

**Pendal Defensive Equity Income Fund  
(formerly known as BT Defensive Equity  
Income Fund)**

ARSN 159 947 298

**Annual report - for the year ended  
30 June 2018**

# **Pendal Defensive Equity Income Fund (formerly known as BT Defensive Equity Income Fund)**

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## **Annual report - for the year ended 30 June 2018**

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These financial statements cover Pendal Defensive Equity Income Fund as an individual entity and the consolidated entity consisting of Pendal Defensive Equity Income Fund and its subsidiary.

The Responsible Entity of Pendal Defensive Equity Income Fund is Pendal Fund Services Limited (ABN 13 161 249 332). The Responsible Entity's registered office is Level 14, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000.

## Directors' report

The directors of Pendal Fund Services Limited (formerly known as BT Investment Management (Fund Services) Limited), the Responsible Entity of the Pendal Defensive Equity Income Fund (formerly known as BT Defensive Equity Income Fund) ("the Fund/Parent"), present their report together with the consolidated financial statements of the Fund/Parent and its subsidiary (collectively, "the consolidated entity") for the year ended 30 June 2018.

### Principal activities

During the year, the consolidated entity and the Fund invested in equities and derivatives in accordance with the provisions of the governing documents. Through these investments, the consolidated entity and the Fund gained exposure to Australian equities.

On 8 June 2018 the Responsible Entity resolved to terminate the Fund effective 17 July 2018. As such, the financial statements have not been prepared on a going concern basis. There is no impact on the financial position of the Fund.

The consolidated entity did not have any employees during the year.

Other than the above, there were no significant changes in the nature of the consolidated entity's activities during the year.

### Directors

The following persons held office as directors of Pendal Fund Services Limited during the year or since the end of the year and up to the date of this report:

Emilio Gonzalez (appointed 15 November 2012)  
 Justin Howell (appointed 7 May 2018)  
 Hayden King (appointed 30 January 2016, resigned 27 April 2018)  
 Cameron Williamson (appointed 15 November 2012)

### Review and results of operations

During the year, the Fund continued to invest in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

On 8 June 2018 the Responsible Entity resolved to terminate the Fund effective 17 July 2018 and the Fund was closed to applications and reinvestments, with the assets liquidated and the net proceeds returned to investors.

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

	<b>Consolidated Year ended</b>	
	<b>30 June 2018</b>	30 June 2017
Operating profit/(loss) before finance costs attributable to unitholders (\$'000)	<b>4,702</b>	7,596
<i>Distributions</i>		
Distribution paid and payable (\$'000)	<b>4,835</b>	7,898
Distribution (cents per unit)	<b>3.000</b>	3.150

**Directors' report (continued)**

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

	<b>Parent</b>	
	<b>As at</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Redemption value of outstanding units	<b>85,119</b>	211,279
Adjustment for differences in valuation inputs	<b>219</b>	535
Net assets attributable to unitholders	<b>85,338</b>	211,814

**Change of Fund and Responsible Entity name**

In May 2018, the name of the Responsible Entity was changed from BT Investment Management (Fund Services) Limited to Pendal Fund Services Limited and the Fund name changed from BT Defensive Equity Income Fund to Pendal Defensive Equity Income Fund.

**Significant changes in the state of affairs**

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

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

Final redemption proceeds were paid effective 17 July 2018.

Apart from the above, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Fund in future financial years.

**Likely developments and expected results of operations**

On 8 June 2018 the Responsible Entity resolved to terminate the Fund and the last unitholders' units were redeemed effective 17 July 2018 completing the termination of the Fund.

**Indemnity and insurance of officers**

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

**Indemnity of auditors**

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

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

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in note 16 to the financial statements.

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

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 16 to the financial statements.

## Directors' report (continued)

### Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in note 10 to the financial statements.

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

### Environmental regulation

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

### Rounding of amounts to the nearest thousand dollars

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

### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

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



Director



Director

Sydney  
13 September 2018



## *Auditor's Independence Declaration*

As lead auditor for the audit of Pental Defensive Equity Income Fund (formerly known as BT Defensive Equity Income Fund) for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Pental Defensive Equity Income Fund and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'S Cuthbert', is written over a light blue horizontal line.

S Cuthbert  
Partner  
PricewaterhouseCoopers

Sydney  
13 September 2018

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**Pendal Defensive Equity Income Fund**  
**Statement of comprehensive income**  
**For the year ended 30 June 2018**

**Statement of comprehensive income**

	Notes	Consolidated Year ended	
		30 June 2018 \$'000	30 June 2017 \$'000
<b>Income</b>			
Interest income		372	478
Dividend income		5,459	7,162
Distribution income		272	672
Net gains/(losses) on financial instruments held at fair value through profit or loss	9	372	2,092
<b>Total income/(loss)</b>		<b>6,475</b>	<b>10,404</b>
<b>Expenses</b>			
Responsible Entity's fees	16(f)	1,249	2,131
Transaction costs		417	354
Other operating expenses	7	107	323
<b>Total operating expenses</b>		<b>1,773</b>	<b>2,808</b>
<b>Operating profit/(loss)</b>		<b>4,702</b>	<b>7,596</b>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders of the parent entity	11	(4,835)	(7,898)
(Increase)/decrease in net assets attributable to unitholders of the parent entity	10	133	302
<b>Profit/(loss) for the year</b>		<b>-</b>	<b>-</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>

