

# **Colchester Emerging Markets Bond Fund**

ARSN 616 633 428

## **Annual report**

**For the year ended 30 June 2023**

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## **Annual report**

### **For the year ended 30 June 2023**

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This annual report covers Colchester Emerging Markets Bond Fund as an individual entity.

The Responsible Entity of Colchester Emerging Markets Bond Fund is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975).

The Responsible Entity's registered office is:

Level 1, 575 Bourke Street  
Melbourne, VIC 3000.

## **Directors' report**

The directors of Equity Trustees Limited, the Responsible Entity of Colchester Emerging Markets Bond Fund (the "Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2023.

### **Principal activities**

The Fund invests in a globally diversified portfolio of government bonds and currencies in emerging markets in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

The Fund did not have any employees during the year.

There were no other significant changes in the nature of the Fund's activities during the year.

The various service providers for the Fund are detailed below:

<b>Service</b>	<b>Provider</b>
Responsible Entity	Equity Trustees Limited
Investment Manager	Colchester Global Investors (Singapore) Pte. Ltd.
Custodian and Administrator	The Northern Trust Company
Statutory Auditor	Deloitte Touche Tohmatsu

### **Directors**

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

Philip D Gentry	Chairman
Michael J O'Brien	
Russell W Beasley	
Mary A O'Connor	
David B Warren	(appointed 6 March 2023)

### **Review and results of operations**

During the year, the Fund continued to invest its funds in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

The Fund's performance was 23.03% (net of fees) for the year ended 30 June 2023. The Fund's benchmark, the JP Morgan (GBI EM) Global Diversified Index (AUD unhedged) returned 15.06% for the same year.

Net Fund performance is based on end of month hard close redemption prices assuming the reinvestment of all distributions and gains. Net return is calculated after the deduction of actual trading expenses and is net of taxes withheld on foreign interest and gains and after deducting the stated management fees and costs, which includes management and other administrative fees (custody, legal, administration, audit and other fees).

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

	<b>Year ended</b>	
	<b>30 June 2023</b>	<b>30 June 2022</b>
Profit/(loss) before finance costs attributable to unit holders for the year ('\$000)	10,603	(4,325)
Distributions paid and payable ('\$000)	3,593	2,314
Distributions (cents per unit)	5.13	4.87

### **Significant changes in the state of affairs**

David B Warren was appointed as a director of Equity Trustees Limited on 6 March 2023.

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

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

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

No matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may have a significant effect on:

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

### **Likely developments and expected results of operations**

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the Product Disclosure Statement and the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

### **Indemnification and insurance of officers**

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

### **Indemnification of auditor**

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

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

Fees paid to the Responsible Entity and its associates out of Fund property during the financial year are disclosed in Note 15 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 15 to the financial statements.

### **Interests in the Fund**

The movement in units on issue in the Fund during the financial year is disclosed in Note 8 to the financial statements.

The value of the Fund'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 operations of the Fund are not subject to any particular or significant environmental regulations under 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 *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise indicated.

## Directors' report (continued)

### Auditor's independence declaration

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

This report is made in accordance with a resolution of the directors of Equity Trustees Limited through a delegated authority given by Equity Trustees Limited's Board.



Philip D Gentry  
Chairman

Melbourne  
28 September 2023

28 September 2023

The Board of Directors  
Equity Trustees Limited  
Level 1, 575 Bourke Street  
MELBOURNE VIC 3000

Dear Board Members,

**Independence Declaration – Colchester Emerging Markets Bond Fund**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the Directors of Equity Trustees Limited, the Responsible Entity, regarding the financial report of Colchester Emerging Markets Bond Fund (the “Fund”).

