(5,766)
(Increase)/decrease in net assets attributable to unitholders	6	<u>(2,093)</u>	<u>1,411</u>
<b>Total comprehensive income for the year attributable to unitholders</b>		<b><u>-</u></b>	<b><u>-</u></b>

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

**Altius Bond Fund**  
**Statement of financial position**  
**As at 30 June 2016**

**Statement of financial position**

	Notes	2016 \$'000	2015 \$'000
<b>Assets</b>			
Cash and cash equivalents	8	5,960	17,492
Receivables		12,166	716
Financial assets held at fair value through profit or loss	9	<u>211,212</u>	<u>157,104</u>
<b>Total assets</b>		<u>229,338</u>	<u>175,312</u>
<b>Liabilities</b>			
Distributions payable		2,845	3,212
Payables		11,782	290
Financial liabilities held at fair value through profit or loss	10	<u>1,821</u>	<u>821</u>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>16,448</u>	<u>4,323</u>
<b>Net assets attributable to unitholders</b>	6	<u>212,890</u>	<u>170,989</u>

*The above statement of financial position should be read in conjunction with the accompanying notes.*

**Altius Bond Fund**  
**Statement of changes in net assets attributable to unitholders**  
**For the year ended 30 June 2016**

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**Statement of changes in net assets attributable to unitholders**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>Balance at the beginning of the year</b>	<b>170,989</b>	142,881
Profit before finance costs attributable to unitholders	<b>9,641</b>	4,355
Distributions to unitholders	<b>(7,548)</b>	(5,766)
Applications	<b>68,035</b>	44,888
Redemptions	<b>(32,841)</b>	(20,114)
Units issued upon re-investment of distributions	<u><b>4,614</b></u>	<u>4,745</u>
<b>Balance at the end of the year</b>	<u><b>212,890</b></u>	<u>170,989</u>

*The above statement of changes in net assets attributable to unitholders should be read in conjunction with the accompanying notes.*



**Altius Bond Fund**  
**Statement of cash flows**  
**For the year ended 30 June 2016**

**Statement of cash flows**

	Notes	2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
Sale of financial instruments held at fair value through profit or loss		167,178	143,217
Purchase of financial instruments held at fair value through profit or loss		<u>(217,742)</u>	<u>(166,815)</u>
Transaction costs paid		(4)	(67)
Interest received		7,984	6,113
GST received		93	56
Other income received		125	-
Responsible Entity's fees paid		<u>(1,661)</u>	<u>(912)</u>
<b>Net cash outflow from operating activities</b>	15(a)	<u>(44,027)</u>	<u>(18,408)</u>
<b>Cash flows from financing activities</b>			
Proceeds from applications by unitholders		68,641	44,250
Payments for redemptions by unitholders		<u>(32,839)</u>	<u>(20,114)</u>
Distributions paid to unitholders		<u>(3,301)</u>	<u>(126)</u>
<b>Net cash inflow from financing activities</b>		<u>32,501</u>	<u>24,010</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(11,526)</b>	5,602
Cash and cash equivalents at the beginning of the year		17,492	11,889
Effect of foreign currency exchange rate changes		<u>(6)</u>	<u>1</u>
<b>Cash and cash equivalents at the end of the year</b>	8,15(b)	<u>5,960</u>	<u>17,492</u>

*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 Altius Bond Fund ("the Scheme") as an individual entity. The Scheme was constituted on 5 May 2011 and will terminate on the 80th anniversary or earlier in accordance with the Scheme's Constitution.

The Responsible Entity of the Scheme is Australian Unity Funds Management Limited (ABN 60 071 497 115) ("the Responsible Entity"), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity's registered office is Level 14, 114 Albert Road, South Melbourne, VIC 3205.

The Responsible Entity is incorporated and domiciled in Australia.

The financial statements are for the period from 1 July 2015 to 30 June 2016.

The financial statements were authorised for issue by the directors of the Responsible Entity on 8 September 2016. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated. Where appropriate, comparatives have been reclassified to enhance comparability with current year disclosures.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*.

The Scheme is a for-profit entity for the purposes of preparing 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 12 months, except for investments in financial assets and net assets attributable to unitholders where the amount expected to be recovered or settled within 12 months after the end of the year cannot be reliably determined.

#### (i) Compliance with Australian Accounting Standards and International Financial Reporting Standards

The financial statements of the Scheme comply with Australian Accounting Standards as issued by the Australian Accounting Standards Board (AASB) and also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

These financial statements are presented in the local currency being Australian dollars.

#### (ii) Amended standard adopted by the Scheme

There are no new major accounting standard amendments that became mandatory for the first time for the year.

### (b) Financial instruments

#### (i) Classification

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

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

##### - Financial instruments held for trading

These may include derivative financial instruments including futures, forward contracts, options and interest rate swaps. The Scheme does not designate any derivatives as hedges in a hedging relationship.

##### - Financial assets and liabilities designated at fair value through profit or loss upon initial recognition

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

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Scheme's documented investment strategy. The Scheme's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

The information on the fair value basis is provided internally to the Scheme's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

- *Loans and receivables/payables*

Loans and receivables/payables are non-derivative financial assets/liabilities with fixed or determinable payments that are not quoted in an active market. This category includes short-term receivables/payables.

- *(ii) Recognition/derecognition*

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

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Scheme retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or
- the Scheme has transferred its rights to receive cash flows from the asset and either:
  - (a) has transferred substantially all the risks and rewards of the asset; or
  - (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Any gains or losses arising from derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) are included in the statement of comprehensive income in the year the asset is derecognised as realised gains or losses on financial instruments.