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

**Pendal Defensive Equity Income Fund**  
**Balance sheet**  
**As at 30 June 2018**

**Balance sheet**

	Notes	Consolidated As at	
		30 June 2018 \$'000	30 June 2017 \$'000
<b>Assets</b>			
Cash and cash equivalents	12	32,531	60,814
Margin accounts		3,913	4,800
Unsettled sales		2,180	3,295
Accrued income		620	1,162
Receivables		10	18
Financial assets held at fair value through profit or loss	13	47,853	154,206
<b>Total assets</b>		<b>87,107</b>	<b>224,295</b>
<b>Liabilities</b>			
Margin accounts		845	3,953
Unsettled purchases		-	6,555
Distribution payable	11	251	620
Payables		12	199
Financial liabilities held at fair value through profit or loss	14	661	1,154
<b>Total liabilities (excluding net assets attributable to unitholders of the parent entity)</b>		<b>1,769</b>	<b>12,481</b>
<b>Net assets attributable to unitholders of the parent entity - liability</b>	10	<b>85,338</b>	<b>211,814</b>

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

**Pendal Defensive Equity Income Fund**  
**Statement of changes in equity**  
**For the year ended 30 June 2018**

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**Statement of changes in equity**

	<b>Consolidated</b>	
	<b>Year ended</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Total equity at the beginning of the financial year</b>	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
Total comprehensive income for the year	-	-
Transactions with owners in their capacity as owners	-	-
<b>Total equity at the end of the financial year</b>	-	-

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

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

**Pendal Defensive Equity Income Fund**  
**Statement of cash flows**  
**For the year ended 30 June 2018**

**Statement of cash flows**

		<b>Consolidated</b>	
		<b>Year ended</b>	
		<b>30 June</b>	<b>30 June</b>
		<b>2018</b>	<b>2017</b>
Notes		<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
	Proceeds from sale of financial instruments held at fair value through profit or loss	<b>235,419</b>	343,279
	Purchase of financial instruments held at fair value through profit or loss	<b>(136,848)</b>	(310,952)
	Transaction costs	<b>(417)</b>	(354)
	Interest received	<b>402</b>	449
	Dividends received	<b>5,840</b>	8,260
	Distributions received	<b>403</b>	730
	Other income received	<b>8</b>	-
	Responsible Entity's fees received/(paid)	<b>(1,410)</b>	(2,129)
	Payment of other expenses	<b>(133)</b>	(324)
	<b>Net cash inflow/(outflow) from operating activities</b>	<b>103,264</b>	38,959
		18(a)	
<b>Cash flows from financing activities</b>			
	Proceeds from applications by unitholders	<b>28</b>	17,063
	Payments for redemptions by unitholders	<b>(131,438)</b>	(19,553)
	Distributions paid	<b>(137)</b>	(243)
	<b>Net cash inflow/(outflow) from financing activities</b>	<b>(131,547)</b>	(2,733)
	<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(28,283)</b>	36,226
	Cash and cash equivalents at the beginning of the year	<b>60,814</b>	24,588
	<b>Cash and cash equivalents at the end of the year</b>	<b>32,531</b>	60,814
		12	
	Non-cash transactions		18(b)

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

## **1 General information**

These financial statements cover the consolidated entity consisting of the Pendal Defensive Equity Income Fund (formerly known as BT Defensive Equity Income Fund) ("the Fund") and its subsidiary, Pendal Equity Income Stabiliser Conservative Pty Ltd (formerly known as BT Equity Income Stabiliser Conservative Pty Ltd) (ABN 28 159 770 804). The Fund was constituted on 3 August 2012.

The Responsible Entity of the Fund is Pendal Fund Services Limited (formerly known as BT Investment Management (Fund Services) Limited) ("the Responsible Entity"). The Responsible Entity's registered office is Level 14, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000. The financial statements are presented in Australian currency.

During the year, the consolidated entity and the Fund invested in equities and derivatives in accordance with the provisions of the governing documents. Through these investments, the consolidated entity and the Fund gained exposure to Australian equities.

### **Change of Fund and Responsible Entity name**

In May 2018, the name of the Responsible Entity was changed from BT Investment Management (Fund Services) Limited to Pendal Fund Services Limited and the Fund name changed from BT Defensive Equity Income Fund to Pendal Defensive Equity Income Fund.

The financial statements were authorised for issue by the directors of the Responsible Entity on 13 September 2018. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

## **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

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

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

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated. On 8 June 2018, the Responsible Entity resolved to terminate the Fund effective 17 July 2018. The directors have therefore determined that the going concern basis of preparation is no longer appropriate. As such, the financial statements have been prepared on a liquidation basis whereby the Fund's assets have been measured at their net realisable values and the liabilities have been recognised at their contractual settlement amounts. Adoption of the liquidation basis of preparation has no impact on the carrying amount of assets and liabilities of the Fund.