As lead audit partner for the audit of the financial statements of the Fund for the financial year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully

DELOITTE TOUCHE TOHMATSU

Jonathon Corbett  
Partner  
Chartered Accountants

**Colchester Emerging Markets Bond Fund**  
**Statement of comprehensive income**  
**For the year ended 30 June 2023**

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**Statement of comprehensive income**

	Year ended	30 June	30 June
		2023	2022
	Note	\$'000	\$'000
<b>Investment income</b>			
Interest income from financial assets at fair value through profit or loss		3,573	2,413
Interest income from financial assets at amortised cost		17	-
Net foreign exchange gain/(loss)		(35)	(57)
Net gains/(losses) on financial instruments at fair value through profit or loss		7,482	(6,342)
Other income	15	-	17
<b>Total investment income/(loss)</b>		<b>11,037</b>	<b>(3,969)</b>
<b>Expenses</b>			
Management fees and costs		368	287
Withholding taxes		64	69
Transaction costs		2	-
<b>Total expenses</b>		<b>434</b>	<b>356</b>
<b>Profit/(loss) before finance costs attributable to unit holders for the year</b>		<b>10,603</b>	<b>(4,325)</b>
<b>Finance costs attributable to unit holders</b>			
Distributions to unit holders	9	(3,593)	(2,314)
(Increase)/decrease in net assets attributable to unit holders	8	(7,010)	6,639
<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.*

**Statement of financial position**

		As at	
	Note	30 June 2023	30 June 2022
		\$'000	\$'000
<b>Assets</b>			
Cash and cash equivalents	10	1,503	822
Receivables	12	912	545
Receivable for unit applications		39	8
Financial assets at fair value through profit or loss	5	<b>59,520</b>	36,259
<b>Total assets</b>		<b>61,974</b>	37,634
<b>Liabilities</b>			
Distributions payable	9	1,039	595
Payables	13	164	70
Payable for unit redemptions		159	-
Financial liabilities at fair value through profit or loss	6	<b>374</b>	274
<b>Total liabilities (excluding net assets attributable to unit holders)</b>		<b>1,736</b>	939
<b>Net assets attributable to unit holders - liability</b>	8	<b>60,238</b>	36,695

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

**Colchester Emerging Markets Bond Fund**  
**Statement of changes in equity**  
**For the year ended 30 June 2023**

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**Statement of changes in equity**

	Year ended	
	30 June 2023	30 June 2022
	\$'000	\$'000
<b>Total equity at the beginning of the financial year</b>	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
<b>Total comprehensive income</b>	-	-
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 unit holders are classified as a liability rather than equity. As a result, there was no equity at the start or end of the financial year.

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

**Colchester Emerging Markets Bond Fund**  
**Statement of cash flows**  
**For the year ended 30 June 2023**

**Statement of cash flows**

	Year ended	
	30 June 2023	30 June 2022
Note	\$'000	\$'000
<b>Cash flows from operating activities</b>		
Proceeds from sale of financial instruments at fair value through profit or loss	17,880	12,421
Payments for purchase of financial instruments at fair value through profit or loss	(33,559)	(25,017)
Net foreign exchange gain/(loss)	(18)	(61)
Interest income received from financial assets at fair value through profit or loss	3,139	2,263
Interest income received from financial assets at amortised cost	13	-
Management fees and costs reimbursement received	-	9
Management fees and costs paid	(227)	(211)
Transaction costs paid	(2)	-
<b>Net cash inflow/(outflow) from operating activities</b>	11(a) (12,774)	(10,596)
<b>Cash flows from financing activities</b>		
Proceeds from applications by unit holders	27,785	17,389
Payments for redemptions by unit holders	(12,660)	(5,375)
Distributions paid to unit holders	(1,653)	(1,136)
<b>Net cash inflow/(outflow) from financing activities</b>	13,472	10,878
<b>Net increase/(decrease) in cash and cash equivalents</b>	698	282
Cash and cash equivalents at the beginning of the year	822	536
Effects of foreign currency exchange rate changes on cash and cash equivalents	(17)	4
<b>Cash and cash equivalents at the end of the year</b>	10 1,503	822
Non-cash operating and financing activities	11(b) 1,536	1,120

*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 Colchester Emerging Markets Bond Fund (the "Fund") as an individual entity. The Fund is an Australian registered managed investment scheme which was constituted on 8 December 2016 and will terminate in accordance with the provisions of the Fund's Constitution or by Law.