- *(iii) Measurement*

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

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

- *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 year 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.

A financial instrument is regarded as quoted in 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.

The Scheme's financial instruments that are valued based on active markets generally include listed instruments, ranging from listed equity and/or debt securities to listed derivatives, where applicable.

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

- *(iv) Offsetting financial instruments*

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

### (c) Net assets attributable to unitholders

Units are redeemable at the unitholders option and are classified as financial liabilities due to mandatory distributions. The units can be put back to the Scheme 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 year if unitholders exercised their right to put the units back to the Scheme. Because the Scheme's redemption unit price is based on different valuation principles to that applied in financial reporting, a valuation difference exists, which has been treated as a separate component of net assets attributable to unitholders. Changes in the value of this financial liability are recognised in the statement of comprehensive income as they arise.

## 2 Summary of significant accounting policies (continued)

### (d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in the statement of financial position.

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 Scheme's main income generating activity.

### (e) Investment income

Interest income and interest expenses are recognised in the statement of comprehensive income for all financial instruments on an accruals basis. Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2(b).

Net gains/(losses) on financial assets and financial liabilities held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at the end of the year and the fair value at the previous valuation point. Net gains/(losses) do not include interest or dividend/distribution income. Realised and unrealised gains/(losses) are shown in the notes to the financial statements.

### (f) Expenses

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

### (g) Income tax

Under current legislation, the Scheme is not subject to income tax as unitholders are presently entitled to the income of the Scheme.

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

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

### (h) Distributions

In accordance with the Scheme's Constitution, the Scheme distributes income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as finance costs attributable to unitholders.

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

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

### (j) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the Scheme's financial statements are measured using the currency of the primary economic environment in which it operates ("the functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Scheme competes for funds and is regulated. The Australian dollar is also the Scheme's presentation currency.

#### (ii) Transactions and balances

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

The Scheme does not isolate that portion of gains or losses on securities and derivative financial instruments that are measured at fair value through profit or loss and which is due to changes in foreign exchange rates from that which is due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss.

### (k) Receivables

Receivables may include amounts for dividends, interest and securities sold where settlement has not yet occurred. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each year 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 application monies receivable from unitholders.

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

### **(l) Payable**

Payables include liabilities and accrued expenses owing by the Scheme which are unpaid as at the end of the year.

Trades are recorded on trade date, and normally settled within three business days. Purchases of financial instruments that are unsettled at the end of each year are included in payables.

The distribution amount payable to unitholders at the end of each year is recognised separately in the statement of financial position when unitholders are presently entitled to the distributable income under the Scheme's Constitution.

### **(m) Applications and redemptions**

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

Unit redemption prices are determined in accordance with the Scheme's Constitution by reference to the net assets of the Scheme divided by the number of units on issue.

### **(n) Goods and services tax (GST)**

Expenses of various services provided to the Scheme by third parties such as custodial services and investment management fees etc. are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case, it is recognised as part of the related expense or cost item.

Accounts payable and receivable are stated inclusive of the GST receivable and payable. The net amount of GST recoverable from, or payable to, the taxation authority is included in receivables or payables in the statement of financial position.

Cash flows relating to GST are included in the statement of cash flows on a gross basis.

### **(o) Use of judgement and estimates**

The preparation of the Scheme's financial statements requires it to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. However, 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.

The Scheme's financial instruments are valued primarily based on the prices provided by independent pricing services.

When the fair values of the reported financial instruments cannot be derived from active markets, they are determined using prices obtained from inactive or unquoted markets and/or other valuation techniques. The inputs to these valuation techniques (if applicable) are taken from observable markets to the extent practicable. Where observable inputs are not available, the inputs may be estimated based on a degree of judgements and assumptions in establishing fair values.

Where appropriate, the outcomes of the valuation techniques that are used in establishing fair values are validated using prices from observable current market transactions for similar instruments (without modification or repackaging) or based on relevant available observable market data.

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

In addition, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates and judgements. 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, accounts payable and the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

### **(p) New accounting standards and interpretations not yet adopted**

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting periods and have not yet been applied in the financial statements. The Responsible Entity's assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

## 2 Summary of significant accounting policies (continued)

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

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

AASB 9 *Financial Instruments* addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. It has now also introduced revised rules for hedge accounting and impairment. The Standard is not applicable until 1 January 2018 but is available for early adoption. The Scheme does not expect this to have a significant impact on the recognition and measurement of the Scheme'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 Scheme does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Scheme's investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Scheme. The Scheme does not intend to early adopt AASB 9. The Scheme will apply AASB 9 in its financial statements for the year commencing from 1 July 2018.

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

In December 2014, the AASB issued a new standard for the recognition of revenue. Once applied or effective, 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 notion that revenue is recognised when control of a good or service transfers to a customer. This notion of control replaces the existing notion of risks and rewards. The Scheme's main source of income includes interest, dividends/distributions and gains on financial instruments held at fair value through profit or loss. All of these are outside the scope of the Revenue standard. Consequently, the Scheme does not expect AASB 15 to have a significant impact on the Scheme's financial statements. The Scheme does not intend to early adopt AASB 15. The Scheme will apply AASB 15 in its financial statements for the year commencing from 1 July 2018.

### (q) Rounding of amounts

The Scheme is an entity of a kind referred to in ASIC Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, where indicated.