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

The financial information of the parent entity, disclosed in note 19, has been prepared on the same basis as the consolidated financial statements.

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

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

#### *(ii) Comparatives*

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

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

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

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

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2017 that have a material impact on the Fund.

### **(b) Principles of consolidation**

#### *(i) Subsidiaries*

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pendal Defensive Equity Income Fund ("the parent entity") as at 30 June 2018 and the results of all subsidiaries for the year then ended. Pendal Defensive Equity Income Fund and its subsidiaries together are referred to in these financial statements as the consolidated entity.

Subsidiaries are all entities (including structured entities) over which the Fund has control. The Fund controls an entity when the Fund is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Fund. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Fund.

All transactions (including gains and losses) and balances between entities in the consolidated group are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Fund.

Non-controlling interests in the results and net assets of subsidiaries are shown separately in the consolidated statement of comprehensive income and balance sheet respectively.

Investments in subsidiaries are accounted for at fair value through profit or loss in the separate financial statements of the parent entity.

There have been neither acquisitions nor disposals of controlled entities or other changes in the composition of the Fund during the reporting period, which would require disclosures significant to an understanding of this annual report.

#### *(ii) Changes in ownership interests*

When the Fund ceases to have control, joint control or significant influence, any retained interest in the subsidiary is remeasured to its fair value with the change in carrying amount recognised in the statement of comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of the subsidiary are accounted for as if the Fund had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

### **(c) Financial instruments**

#### *(i) Classification*

Investments are classified as at fair value through profit or loss. They comprise:

- Financial instruments held for trading

Derivative financial instruments such as futures, forward currency contracts, warrants, options and swaps are included under this classification. No derivatives are designated as hedges in a hedging relationship.

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

### **(c) Financial instruments (continued)**

#### *(i) Classification (continued)*

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

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

Financial assets and 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 documented investment strategy. The policy is for management to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

#### *(ii) Recognition/derecognition*

The consolidated entity and the Fund recognise financial assets and liabilities on the date they become party to the contractual agreement (trade date) and recognise changes in the fair value of the financial assets or financial liabilities from this date.

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

#### *(iii) Measurement*

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

Subsequent to initial recognition, all financial assets and liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of 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 held at fair value through profit or loss in the period in which they arise.

Refer note 6 for further details on how the fair values of financial instruments are determined.

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

Financial assets and liabilities may be offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Refer note 5 for further details.

### **(d) Investments in subsidiaries**

Investments in subsidiaries are measured in accordance with note 2(c).

### **(e) Business combinations**

Business combinations relate to the acquisition by the Fund of controlling interests in other entities. The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the consideration given plus costs directly attributable to the acquisition.

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

### **(e) Business combinations (continued)**

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Fund. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition-date. On an acquisition-by-acquisition basis, the Fund recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

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

Units are redeemable at the unitholder's option, however applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders. The units are classified as financial liabilities as the Fund is required to distribute its distributable income, in accordance with the Fund's Constitution.

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

The units are carried at the redemption amount that is payable at the end of the reporting period if the unitholders exercise the right to redeem the units in the Fund.

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

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

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

### **(h) Margin accounts**

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

### **(i) Accrued income**

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

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

Unsettled sales/purchases represent receivables for securities sold and/or payables for securities purchased that have been contracted for but not yet delivered by the end of the reporting period. Trades are recorded on trade date, and for equities are normally settled within two business days. A provision for impairment of amounts due is established when there is objective evidence that all amounts due from the relevant broker/fund manager will not be able to be collected.

### **(k) Receivables**

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

### **(l) Payables**

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

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

### **(l) Payables (continued)**

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

### **(m) Investment income**

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

Dividend income is recognised on the ex-dividend date.

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

### **(n) Expenses**

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

### **(o) Transaction costs**

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

### **(p) Income tax**

Under current legislation, the Fund is not subject to income tax provided the taxable income of the Fund is fully distributed either by way of cash or reinvestment.

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

### **(q) Distributions**

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

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

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

### **(s) Goods and Services Tax (GST)**

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

### **(t) Use of estimates**

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

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

### **(t) Use of estimates (continued)**

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

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

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

For more information on how fair value is calculated refer to note 6.

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

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

#### *(i) 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 also introduces revised rules around hedge accounting and impairment. The standard is applicable for years commencing 1 January 2018 but is available for early adoption.

More specifically, AASB 9 replaces the classification and measurement model in AASB 139 *Financial Instruments: Recognition and Measurement* with a new model that categorises financial assets based on a) the business model within which the assets are managed, and b) whether the contractual cash flows under the instrument solely represent the payment of principal and interest. Under the new standard, financial assets will be measured at:

- fair value through profit or loss if they are held for trading or if the cash flows on the asset do not solely represent payments of principal and interest. An entity can also elect to measure a financial asset at fair value through profit or loss if it eliminates or reduces an accounting mismatch;
- amortised cost where the business model is to hold the financial assets in order to collect contractual cash flows and those cash flows represent solely payments of principal and interest; or
- fair value through other comprehensive income where the business model is to both collect contractual cash flows and sell financial assets and the cash flows represent solely payments of principal and interest.