The Responsible Entity of the Fund is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975) (the "Responsible Entity"). The Responsible Entity's registered office is Level 1, 575 Bourke Street, Melbourne, VIC 3000. The financial statements are presented in the Australian currency unless otherwise noted.

The Fund invests in a globally diversified portfolio of government bonds and currencies in emerging markets in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

The financial statements were authorised for issue by the directors on the date the Directors' declaration was signed. 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 in the following text.

### (a) Basis of preparation

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

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

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within 12 months, except for investments in financial assets and liabilities and net assets attributable to unit holders.

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

In the case of net assets attributable to unit holders, the units are redeemable on demand at the unit holder's option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within 12 months cannot be reliably determined.

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

The financial statements of the Fund also comply with IFRS as issued by the International Accounting Standards Board (IASB).

#### (ii) 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 2022 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

#### (iii) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2023, and have not been early adopted in preparing these financial statements.

None of these are expected to have a material effect on the financial statements of the Fund.

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

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

#### *(i) Classification*

- Financial assets

The Fund classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss; and
- those to be measured at amortised cost.

The Fund classifies its financial assets based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets.

The Fund's portfolio of financial assets is managed and its performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Investment Manager to evaluate the information about these financial assets on a fair value basis together with other related financial information.

For derivatives, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments are measured at fair value through profit or loss.

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

For cash and cash equivalents and receivables, these assets are held in order to collect the contractual cash flows. The contractual terms of these assets give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. Consequently, these are measured at amortised cost.

- Financial liabilities

Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

For financial liabilities that are not classified and measured at fair value through profit or loss, these are classified as financial liabilities at amortised cost (distributions payable, management fees and costs payable and payables for unit redemptions).

#### *(ii) Recognition and derecognition*

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

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

#### *(iii) Measurement*

- Financial instruments at fair value through profit or loss

At initial recognition, the Fund measures a financial asset and a financial liability 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 fair value of 'financial assets or liabilities at fair value through profit or loss' category are presented in the statement of comprehensive income within 'net gains/(losses) on financial instruments at fair value through profit or loss' in the period in which they arise.

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

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

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

#### *(iii) Measurement (continued)*

- Financial instruments at amortised cost

For financial assets and financial liabilities at amortised cost, they are initially measured at fair value including directly attributable costs and are subsequently measured using the effective interest rate method less any allowance for expected credit losses.

Cash and cash equivalents and receivables are carried at amortised cost.

#### *(iv) Impairment*

At each reporting date, the Fund shall estimate a loss allowance on each of the financial assets carried at amortised cost (cash and cash equivalents and receivables) at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counter party, probability that the counter party will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that the asset is credit impaired. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the net carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

The expected credit loss (ECL) approach is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

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

#### *(v) Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Fund has 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.

As at the end of the reporting period, there are no financial assets or liabilities offset in the statement of financial position.

### **(c) Net assets attributable to unit holders**

Units are redeemable at the unit holders' option; however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unit holders.

The units are classified as financial liabilities as the Fund is required to distribute its distributable income with the Fund's Constitution.

The units can be put back to the Fund at any time for cash based on the redemption price, which is equal to a proportionate share of the Fund's net asset value attributable to the unit holders.

The units are carried at the redemption amount that is payable at the reporting date if the holder exercises the right to put the units back to the Fund.

### **(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 and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as trading of these securities represents the Fund's main income generating activity.

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

### **(e) Investment income**

#### *(i) Interest income*

Interest income from financial assets at amortised cost is recognised using the effective interest method and includes interest from cash and cash equivalents. Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities measured at fair value through the profit or loss.