## 3 Interest income

	2016 \$'000	2015 \$'000
Fixed interest securities	6,563	6,117
Cash and deposits	273	333
Swaps	(355)	(255)
<b>Total interest income</b>	<b>6,481</b>	<b>6,195</b>

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

	2016 \$'000	2015 \$'000
Net unrealised loss on financial instruments held for trading	(1,757)	(222)
Net unrealised gain/(loss) on financial assets designated at fair value through profit or loss	4,497	(802)
Net realised gain/(loss) on financial instruments held for trading	1,416	(1,746)
Net realised gain on financial assets designated at fair value through profit or loss	291	2,058
<b>Total net gains/(losses) on financial instruments held at fair value through profit or loss</b>	<b>4,447</b>	<b>(712)</b>

## 5 Auditor's remuneration

The auditor's remuneration is paid directly by the Responsible Entity.

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

	2016	2015
	\$	\$
<b>Audit services</b>		
Audit and review of financial statements	<u>7,000</u>	<u>7,000</u>
<b>Total remuneration for audit services</b>	<u>7,000</u>	<u>7,000</u>
<b>Taxation services</b>		
Tax compliance services	<u>2,628</u>	<u>8,004</u>
<b>Total remuneration for taxation services</b>	<u>2,628</u>	<u>8,004</u>

## 6 Net assets attributable to unitholders

As stipulated within the Scheme's Constitution, each unit represents a right to an individual share in the Scheme and does not extend to a right in the underlying assets of the Scheme. There are no separate classes of units and each unit has the same rights attaching to it as all other units in the Scheme.

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

	2016	2015	2016	2015
	No. '000	No. '000	\$'000	\$'000
<b>Opening balance</b>	<b>170,485</b>	141,571	<b>170,989</b>	142,881
Applications	<b>67,421</b>	43,994	<b>68,035</b>	44,888
Redemptions	<b>(32,440)</b>	(19,756)	<b>(32,841)</b>	(20,114)
Units issued upon re-investment of distributions	<b>4,590</b>	4,676	<b>4,614</b>	4,745
Increase/(decrease) in net assets attributable to unitholders	<u>-</u>	<u>-</u>	<u>2,093</u>	<u>(1,411)</u>
<b>Closing balance</b>	<u><b>210,056</b></u>	<u>170,485</u>	<u><b>212,890</b></u>	<u>170,989</u>

### Capital risk management

The Scheme considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a financial liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Scheme is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Scheme's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Scheme's Constitution, 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.



## 7 Distributions to unitholders

### Timing of distributions

The distributions declared for the year were as follows:

	2016 \$'000	2016 CPU	2015 \$'000	2015 CPU
<b>Distributions</b>				
30 September	1,045	0.5000	937	0.6451
31 December	1,562	0.7500	1,058	0.7000
31 March	2,096	1.0000	559	0.3500
30 June (payable)	<u>2,845</u>	<u>1,3544</u>	<u>3,212</u>	<u>1,8840</u>
<b>Total distributions</b>	<u>7,548</u>		<u>5,766</u>	

As unitholders are presently entitled to the distributable income of the Scheme, no income tax is payable by the Responsible Entity.

## 8 Cash and cash equivalents

	2016 \$'000	2015 \$'000
Cash at bank	4,989	9,619
Deposits held with brokers	971	1,873
Term deposits	<u>-</u>	<u>6,000</u>
	<u>5,960</u>	<u>17,492</u>

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

	2016 \$'000	2015 \$'000
<i>Held for trading</i>		
Derivatives	382	456
<i>Designated at fair value through profit or loss</i>		
Fixed interest bonds	167,590	118,573
Mortgage backed securities	12,255	10,076
Asset backed securities	2,963	1,265
Floating rate notes	25,024	18,760
Discount securities	<u>2,998</u>	<u>7,974</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>211,212</u>	<u>157,104</u>

An overview of the risk exposures relating to financial assets held at fair value through profit or loss is included in Note 12.

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

	2016 \$'000	2015 \$'000
<i>Held for trading</i>		
Derivatives	<u>1,821</u>	<u>821</u>
<b>Total financial liabilities held at fair value through profit or loss</b>	<u>1,821</u>	<u>821</u>

An overview of the risk exposures relating to financial liabilities held at fair value through profit or loss is included in Note 12.

## 11 Derivative financial instruments

In the normal course of business the Scheme may enter into transactions in various derivative financial instruments with 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 Scheme'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 Scheme against a fluctuation in market values or to reduce volatility
- a substitution for trading of physical securities
- adjusting asset exposures within the parameters set in the investment strategy, and 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 Scheme.

The Scheme 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 contract values are usually settled net daily with the exchange. Interest rate 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.

### (b) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price risk. Options held by the Scheme are exchange-traded. The Scheme is exposed to credit risk on purchased options to the extent of their carrying amount, which is their fair value. Options are settled on a gross basis.

### (c) Swaps

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

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

<b>30 June 2016</b>	<b>Notional \$'000</b>	<b>Assets \$'000</b>	<b>Liabilities \$'000</b>
Swaps	(29,500)	307	1,775
Futures	<u>79,348</u>	<u>75</u>	<u>46</u>
		<u>382</u>	<u>1,821</u>
30 June 2015	Notional \$'000	Assets \$'000	Liabilities \$'000
Options	66,622	31	-
Swaps	-	400	784
Futures	<u>(47,723)</u>	<u>25</u>	<u>37</u>
		<u>456</u>	<u>821</u>

## 12 Financial risk management

### (a) Objectives, strategies, policies and processes

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

The Scheme's overall risk management program focuses on ensuring compliance with the Scheme's disclosure documents and seeks to maximise the returns derived for the level of risk to which the Scheme 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 Scheme uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and ratings analysis for credit risk.