The accounting for financial liabilities is largely unchanged.

#### *Implementation*

Management has assessed the impact of AASB 9 on the Fund's financial statements. This has involved assessing the Fund's business model and a review of the contractual cash flows across the Fund's investment portfolio. Given the Fund's business model is to manage and report the Fund's investment in financial assets on a fair value basis, management expects all financial assets will be classified and measured at fair value through profit or loss. There will be no impact on the financial position or performance of the Fund on adoption of the new standard as financial assets are currently measured at fair value through profit or loss under AASB 139.

AASB 9 will be adopted for the financial year commencing 1 July 2018.

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

### **(u) New accounting standards and interpretations (continued)**

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

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 *Revenue* which covers contracts for goods and services and AASB 111 *Construction Contracts* which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The notion of control replaces the existing notion of risks and rewards.

The consolidated entity's and the Fund's main sources of revenue are interest, dividends, trust distributions and gains on financial instruments held at fair value. All of these sources are outside the scope of the new revenue standard. As a consequence, management does not expect the adoption of the new revenue recognition rules to have a significant impact on the accounting policies or the amounts recognised in the financial statements.

AASB 15 will be adopted for the financial year commencing 1 July 2018.

### **(v) Rounding of amounts**

The Fund is an entity of the kind referred to in *Australian Securities & Investments Commission ("ASIC") Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, relating to the 'rounding off' amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

## **3 Termination of the Fund**

On 8 June 2018, the Responsible Entity resolved to terminate the Fund effective 17 July 2018. The last unitholders' units were redeemed effective 17 July 2018 completing the termination of the Fund.

## **4 Financial risk management**

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

The Fund's overall risk management programme focuses on ensuring compliance with its governing documents and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Derivative financial instruments may also be used (or are used) to alter certain risk exposures. Financial risk management is carried out by the investment manager.

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

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

The Fund's performance exceptions to its benchmark are reported to senior management committees on a regular basis. Exceptions to compliance are not reported on a consolidated basis.

## **4 Financial risk management (continued)**

### **(a) Market risk**

#### *(i) Price risk*

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices.

Price risk arises on investments held for which prices in the future are uncertain. These are classified in the balance sheet as at fair value through profit or loss. All security investments present a risk of loss of capital.

Exceptions to compliance are reported to management on a regular basis. The investment managers of each of the subsidiary funds within the Consolidated Entity are responsible for monitoring compliance on an individual fund basis. Exceptions to compliance are not reported on a consolidated basis.

The table presented in note 4(b) summarises sensitivity analysis to price risk.

#### *(ii) Foreign exchange risk*

Foreign exchange risk arises as the value of monetary securities denominated in other currencies fluctuate due to changes in exchange rates. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk.

The direct investments held by the Fund do not have any direct exposure to foreign exchange risk.

#### *(iii) Interest rate risk*

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

The Fund's interest bearing financial assets expose it to interest rate risk. Any interest rate risk from these investments is reported as a component of interest rate risk for the purposes of the sensitivity analysis.

Exceptions to compliance are reported to management on a regular basis. The investment managers of each of the subsidiary funds within the Consolidated Entity are responsible for monitoring compliance on an individual fund basis. Exceptions to compliance are not reported on a consolidated basis.

The table presented in note 4(b) summarises sensitivity analysis to interest rate risk.

### **(b) Summarised sensitivity analysis**

The following table summarises the sensitivity of the operating profit and net assets attributable to unitholders to price risk and interest rate risk. The analysis is based on reasonably possible movements in the risk variables applied to the Fund's net assets. The reasonably possible movements in the risk variables have been determined based on management estimates, having regard to a number of factors including historical levels of changes in market indices, security prices and/or benchmark returns, interest rates and foreign exchange rates. However actual movements in the risk variables may be greater or less than anticipated due to a number of factors. As a result historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

#### 4 Financial risk management (continued)

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

The sensitivity analysis is based on symmetrical reasonably possible movements, however the likelihood of symmetrical movements may vary over time due to factors such as economic conditions and investment strategies.

Consolidated - as at	Impact on operating profit/(loss)/Net assets attributable to unitholders			
	Price risk		Interest rate risk	
	-15% (2017: -15%) \$'000	+15% (2017: +15%) \$'000	-1.00% (2017: -1.00%) \$'000	+1.00% (2017: +1.00%) \$'000
<b>30 June 2018</b>	<b>(8,759)</b>	<b>8,759</b>	<b>(356)</b>	<b>356</b>
30 June 2017	(22,493)	22,493	(617)	617

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

##### (c) Credit risk

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

Credit risk primarily arises from trading in derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. These assets are not impaired nor past due but not impaired.

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

Concentrations of direct credit risk are minimised primarily by:

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

Exceptions to compliance are reported to management on a regular basis. The investment managers of each of the subsidiary funds within the Consolidated Entity are responsible for monitoring compliance on an individual fund basis. Exceptions to compliance are not reported on a consolidated basis.