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

Interest income on financial assets at fair value through profit or loss is also recognised in the statement of comprehensive income. Changes in fair value of financial instruments at fair value through profit or loss are recorded in accordance with the policies described in Note 2(b) to the financial statements.

### **(f) Expenses**

All expenses are recognised in the statement of comprehensive income on an accruals basis.

Management fees and costs covers certain ordinary expenses such as Responsible Entity fees, investment management fees, custodian fees, and administration and audit fees and other operating expenses.

### **(g) Income tax**

Under current legislation, the Fund is not subject to income tax provided it attributes the entirety of its taxable income to its unit holders.

The Fund currently incurs withholding taxes imposed by certain countries on investment income and gains. Such income or gains are recorded gross of withholding taxes in the statement of comprehensive income. Withholding taxes are included in the statement of comprehensive income as an expense.

### **(h) Distributions**

The Fund may distribute its distributable income, in accordance with the Fund's Constitution, to unit holders by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as finance costs attributable to unit holders.

#### **(i) Increase/decrease in net assets attributable to unit holders**

Income not distributed is included in net assets attributable to unit holders. As the Fund's units are classified as financial liabilities, movements in net assets attributable to unit holders are recognised in the statement of comprehensive income as finance costs.

#### **(j) Foreign currency translation**

##### *(i) Functional and presentation currency*

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined.

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

### **(i) Foreign currency translation (continued)**

#### *(ii) Transactions and balances (continued)*

The Fund does not isolate that portion of unrealised gains or losses on financial instruments at fair value through profit or loss which is due to changes in foreign exchange rates. Such fluctuations are included in the net gains/(losses) on financial instruments at fair value through profit or loss.

### **(k) Receivable for securities sold/payable for securities purchased**

Amounts due for securities sold and for securities purchased represent receivables sold and payables for securities purchased that have been contracted for but not yet delivered by year end.

Trades are recorded on trade date, and normally settled within three business days. A provision for impairment of amounts due from the counterparty is established when there is objective evidence that the Fund will not be able to collect all amounts due from the counterparty. Indicators that the amount due from the counterparty is impaired include significant financial difficulties of the counterparty, and the probability that the counterparty will enter into bankruptcy or financial reorganisation and default in payments.

### **(l) Receivables**

Receivables may include amounts for interest. Where applicable, interest is accrued on a daily basis. Amounts are generally received within 30 days of being recorded as receivables.

### **(m) Payables**

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

A separate distribution payable is recognised in the statement of financial position.

Distributions declared effective 30 June in relation to unit holders who have previously elected to reinvest distributions are recognised as reinvested effective 1 July of the following reporting period.

### **(n) Applications and redemptions**

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

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

The GST incurred on the costs of various services provided to the Fund by third parties such as management, administration and custodian services where applicable, have been passed on to the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 55%. Hence, fees for these services and any other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Amounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

### **(p) Use of estimates and judgements**

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

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

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

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

### **(p) Use of estimates and judgements (continued)**

The Fund estimates that the resultant expected credit loss (ECL) derived from using the impairment model, has not materially impacted the Fund. Please see Note 3 for more information on credit risk.

For more information on how fair value is calculated refer to Note 4 to the financial statements.

### **(q) Rounding of amounts**

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

### **(r) Comparative revisions**

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

## **3 Financial risk management**

The Fund's activities expose it to a variety of financial risks including market risk (which incorporates 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 the Fund's Product Disclosure Statement and the investment guidelines of the Fund. It also seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance. The Fund's policy allows it to use derivative financial instruments in managing its financial risks.

All investments present a risk of loss of capital. The maximum loss on debt securities is limited to the fair value of those positions. The maximum loss on capital on forward currency contracts is limited to the notional contract values of those positions.