As part of its risk management strategy, the Scheme may use derivatives and other investments, including share price and bond futures, interest rate swaps and forward currency contracts, to manage exposures resulting from changes in interest rates, foreign currencies, equity price risks, and exposures arising from forecast transactions.

### (b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: price risk, foreign currency risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

The market risk disclosures are prepared on the basis of the Scheme's direct investments and not on a look through basis for investments held in the Scheme.

The sensitivity of the Scheme's net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) to price risk, foreign exchange risk and interest rate risk is measured by the reasonably possible movements approach. This approach is determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and foreign exchange rates, historical correlation of the Scheme's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Scheme invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

At 30 June 2016, the overall market exposures were as follows:

	2016 \$'000	2015 \$'000
Derivatives assets held for trading	382	456
Derivatives liabilities held for trading	(1,821)	(821)
Securities designated at fair value through profit or loss	<u>210,830</u>	<u>156,648</u>
	<u>209,391</u>	<u>156,283</u>

#### (i) Price risk

There was no significant direct price risk in the Scheme as at 30 June 2016 (2015: Nil).

#### (ii) Foreign exchange risk

The foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Scheme holds assets denominated in currencies other than the Australian dollar, the functional currency. It is therefore exposed to foreign exchange risk, as the value of the future cash flows of the securities denominated in other currencies will fluctuate due to changes in exchange rates. The risk is measured using sensitivity analysis.

As stated in section (a) above, as part of its risk management strategy, the Scheme uses forward currency contracts to manage exposures resulting from changes in foreign currencies. On this basis, the Scheme's overall exposure to foreign exchange risk is considered minimal after taking into account the forward currency contracts, futures and options.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's currency position on a regular basis. This information and the compliance with the Scheme's policy are reported to the relevant parties on a regular basis as deemed appropriate such as compliance manager, other key management personnel, compliance committees and ultimately the Board.

## 12 Financial risk management (continued)

### (b) Market risk (continued)

The foreign exchange risk disclosures have been prepared on the basis of the Scheme's direct investment and not on a look through basis for investments held indirectly through unit trusts. Consequently the disclosure of currency risk in the note may not represent the true currency risk profile of the Scheme where the Scheme has significant investments in indirect trusts which also have exposure to the currency markets.

When the Investment Manager formulates a view on the future direction of foreign exchange rates and the potential impact on the Scheme, the Investment Manager factors that into its portfolio allocation decisions. While the Scheme has direct exposure to foreign exchange rate changes on the price of non-Australian dollar denominated securities, it may also be indirectly affected for example, by the impact of foreign exchange rate changes on the earnings of certain entities in which the Scheme invests, even if those entities' securities are denominated in Australian dollars. For that reason, the sensitivity analysis may not necessarily indicate the total effect on the Scheme's net assets attributable to unitholders of future movements in foreign exchange rates.

The table below summarises the Scheme's assets and liabilities which are denominated in non-Australian currencies:

<b>30 June 2016</b>	<b>USD A\$'000</b>
<b>Assets</b>	
Cash and cash equivalents	<u>122,751</u>
<b>Total assets</b>	<u>122,751</u>

There was no significant direct foreign exchange risk in the Scheme as at 30 June 2015.

At 30 June 2016, had the Australian dollar weakened/strengthened as illustrated below against the various currencies to which the Scheme is exposed, with all other variables held constant, the net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) would have changed by the following amounts, approximately and respectively:

	<b>AUD Weakened</b>		<b>AUD Strengthened</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
AUD/USD 2016 10%	<b>12</b>	<b>-</b>	<b>(12)</b>	<b>-</b>

The possible impact against other currencies is considered immaterial individually and therefore has not been included in the above table.

### (iii) Interest rate risk

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

The Scheme'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 Scheme has established limits on investments in interest bearing assets, which are monitored on a daily basis. The Scheme 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.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's overall interest sensitivity on a regular basis. This information and the compliance with the Scheme's policy are reported to the relevant parties on a regular basis as deemed appropriate such as compliance manager, other key management personnel, compliance committees and ultimately the Board.

The Scheme has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain entities in which the Scheme invests and impact on the valuation of certain assets that use interest rates as an input in their valuation model. Therefore, the sensitivity analysis may not fully indicate the total effect on the Scheme's net assets attributable to unitholders of future movements in interest rates.