## 4 Financial risk management (continued)

### (c) Credit risk (continued)

Apart from the following investments with the respective counterparties, there were no significant direct concentrations of credit risk to counterparties as at 30 June 2018 or 30 June 2017. Below is a summary of the holdings as a percentage of net assets attributable to unitholders:

#### Consolidated

	As at			
	30 June 2018		30 June 2017	
	\$'000	%	\$'000	%
<b>JPMorgan Chase Bank, N.A</b>				
Deposits at call	32,531	38.12	60,814	28.71
Total - JPMorgan Chase Bank, N.A	32,531	38.12	60,814	28.71

### (d) Liquidity risk

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

The Fund is exposed to daily cash redemptions of redeemable units and daily margin calls on derivatives. The liquidity risks associated with the need to meet unitholders' requests for redemptions are mitigated by maintaining adequate liquidity to fulfil usual redemption volumes. The Fund therefore primarily holds held investments that are traded in an active market and can be disposed of readily. Only a limited proportion of its assets are not traded on an active market.

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

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

Exceptions to the above, at the Fund level, are reported to management on a regular basis. Liquidity risk is not monitored on a consolidated basis.

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

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

The non-derivative financial liabilities of the Fund comprise distributions payable, margin accounts, unsettled purchases, payables and net assets attributable to unitholders. Distributions payable, margin accounts, unsettled purchases and payables have no contractual maturities but are typically settled within 30 days.

Net assets attributable to unitholders of the parent entity are redeemable at the unitholder's option, however, as permitted under the governing documents, management may decide to delay payment of the redemption amount if it is in the best interests of unitholders.

## 4 Financial risk management (continued)

### (d) Liquidity risk (continued)

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

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

Consolidated	Less than 1 month \$'000	1-3 months \$'000	Greater than 3 months \$'000
--------------	--------------------------------	-------------------------	------------------------------------

#### As at 30 June 2018

Net settled derivatives			
Australian exchange traded options	181	459	-
Over the counter options	-	21	-

Consolidated	Less than 1 month \$'000	1-3 months \$'000	Greater than 3 months \$'000
--------------	--------------------------------	-------------------------	------------------------------------

#### As at 30 June 2017

Net settled derivatives			
Over the counter options	854	300	-

## 5 Offsetting financial assets and financial liabilities

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

### Consolidated - as at 30 June

Financial assets	Effects of offsetting on the balance sheet			Related amounts not offset		
	Gross amounts of financial assets \$'000	Gross amounts set off in the balance sheet \$'000	Net amount of financial assets presented in the balance sheet \$'000	Amounts subject to enforceable netting arrangements \$'000	Cash collateral \$'000	Net amount \$'000
<b>2018</b>						
Margin accounts	3,913	-	3,913	-	(796)	3,117
Derivatives	689	-	689	(640)	(49)	-
<b>Total</b>	<b>4,602</b>	<b>-</b>	<b>4,602</b>	<b>(640)</b>	<b>(845)</b>	<b>3,117</b>

## 5 Offsetting financial assets and financial liabilities (continued)

Consolidated - as at 30 June

Financial assets	Effects of offsetting on the balance sheet			Related amounts not offset		
	Gross amounts of financial assets \$'000	Gross amounts set off in the balance sheet \$'000	Net amount of financial assets presented in the balance sheet \$'000	Amounts subject to enforceable netting arrangements \$'000	Cash collateral \$'000	Net amount \$'000
2017 Margin accounts	4,094	-	4,094	-	(1,455)	2,639
Derivatives	2,788	-	2,788	-	(2,788)	-
<b>Total</b>	<b>6,882</b>	<b>-</b>	<b>6,882</b>	<b>-</b>	<b>(4,243)</b>	<b>2,639</b>

Consolidated - as at 30 June

Financial liabilities	Effects of offsetting on the balance sheet			Related amounts not offset		
	Gross amounts of financial liabilities \$'000	Gross amounts set off in the balance sheet \$'000	Net amount of financial liabilities presented in the balance sheet \$'000	Amounts subject to enforceable netting arrangements \$'000	Cash collateral \$'000	Net amount \$'000
2018 Margin accounts	(845)	-	(845)	-	845	-
Derivatives	(640)	-	(640)	640	-	-
<b>Total</b>	<b>(1,485)</b>	<b>-</b>	<b>(1,485)</b>	<b>640</b>	<b>845</b>	<b>-</b>

2017 Margin accounts	(3,953)	-	(3,953)	-	3,953	-
Derivatives	(662)	-	(662)	-	290	(372)
<b>Total</b>	<b>(4,615)</b>	<b>-</b>	<b>(4,615)</b>	<b>-</b>	<b>4,243</b>	<b>(372)</b>

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

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

## 6 Fair value measurement

AASB 13 requires disclosure of fair value measurements by level of the following fair value hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1),
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2), 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)

Investments are valued in accordance with the accounting policies set out in note 2 to the financial statements. For the majority of financial assets and liabilities, information provided by independent pricing services is relied upon for valuation. Fair value inputs utilise the last traded prices for both financial assets and liabilities.

Where the last traded price does not fall within the bid-ask spread, an assessment is performed by management to determine the appropriate valuation price to use that is most representative of fair value.

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.

Exchange traded futures and options are valued at the market closing price.