The investments of the Fund, and the associated risks, are managed by a specialist Investment Manager, Colchester Global Investors (Singapore) Pte. Ltd, under an Investment Management Agreement ("IMA") approved by the Responsible Entity and containing the investment strategy and investment guidelines of the Fund, consistent with those stated in the Product Disclosure Statement.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods are explained below.

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

#### *(i) Price risk*

The Fund is exposed to price risk. Price risk arises from investments held by the Fund for which prices in the future are uncertain.

The majority of the Fund's directly held financial assets and liabilities are interest bearing securities that have exposure to interest rate movement and therefore have minimal exposure to price risk. As a result, there are limited exposures to price risk at year end.

The Investment Manager generally seeks to invest primarily in sovereign debt securities that possess fundamental value. Securities that possess high yields after allowing for the impact of estimated future inflation and are denominated in currencies that are either undervalued, or of a reasonable value according to purchasing power parity analysis, typically possess fundamental investment value.

The Investment Manager carries out financial analysis on countries and individual issues in order to assess the issuer's respective financial strengths and vulnerabilities. Having made a fundamental real assessment of the value of all country bond markets and currencies in the global opportunity set, the Investment Manager then builds optimal portfolios seeking to maximise returns.

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

The Fund operates internationally and holds both monetary and non-monetary assets denominated in currencies other than the Australian dollar. 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 and not foreign exchange risk. However, the Investment Manager monitors the exposure of all foreign currency denominated assets and liabilities.

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

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

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

Forward foreign exchange transactions (including non-deliverable foreign exchange transactions) may be used by the Fund to reduce the risk of adverse market changes in exchange rates or to increase exposure to foreign currencies or to shift exposure in order to address foreign currency fluctuations between currencies. For accounting purposes, the Fund does not designate any derivatives as hedges in a hedging relationship, and hence these derivative financial instruments are classified as at fair value through profit or loss.

Foreign exchange risk is managed as part of price risk.

The table below summarises the fair value of the Fund's financial assets and liabilities, monetary and non-monetary, which are denominated in a currency other than the Australian dollar.

	<b>Gross</b> \$'000	<b>Sell foreign</b> <b>currency</b> <b>contracts</b> \$'000	<b>Net</b> \$'000
<b>As at 30 June 2023</b>			
Brazilian Real	11,673	(2,487)	9,186
Chilean Peso	1,292	(16)	1,276
Colombian Peso	8,685	(1,441)	7,244
HK offshore Chinese Yuan Renminbi	1,008	(504)	504
Hungarian Forint	4,063	(69)	3,994
Indonesian Rupiah	12,037	(8,712)	3,325
Indian Rupee	261	-	261
Malaysian Ringgit	7,841	-	7,841
Mexican Peso	12,897	(3,022)	9,875
Peruvian Nuevo	2,309	(903)	1,406
Philippine Peso	2,698	(32)	2,666
Polish Zloty	5,210	(2,983)	2,227
Romanian New Leu	1,615	(808)	807
Russian Rouble	33	-	33
South Africa Rand	8,084	(3,040)	5,044
South Korean Won	3,329	(40)	3,289
Thai Baht	2,798	(1,397)	1,401
United States Dollar	26,356	(26,034)	322
<b>Total</b>	<b>112,189</b>	<b>(51,488)</b>	<b>60,701</b>

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

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

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

	Gross \$'000	Sell foreign currency contracts \$'000	Net \$'000
As at 30 June 2022			
Brazilian Real	5,321	(821)	4,500
Chilean Peso	739	(718)	21
Colombian Peso	4,164	(1,273)	2,891
Czech Koruna	18	-	18
HK offshore Chinese Yuan Renminbi	2,999	(1,522)	1,477
Hungarian Forint	1,816	-	1,816
Indonesian Rupiah	6,800	(3,967)	2,833
Malaysian Ringgit	5,550	-	5,550
Mexican Peso	6,214	(438)	5,776
Peruvian Nuevo	848	(429)	419
Philippine Peso	1,144	-	1,144
Polish Zloty	6,245	(1,534)	4,711
Romanian New Leu	-	-	-
Russian Rouble	192	-	192
South Africa Rand	4,628	(2,234)	2,394
South Korean Won	2,351	-	2,351
Thai Baht	359	-	359
United States Dollar	13,765	(13,090)	675
Total	63,153	(26,026)	37,127