## 12 Financial risk management (continued)

### (b) Market risk (continued)

The table below summarises the Scheme's exposure to interest rate risks. It includes the Scheme's assets and liabilities at fair values, categorised by the maturity dates:

As at 30 June 2016	Floating interest rate \$'000	3 months or less \$'000	4 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Non- interest bearing \$'000	Total \$'000
<b>Assets</b>							
Cash and cash equivalents	5,960	-	-	-	-	-	5,960
Receivables	-	-	-	-	-	12,166	12,166
Financial assets held at fair value through profit or loss							
<i>Held for trading</i>							
Swaps	307	-	-	-	-	-	307
Futures	75	-	-	-	-	-	75
<i>Designated at fair value through profit or loss</i>							
Fixed interest bonds	-	6,137	1,571	109,976	49,906	-	167,590
Floating rate notes	25,024	-	-	-	-	-	25,024
Mortgage backed securities	12,255	-	-	-	-	-	12,255
Discount securities	-	2,998	-	-	-	-	2,998
Asset backed securities	2,963	-	-	-	-	-	2,963
<b>Total assets</b>	<b>46,584</b>	<b>9,135</b>	<b>1,571</b>	<b>109,976</b>	<b>49,906</b>	<b>12,166</b>	<b>229,338</b>
<b>Liabilities</b>							
Distributions payable	-	-	-	-	-	2,845	2,845
Payables	-	-	-	-	-	11,782	11,782
Financial liabilities held at fair value through profit or loss							
<i>Held for trading</i>							
Swaps	1,775	-	-	-	-	-	1,775
Futures	46	-	-	-	-	-	46
<b>Total liabilities</b>	<b>1,821</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>14,627</b>	<b>16,448</b>
<b>Net assets attributable to unitholders</b>	<b>44,763</b>	<b>9,135</b>	<b>1,571</b>	<b>109,976</b>	<b>49,906</b>	<b>(2,461)</b>	<b>212,890</b>
As at 30 June 2015	Floating interest rate \$'000	3 months or less \$'000	4 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Non- interest bearing \$'000	Total \$'000
<b>Assets</b>							
Cash and cash equivalents	9,141	8,351	-	-	-	-	17,492
Receivables	-	-	-	-	-	716	716
Financial assets held at fair value through profit or loss							
<i>Held for trading</i>							
Swaps	400	-	-	-	-	-	400
Futures	25	-	-	-	-	-	25
Options	31	-	-	-	-	-	31
<i>Designated at fair value through profit or loss</i>							
Fixed interest bonds	-	-	-	71,020	47,553	-	118,573
Floating rate notes	18,760	-	-	-	-	-	18,760
Mortgage backed securities	10,076	-	-	-	-	-	10,076
Discount securities	-	7,974	-	-	-	-	7,974
Asset backed securities	1,265	-	-	-	-	-	1,265
<b>Total assets</b>	<b>39,698</b>	<b>16,325</b>	<b>-</b>	<b>71,020</b>	<b>47,553</b>	<b>716</b>	<b>175,312</b>
<b>Liabilities</b>							
Distributions payable	-	-	-	-	-	3,212	3,212
Payables	-	-	-	-	-	290	290
Financial liabilities held at fair value through profit or loss							
<i>Held for trading</i>							
Swaps	784	-	-	-	-	-	784
Futures	37	-	-	-	-	-	37
<b>Total liabilities</b>	<b>821</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,502</b>	<b>4,323</b>
<b>Net assets attributable to unitholders</b>	<b>38,877</b>	<b>16,325</b>	<b>-</b>	<b>71,020</b>	<b>47,553</b>	<b>(2,786)</b>	<b>170,989</b>

## 12 Financial risk management (continued)

### (b) Market risk (continued)

At 30 June 2016, should interest rates have (decreased)/increased by the basis points indicated below, with all other variables held constant, the net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) would have changed by the following amounts, approximately and respectively:

	Impact on profit		Impact on equity	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Interest rates +0.50% (2015: +0.25%)	3,254	(522)	3,254	(522)
Interest rates -0.50% (2015: -0.25%)	(3,254)	522	(3,254)	522

### (c) 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.

Credit risk primarily arises from cash and cash equivalents, and deposits with banks and other financial institutions.

With respect to credit risk arising from the financial assets of the Scheme, other than derivatives, the Scheme's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these investments as disclosed in the statement of financial position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the end of the year.

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

All transactions in listed 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 purchase of the securities has been received by the broker. The trade will fail if either party fails to meet its obligations.

The Scheme holds no collateral as security or any other credit enhancements. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired.

Counterparty credit limits and the list of authorised brokers are reviewed by the relevant parties within the Responsible Entity on a regular basis as deemed appropriate.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's credit position on a regular basis. This information and the compliance with the Scheme's policy are reported to the relevant parties on a regular basis as deemed appropriate such as key management personnel, compliance committees and ultimately the Board.

#### Credit quality per class of instrument

The credit quality of financial assets is managed by the Scheme using Standard & Poor's rating categories, in accordance with the investment mandate of the Scheme. The Scheme's exposure in each grade is monitored on a daily basis. This review process allows the Responsible Entity to assess the potential loss as a result of risks and take corrective action. The table below shows the credit quality by class of assets:

As at 30 June 2016	AAA \$'000	AA+ \$'000	AA- \$'000	Other \$'000
Fixed interest bonds	88,910	17,128	8,031	53,521
Discount securities	-	2,998	-	-
Floating rate note	-	-	9,629	15,395
Mortgage backed securities	12,255	-	-	-
Asset backed securities	866	-	-	2,097
	<hr/>	<hr/>	<hr/>	<hr/>
As at 30 June 2015	AAA \$'000	AA+ \$'000	AA- \$'000	Other \$'000
Fixed interest bonds	70,332	18,428	5,819	23,994
Discount securities	-	-	-	7,974
Floating rate note	-	-	4,127	14,633
Mortgage backed securities	9,067	-	-	1,009
Asset backed securities	453	-	-	812
	<hr/>	<hr/>	<hr/>	<hr/>

## 12 Financial risk management (continued)

### (d) Concentrations of risk

Concentrations of risk arise when a number of financial instruments are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic conditions. These similarities would cause the counterparties' liabilities to meet the contractual obligations to be similarly affected by certain changes in the risk variables.