### (b) Fair value in an inactive or unquoted market (level 2 and level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined by using quoted market prices, dealer quotes and/or valuation techniques.

The fair value of an over-the-counter option contract is determined by applying the Black-Scholes option valuation model.

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

For option pricing models, inputs are based on market data at the end of the reporting period. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions held.

#### (i) Recognised fair value measurements

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

Consolidated As at 30 June 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss				
Equity securities	47,164	-	-	47,164
Financial assets held for trading:				
Derivatives	689	-	-	689
<b>Total</b>	<b>47,853</b>	<b>-</b>	<b>-</b>	<b>47,853</b>

## 6 Fair value measurement (continued)

### (i) Recognised fair value measurements (continued)

Consolidated As at 30 June 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial liabilities</b>				
Financial liabilities held for trading:				
Derivatives	(640)	(21)	-	(661)
<b>Total</b>	<b>(640)</b>	<b>(21)</b>	<b>-</b>	<b>(661)</b>

Consolidated At 30 June 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss				
Equity securities	150,981	-	-	150,981
Financial assets held for trading:				
Derivatives	3,225	-	-	3,225
<b>Total</b>	<b>154,206</b>	<b>-</b>	<b>-</b>	<b>154,206</b>

### Financial liabilities

Financial liabilities held for trading:				
Derivatives	-	(1,154)	-	(1,154)
<b>Total</b>	<b>-</b>	<b>(1,154)</b>	<b>-</b>	<b>(1,154)</b>

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

### (ii) Transfers between levels

There have been no transfers between levels for the years ended 30 June 2018 and 30 June 2017.

### (iii) Valuation processes

Portfolio reviews are undertaken regularly by management to identify securities that potentially may not be actively traded or have stale security pricing. This process identifies securities which possibly could be regarded as level 2 or level 3 securities. Further analysis, should it be required, is undertaken to determine the accounting significance of the identified securities. In the event that the security is not actively traded and there are no or few other broker quotes to substantiate the quoted market price, an assessment is performed by management to determine the appropriate valuation price to use that is most representative of fair value.

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

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

Net assets attributable to unitholders' carrying value differs from its fair value (deemed to be redemption price for individual units) due to differences in valuation inputs. This difference is not material in the current or prior year.

## 7 Other operating expenses

	Consolidated Year ended	
	30 June 2018	30 June 2017
	\$'000	\$'000
Reimbursable expenses	107	323
Total other operating expenses	107	323

## 8 Remuneration of auditors

	Parent Year ended	
	30 June 2018	30 June 2017
	\$	\$
<i>Audit and other assurance services</i>		
Audit of financial statements	17,160	14,002
Other services*	1,773	1,988
Total remuneration for audit and other assurance services	18,933	15,990

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

Audit fees were included in reimbursable expenses for the years ended 30 June 2018 and 30 June 2017.

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

	Consolidated Year ended	
	30 June 2018	30 June 2017
	\$'000	\$'000
Net gains/(losses) on financial instruments held for trading	(6,302)	(15,071)
Net gains/(losses) on financial instruments designated at fair value through profit or loss	6,674	17,163
Total net gains/(losses) on financial instruments held at fair value through profit or loss	372	2,092

## 10 Net assets attributable to unitholders of the parent entity

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

	Parent			
	30 June 2018 No. '000	30 June 2017 No. '000	30 June 2018 \$'000	30 June 2017 \$'000
Opening balance	248,038	242,321	211,814	206,844
Applications	33	19,806	28	17,063
Redemptions	(153,621)	(23,130)	(131,438)	(19,553)
Units issued upon reinvestment of distributions	5,949	9,041	5,067	7,762
Increase/(decrease) in net assets attributable to unitholders	-	-	(133)	(302)
Closing balance	<b>100,399</b>	248,038	<b>85,338</b>	211,814

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

### (a) Capital risk management

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

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

On 8 June 2018, the Responsible Entity resolved to terminate the Fund effective 17 July 2018.

## 11 Distributions to unitholders

	Parent			
	Year ended			
	30 June 2018 \$'000	30 June 2018 CPU	30 June 2017 \$'000	30 June 2017 CPU
Distributions paid				
- 31 July	622	0.250	726	0.300
- 31 August	623	0.250	788	0.300
- 30 September	624	0.250	790	0.300
- 31 October	624	0.250	659	0.250
- 30 November	417	0.250	617	0.250
- 31 December	418	0.250	613	0.250
- 31 January	252	0.250	615	0.250
- 28 February	252	0.250	616	0.250
- 31 March	251	0.250	617	0.250
- 30 April	251	0.250	618	0.250
- 31 May	250	0.250	619	0.250
Distribution payable				
- 30 June	251	0.250	620	0.250
	<b>4,835</b>	<b>3.000</b>	7,898	3.150

## 12 Cash and cash equivalents

	Consolidated	
	As at	
	30 June 2018 \$'000	30 June 2017 \$'000
Cash at bank	32,531	60,814
Total cash and cash equivalents	<b>32,531</b>	60,814

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

	Consolidated	
	As at	
	30 June 2018 Fair value \$'000	30 June 2017 Fair value \$'000
<b>Designated at fair value through profit or loss</b>		
Equity securities	47,164	150,981
Total designated at fair value through profit or loss	<b>47,164</b>	150,981