The concentrations of risk are monitored by the Investment Manager to ensure they are within acceptable limits by reducing the exposures or by other means as deemed appropriate.

Concentrations of risk are managed by industry sector for equity instruments and by counterparty for debt instruments and selected derivatives.

Based on the concentrations of risk that are managed by industry sector and/or counterparty, the following investments can be analysed by the industry sector and/or counterparty as at 30 June 2016 and 30 June 2015:

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Commonwealth of Australia	<b>42,736</b>	28,349
New South Wales Treasury Corporation	<b>18,488</b>	22,160
Queensland Treasury Corporation	<b>13,866</b>	9,233
Treasury Corporation of Victoria	<b>11,118</b>	8,238
Other	<b>123,183</b>	<b>88,303</b>
<b>Total</b>	<b>209,391</b>	<b>156,283</b>

### (e) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. This risk is controlled through the Scheme's investment in financial instruments which under normal market conditions are readily convertible to cash. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Scheme may be exposed to daily cash redemptions of redeemable units and daily margin calls on derivatives. It therefore primarily holds investments that are traded in active markets and can be readily disposed of.

The Scheme may, from time to time, invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the Scheme may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer.

The Scheme's policy is to hold a significant proportion of its investments in liquid assets.

Under the terms of its Constitution, the Scheme has the ability to manage liquidity risk by delaying redemptions to unitholders, if necessary, until the funds are available to pay them.

Units are redeemed on demand at the unitholders option. However, the Responsible Entity does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

In accordance with the Scheme's policy, the Investment Manager monitors the Scheme's liquidity position on a regular basis. This information and the compliance with the Scheme's policy are reported to the relevant parties on a regular basis as deemed appropriate such as key management personnel, compliance committees and ultimately the Board.

## 12 Financial risk management (continued)

### (e) Liquidity risk (continued)

#### Maturity analysis for financial liabilities

The table below summarises the maturity profile of the Scheme's financial liabilities, redeemable units and derivative financial instruments that are held for trading on the remaining period at the end of the year to the contractual maturity date.

The Scheme's non-derivative financial liabilities in the table are the contractual undiscounted cash flows and the Scheme's derivative financial instruments that are held for trading in the table are net fair values, based on the amounts at which an orderly settlement of the transactions would take place between market participants at the reporting date.

As at 30 June 2016	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	More than 12 months \$'000
<b>Financial liabilities:</b>				
Distributions payable	2,845	-	-	-
Payables	11,782	-	-	-
Net assets attributable to unit holders	<u>212,890</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total financial liabilities</b>	<b><u>227,517</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Net settled derivatives</b>				
Swaps	(63)	(515)	(1,760)	(6,153)
Futures	-	(46)	-	-
<b>Total net settled derivatives inflow/(outflow)</b>	<b><u>(63)</u></b>	<b><u>(561)</u></b>	<b><u>(1,760)</u></b>	<b><u>(6,153)</u></b>
As at 30 June 2015	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	More than 12 months \$'000
<b>Financial liabilities:</b>				
Distributions payable	3,212	-	-	-
Payables	290	-	-	-
Net assets attributable to unit holders	<u>170,989</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total financial liabilities</b>	<b><u>174,491</u></b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>-</u></b>
<b>Net settled derivatives</b>				
Swaps	-	-	(35)	(349)
Futures	-	(12)	-	-
Options	31	-	-	-
<b>Total net settled derivatives inflow/(outflow)</b>	<b><u>31</u></b>	<b><u>(12)</u></b>	<b><u>(35)</u></b>	<b><u>(349)</u></b>

As disclosed above, the Investment Manager manages the Scheme's liquidity risk by investing predominantly in liquid assets that it expects to be able to liquidate within seven days or less. Liquid assets include cash and cash equivalents. As at 30 June 2016, these assets amounted to \$5,959,929 (2015: \$17,491,917).

#### (f) Estimation of fair values of financial assets and liabilities

The carrying amounts of all the Scheme's financial assets and financial liabilities at the end of the year approximated their fair values.

The Scheme values its investments in accordance with the accounting policies set out in Note 2.

For the year ended 30 June 2016 and 30 June 2015, the Scheme did not include financial assets that were determined using valuation techniques. The fair values of the Scheme's financial assets for the years then ended were determined directly, in full or in part, by reference to quoted prices that were available from various sources, such as exchanges, dealers, brokers, industry groups and pricing services.

#### (g) Fair value hierarchy

The Scheme is required 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:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: 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 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).



## 12 Financial risk management (continued)

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

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

The table below sets out the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at the reporting date.

All fair value measurements disclosed are recurring fair value measurements.

As at 30 June 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
<i>Financial assets held for trading:</i>				
Futures	75	-	-	75
Swaps	-	307	-	307
<i>Financial assets designated at fair value through profit or loss at inception:</i>				
Fixed interest bonds	-	167,590	-	167,590
Mortgage backed securities	-	12,255	-	12,255
Floating rate notes	-	25,024	-	25,024
Discount securities	-	2,998	-	2,998
Asset backed securities	-	2,963	-	2,963
<b>Total financial assets</b>	<b>75</b>	<b>211,137</b>	<b>-</b>	<b>211,212</b>
<b>Financial liabilities</b>				
<i>Financial liabilities held for trading</i>				
Swaps	-	(1,775)	-	(1,775)
Futures	(46)	-	-	(46)
<b>Total financial liabilities</b>	<b>(46)</b>	<b>(1,775)</b>	<b>-</b>	<b>(1,821)</b>
As at 30 June 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
<i>Financial assets held for trading:</i>				
Futures	25	-	-	25
Options	-	31	-	31
Swaps	-	400	-	400
<i>Financial assets designated at fair value through profit or loss at inception:</i>				
Fixed interest bonds	-	118,573	-	118,573
Mortgage backed securities	-	10,076	-	10,076
Floating rate notes	-	18,760	-	18,760
Discount securities	-	7,974	-	7,974
Asset backed securities	-	1,265	-	1,265
<b>Total financial assets</b>	<b>25</b>	<b>157,079</b>	<b>-</b>	<b>157,104</b>
<b>Financial liabilities</b>				
<i>Financial liabilities held for trading</i>				
Swaps	-	784	-	784
Futures	37	-	-	37
<b>Total financial liabilities</b>	<b>37</b>	<b>784</b>	<b>-</b>	<b>821</b>

## 12 Financial risk management (continued)

### (g) Fair value hierarchy (continued)

The pricing for the majority of the Scheme's investments is generally sourced from independent pricing sources, the relevant Investment Managers or reliable brokers' quotes.

Investments whose values are based on quoted market prices in active markets, e.g. recognised stock exchanges, 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. The observable inputs include prices and/or those derived from prices. The level 2 instruments include investment grade corporate bonds, and over the counter derivatives.

The Scheme's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the year. There were no transfers between levels 1, 2 and 3 of the fair value hierarchy during the year ended 30 June 2016 (2015: Nil).

## 13 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the statement of financial position are disclosed in the first three columns of the following tables.

	Gross amounts	Amounts offset in the statement of financial position	Amounts related to collaterals	Related amount not offset in the statement of financial position	Net amount presented in the statement of financial position
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 30 June 2016</b>					
Derivative assets	6,407	(6,025)	-	-	382
Derivative liabilities	(7,846)	6,025	-	-	(1,821)
<b>Closing balance</b>	<u>(1,439)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,439)</u>
				Related amount not offset in the statement of financial position	Net amount presented in the statement of financial position
	Gross amounts	Amounts offset in the statement of financial position	Amounts related to collaterals	\$'000	\$'000
	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2015					
Derivative assets	87,263	(86,807)	-	456	456
Derivative liabilities	(87,628)	86,807	-	(821)	(821)
<b>Closing balance</b>	<u>(365)</u>	<u>-</u>	<u>-</u>	<u>(365)</u>	<u>(365)</u>

The agreements, where relevant, could include derivative clearing agreements, global master repurchase agreements and others. Similar financial instruments could include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities lending agreements, short sales etc.

The International Swaps and Derivatives Association ("ISDA"), master netting agreements or similar agreements do not generally meet the criteria for offsetting. This is because they create a right of setoff of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the entity or the counterparties.

From time to time, the Scheme may receive or pledge collateral which could be in the form of cash or marketable securities or both in respect of the above instruments. Such collateral, if transacted, is generally subject to the standard industry in terms of ISDA's Credit Support Annex. This means that collateral received/pledged can be repledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also generally give each counterparty the right to terminate the related transactions on the counterparty's failure to post collateral.

## 14 Related party transactions

### Responsible Entity

The Responsible Entity of Altius Bond Fund is Australian Unity Funds Management Limited (ABN 60 071 497 115) whose immediate and ultimate Parent Entity is Australian Unity Limited (ABN 23 087 648 888).

### Key management personnel

#### (a) Directors

Key management personnel include persons who were directors of Australian Unity Funds Management Limited at any time during the year as follows:

Rohan Mead, Chairman and Group Managing Director (appointed Chairman 30 June 2016)  
 David Bryant, Chief Executive Officer, Investments and Chief Investment Officer  
 Kevin McCoy, Chief Financial Officer  
 Glenn Barnes, Chairman (resigned 30 March 2016)  
 Melinda Cilento, Non-Executive Director (resigned 30 June 2016)  
 Stephen Maitland, Non-Executive Director (resigned 30 June 2016)  
 Su McCluskey, Non-Executive Director (appointed 27 January 2016, resigned 30 June 2016)  
 Peter Promnitz, Non-Executive Director and appointed Chairman from 30 March 2016 (resigned 30 June 2016)  
 Greg Willcock, Non-Executive Director (resigned 30 June 2016)

#### (b) Other key management personnel

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

### Other transactions within the Scheme

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

### Responsible Entity's fees and other transactions

Under the terms of the Scheme's Constitution, the Responsible Entity is entitled to receive Responsible Entity's fees, calculated by reference to the average daily net assets (excluding net assets attributable to unitholders) of the Scheme.