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

	Consolidated As at	
	30 June 2018 Fair value \$'000	30 June 2017 Fair value \$'000
<b>Held for trading</b>		
Derivatives (note 15)	689	3,225
Total held for trading	689	3,225
<b>Total financial assets held at fair value through profit or loss</b>	<b>47,853</b>	154,206
<b>Comprising:</b>		
<b>Equity securities</b>		
Australian equity securities listed on a prescribed stock exchange	47,164	150,981
Total equity securities	47,164	150,981
<b>Derivatives</b>		
Australian exchange traded options	629	2,788
Australian share price index futures	60	437
Total derivatives	689	3,225
<b>Total financial assets held at fair value through profit or loss</b>	<b>47,853</b>	154,206

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 4 and note 6.

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

	Consolidated As at	
	30 June 2018 Fair value \$'000	30 June 2017 Fair value \$'000
<b>Held for trading</b>		
Derivatives (note 15)	661	1,154
Total held for trading	661	1,154
<b>Total financial liabilities held at fair value through profit or loss</b>	<b>661</b>	1,154

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

	Consolidated	
	As at	
	30 June 2018 Fair value \$'000	30 June 2017 Fair value \$'000
<b>Derivatives</b>		
Australian exchange traded options	640	-
Over the counter options	21	1,154
Total derivatives	661	1,154
<b>Total financial liabilities held at fair value through profit or loss</b>	<b>661</b>	<b>1,154</b>

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 4 and note 6.

## 15 Derivative financial instruments

A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating, credit index or other variable.

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

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

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

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

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

The following derivative financial instruments were held during the year:

### (a) Futures

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

## 15 Derivative financial instruments (continued)

### (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 price risk. Options held are exchange-traded and over the counter. An exposure to credit risk exists on purchased options to the extent of their carrying amount, which is their fair value.

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

	Consolidated As at	
	30 June 2018 Contract/ notional \$'000	30 June 2017 Contract/ notional \$'000
<b>Buy</b>		
Australian exchange traded options	20,334	53,147
Australian share price index futures	14,388	-
<b>Sell</b>		
Australian share price index futures	-	21,338
Australian exchange traded options	22,467	-
Over the counter options	1,028	32,838

### Risk exposures and fair value measurements

Information about the exposure to credit risk, foreign exchange risk and interest rate risk and the methods and assumptions used in determining fair values is provided in note 4 and note 6 to the financial statements. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial instruments disclosed above.

## 16 Related party transactions

### (a) Parent entity

The parent entity within the group is Pental Defensive Equity Income Fund.

### (b) Subsidiaries

Interests in subsidiaries are set out in note 17.

### (c) Responsible Entity

The Responsible Entity of the Fund is Pental Fund Services Limited (ABN 13 161 249 332), a wholly owned subsidiary of Pental Group Limited (formerly known as BT Investment Management Limited) (ABN 28 126 385 822). The registered office of the Responsible Entity and the Fund is Level 14, The Chifley Tower, 2 Chifley Square, Sydney, NSW 2000.

## 16 Related party transactions (continued)

### (d) Directors

Key management personnel includes persons who were directors of Pental Fund Services Limited at any time during the financial year as follows:

Emilio Gonzalez (appointed 15 November 2012)  
Justin Howell (appointed 7 May 2018)  
Hayden King (appointed 30 January 2016, resigned 27 April 2018)  
Cameron Williamson (appointed 15 November 2012)

### (e) Other key management personnel

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

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

For the period 1 July 2017 to 31 October 2017, the Fund incurred a management fee of 0.99% (inclusive of GST, net of RITC available to the Fund) per annum. This fee was decreased to 0.75% per annum from 1 November 2017. On 8 June 2018 the fee was reduced to Nil % per annum as the Responsible Entity resolved to terminate the Fund effective 17 July 2018. Fees are paid in accordance with the Fund's governing documents (30 June 2017: 0.99%).

In addition, the Responsible Entity is entitled to be reimbursed out of the Fund for costs including expenses in connection with the keeping and preparation of accounting records and the maintenance of the register. From 1 November 2017, the Responsible Entity waived its entitlement to be reimbursed for these costs.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable/(receivable) at the end of each reporting period between the Fund and the Responsible Entity were as follows:

	<b>Consolidated</b>	
	<b>30 June 2018 \$'000</b>	<b>30 June 2017 \$'000</b>
Management fees for the year paid/(received) by the Fund to/(from) the Responsible Entity	<b>1,249</b>	2,131
Administration expenses incurred by the Responsible Entity which are reimbursed in accordance with the Fund's governing documents	<b>107</b>	323
Aggregate amounts payable/(receivable) to/(from) the Responsible Entity at the end of the reporting period	<b>12</b>	199

## 16 Related party transactions (continued)

### (g) Related party unitholdings

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

Unitholder	30 June 2018		Parent			
	Number of units held opening	Number of units held closing	Interest held	Number of units acquired	Number of units disposed	Distributions paid/payable by the Fund
	000's Units	000's Units	%	000's Units	000's Units	\$'000
Parent - Pendal Total Return Fund (formerly known as BT Total Return Fund)	241,366	97,469	97.08	5,931	(149,828)	4,693
Unitholder	30 June 2017		Parent			
	Number of units held opening	Number of units held closing	Interest held	Number of units acquired	Number of units disposed	Distributions paid/payable by the Fund
	000's Units	000's Units	%	000's Units	000's Units	\$'000
Parent - BT Total Return Fund	229,487	241,366	97.31	28,765	(16,886)	7,609

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

### (h) Transactions with key management personnel

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

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

#### *Key management personnel unitholdings*

At 30 June 2018 no key management personnel held units in the Fund (2017: Nil).

### (i) Investments

#### (i) Investment in related entity

The Fund / parent entity held an investment in Pendal Equity Income Stabiliser Conservative Pty Ltd (formerly known as BT Equity Income Stabiliser Conservative Pty Ltd). The fair value of the investment was \$1 as at 30 June 2018 (2017: \$1) and this represents 100% of the issued capital of Pendal Equity Income Stabiliser Conservative Pty Ltd (formerly known as BT Equity Income Stabiliser Conservative Pty Ltd).

## 16 Related party transactions (continued)

### (i) Investments (continued)

#### (ii) Other investments in related parties

The Fund held the following other investments in related parties (2018: \$Nil):

30 June 2017	Fair value of investment \$'000	Consolidated Income received \$'000	Income receivable \$'000
Westpac Banking Corporation - ordinary shares*#	-	1,019	-
Total	-	1,019	-

\* The Fund owns less than 1% of the issued capital.

# Transactions are for the period 1 July 2016 to 24 May 2017.

### (j) Other transactions within the Fund

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

## 17 Investments in subsidiaries

The Fund's principal subsidiaries are set out below. Unless otherwise stated, they have shares that are held directly by the Fund, and the proportion of ownership interests held equals the voting rights held by the Fund. The country of domicile is also their principal place of business.

The Fund holds 100% of Pandal Equity Income Stabiliser Conservative Pty Ltd (formerly known as BT Equity Income Stabiliser Conservative Pty Ltd) as at 30 June 2018 (2017: 100%). The fair value of this investment at 30 June 2018 was \$1 (2017: \$1). The principal place of business of Pandal Equity Income Stabiliser Conservative Pty Ltd (formerly known as BT Equity Income Stabiliser Conservative Pty Ltd) is Australia.

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

	Consolidated Year ended	
	30 June 2018 \$'000	30 June 2017 \$'000
<b>(a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Operating profit/(loss) for the period	4,702	7,596
Proceeds from sale of financial instruments held at fair value through profit or loss	235,419	343,279
Purchase of financial instruments held at fair value through profit or loss	(136,848)	(310,952)
Net (gains)/losses on financial instruments held at fair value through profit or loss	(372)	(2,092)
Net change in accrued income and receivables	550	1,126
Net change in payables	(187)	2
<b>Net cash inflow/(outflow) from operating activities</b>	<b>103,264</b>	<b>38,959</b>
<b>(b) Non-cash transactions</b>		
Distribution payments satisfied by the issue of units under the distribution reinvestment plan	5,067	7,762

## 19 Parent entity financial information

Below are extracts from the individual financial statements of the parent entity:

	Parent As at	
	30 June 2018 \$'000	30 June 2017 \$'000
Total assets	124,754	260,645
Total liabilities (excluding net assets attributable to unitholders)	39,416	48,831
Net assets attributable to unitholders - liability	85,338	211,814
Operating profit/(loss)	4,702	7,596
Total comprehensive income	-	-

## **20 Events occurring after the reporting period**

Final redemption proceeds were paid effective 17 July 2018.

No other significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the balance sheet as at 30 June 2018 or on the results and cash flows of the Fund for the year ended on that date.

## **21 Contingent assets and liabilities and commitments**

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2018 and 30 June 2017.

## Directors' declaration

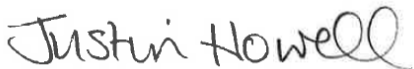
In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 34 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the Consolidated Entity's and the Fund's financial position as at 30 June 2018 and of their performance for the financial year ended on that date,
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable, and
- (c) note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Director



Director

Sydney  
13 September 2018



## Independent auditor's report

To the unitholders of Pental Defensive Equity Income Fund (formerly known as BT Defensive Equity Income Fund)

### Our opinion

In our opinion:

The accompanying financial report of Pental Defensive Equity Income Fund (formerly known as BT Defensive Equity Income Fund) (the Fund) is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the consolidated financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### What we have audited

The financial report comprises:

- the consolidated balance sheet as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated 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 financial report* section of our report.

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

### Independence

We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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### *Other information*

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Fund's annual report for the year ended 30 June 2018, including the directors' report, but does not include the financial report and our auditor's report thereon.

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

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

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

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

The directors of the Responsible Entity of the 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 control as the directors of the Responsible Entity determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

### *Auditor's responsibilities for the audit of the financial report*

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

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

PricewaterhouseCoopers

S Cuthbert  
Partner

Sydney  
13 September 2018