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

	2016	2015
	\$	\$
Responsible Entity's fees for the year paid by the Scheme to the Responsible Entity	<u>1,170,309</u>	<u>870,262</u>
Administration expenses (audit fees inclusive) incurred by the Responsible Entity which are reimbursed in accordance with the Scheme's Constitution	<u>231,459</u>	<u>195,097</u>
Aggregate amounts payable to the Responsible Entity at the end of the year	<u>118,218</u>	<u>289,888</u>

### Related party scheme's unitholdings

Parties related to the Scheme (including Australian Unity Funds Management Limited, its related parties and other schemes managed by Australian Unity Funds Management Limited) held units in the Scheme as follows:

30 June 2016 Unitholder	No. of units held opening	No. of units held closing	Fair value of investment \$*	Interest held %	No. of units acquired	No. of units disposed	Distributions paid/payable \$
Australian Unity Health Limited	39,912,410	40,661,501	41,800,024	19.36	749,091	-	1,463,514
Grand United Corporate Health Limited	10,686,072	10,886,632	11,191,458	5.18	200,560	-	337,965
Lifeplan Tax Minimiser Funeral Bond Fund	56,661,495	58,714,062	60,358,056	27.95	5,089,136	(3,036,569)	1,787,477
Lifeplan Funeral Benefit No2 Taxed	12,938,475	7,411,863	7,619,395	3.53	902,610	(6,429,222)	300,261
Australian Unity Strategic Fixed Interest Trust	-	22,714,155	23,350,152	10.81	34,464,097	(11,749,942)	772,403
Other related parties**	<u>23,157,522</u>	<u>17,448,955</u>	<u>17,937,526</u>	<u>8.31</u>	<u>1,077,471</u>	<u>(6,786,038)</u>	<u>449,863</u>
	<u>143,355,974</u>	<u>157,837,168</u>	<u>162,256,611</u>	<u>75.14</u>	<u>42,482,965</u>	<u>(28,001,771)</u>	<u>5,111,483</u>

## 14 Related party transactions (continued)

30 June 2015 Unitholder	No. of units held opening	No. of units held closing	Fair value of investment \$*	Interest held %	No. of units acquired	No. of units disposed	Distributions paid/payable \$
Australian Unity Health Limited	38,630,145	39,912,410	40,814,431	23.41	1,282,265	-	1,420,928
Grand United Corporate Health Limited	10,342,760	10,686,072	10,927,577	6.27	343,312	-	380,437
Lifeplan Tax Minimiser Funeral Bond Fund	61,713,260	56,661,495	57,942,045	33.24	5,251,696	(10,303,461)	2,067,225
Lifeplan Funeral Benefit No2 Taxed	13,719,687	12,938,475	13,230,885	7.59	4,352,099	(5,133,311)	417,933
Other related parties**	<u>16,603,344</u>	<u>23,157,522</u>	<u>23,680,880</u>	<u>13.58</u>	<u>10,244,008</u>	<u>(3,689,830)</u>	<u>840,063</u>
	<u>141,009,196</u>	<u>143,355,974</u>	<u>146,595,818</u>	<u>84.09</u>	<u>21,473,380</u>	<u>(19,126,602)</u>	<u>5,126,586</u>

\* Fair value of investment includes accrued distribution at the end of the year.

\*\* Other related parties consists of investors with holdings of less than 5%.

### Related Entity

Altius Asset Management Pty Ltd is a related entity. The Scheme's assets are managed by Altius Asset Management Pty Ltd. Australian Unity Strategic Holdings Limited owns 45% of Altius Assets Management Pty Ltd. The remaining ownership interest is held by key personnel and associates of Altius Asset Management Pty Ltd.

### Investments

The Scheme did not hold any investments in Australian Unity Funds Management Limited or its related parties during the year (2015: Nil).

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

	2016 \$'000	2015 \$'000
<b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Increase/(decrease) in net assets attributable to unitholders	2,093	(1,411)
Distributions to unitholders	7,548	5,766
Sale of financial instruments held at fair value through profit or loss	167,178	143,217
Purchase of financial instruments held at fair value through profit or loss	(217,742)	(166,815)
Net (gains)/losses on financial instruments held at fair value through profit or loss	(4,447)	712
Net foreign exchange loss	6	(1)
Net change in receivables	1,505	(97)
Net change in payables	(168)	221
<b>Net cash (outflow) from operating activities</b>	<b>(44,027)</b>	<b>(18,408)</b>
<b>(b) Components of cash and cash equivalents</b>		
Cash as at the end of the reporting period as shown in the statement of cash flows is reconciled to the statement of financial position as follows:		
Cash and cash equivalents	<u>5,960</u>	<u>17,492</u>
	<u>5,960</u>	<u>17,492</u>
<b>(c) Non-cash financing and investing activities</b>		
During the year, the following distribution payments to unitholders were satisfied by the issue of units under the distribution reinvestment plan	<u>4,614</u>	<u>4,745</u>
	<u>4,614</u>	<u>4,745</u>

## 16 Events occurring after end of financial year

No significant events have occurred since the end of the year which would impact on the financial position of the Scheme disclosed in the statement of financial position as at 30 June 2016 or on the results and cash flows of the Scheme for the year ended on that date.

**17 Contingent assets and liabilities and commitments**


There are no outstanding contingent assets and liabilities or commitments as at 30 June 2016 and 30 June 2015.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 5 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 Scheme's financial position as at 30 June 2016 and of its performance, as represented by the results of its operations and cash flows, for the year ended on that date; and
- (b) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.
- (c) The financial statements are in accordance with the Scheme's Constitution.
- (d) 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.



Director



Director  
8 September 2016

## Independent auditor's report to the unitholders of Altius Bond Fund

We have audited the accompanying financial report of Altius Bond Fund, which comprises the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

The directors of Altius Bond Fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

*Opinion*

In our opinion:

- a. the financial report of Altius Bond Fund is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of Altius Bond Fund's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

*Ernst & Young*

Ernst & Young

*Luke Slater*

Luke Slater  
Partner  
Melbourne  
8 September 2016