The table at Note 3(b) summarises the sensitivities of the Fund's monetary assets and liabilities to foreign exchange risk. The analysis is based on the reasonably possible shift that the Australian dollar weakened and strengthened by +/- 10% (2022: +/- 10%) against the material foreign currencies to which the Fund is exposed.

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

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk.

The Fund's interest bearing financial assets expose them to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

The Fund's main interest rate risk arises from its investment in sovereign debt securities in emerging markets.

Interest rate risk is managed by financial analysis on countries and individual issues in order to assess the issuer's respective financial strengths and vulnerabilities. Having made a fundamental real assessment of the value of all country bond markets and currencies in the global opportunity set, the Investment Manager then builds optimal portfolios seeking to maximise returns.

### 3 Financial risk management (continued)

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

##### (iii) Interest rate risk (continued)

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

	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>As at 30 June 2023</b>				
<b>Financial assets</b>				
Cash and cash equivalents	1,503	-	-	1,503
Receivables	-	-	912	912
Receivable for unit applications	-	-	39	39
Financial assets at fair value through profit or loss	-	<b>59,248</b>	272	<b>59,520</b>
<b>Total financial assets</b>	<b>1,503</b>	<b>59,248</b>	1,223	<b>61,974</b>
<b>Financial liabilities</b>				
Distribution payable	-	-	1,039	1,039
Payables	-	-	164	164
Payable for unit redemptions	-	-	159	159
Financial liabilities at fair value through profit or loss	-	-	374	374
<b>Total financial liabilities</b>	-	-	1,736	1,736
<b>Net exposure</b>	<b>1,503</b>	<b>59,248</b>	(513)	<b>60,238</b>
As at 30 June 2022				
Financial assets				
Cash and cash equivalents	822	-	-	822
Receivables	-	-	545	545
Receivable for unit applications	-	-	8	8
Financial assets at fair value through profit or loss	-	<b>35,842</b>	417	<b>36,259</b>
<b>Total financial assets</b>	<b>822</b>	<b>35,842</b>	970	<b>37,634</b>
Financial liabilities				
Distribution payable	-	-	595	595
Payables	-	-	70	70
Financial liabilities at fair value through profit or loss	-	-	274	274
<b>Total financial liabilities</b>	-	-	939	939
<b>Net exposure</b>	<b>822</b>	<b>35,842</b>	31	<b>36,695</b>

The table at Note 3(b) summarises the impact of an increase/decrease in interest rates on the Fund's operating profit and net assets attributable to unit holders through changes in fair value or changes in future cash flows. The analysis is based on the reasonably possible shift that the interest rates changed by +/- 200 basis points (2022: +/- 200 basis points) from the year end rates with all other variables held constant.

#### (b) Summarised sensitivity analysis

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

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

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

	Impact on operating profit/net assets attributable to unit holders			
	Interest rate risk		Foreign exchange risk	
	+200bps \$'000	-200bps \$'000	+10% \$'000	-10% \$'000
<b>As at 30 June 2023</b>	<b>1,155</b>	<b>(1,155)</b>	<b>(156)</b>	<b>156</b>
As at 30 June 2022	700	(700)	(113)	113

#### **(c) Credit risk**

The Fund is exposed to credit risk, which is the risk that a counterparty will be unable to pay its obligations in full when they fall due, causing a financial loss to the Fund.

The main concentration of credit risk, to which the Fund is exposed, arises from the Fund's investment in debt securities. The Fund is also exposed to counterparty credit risk on derivative financial instruments, cash and cash equivalents and other receivables.

The Fund determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 30 June 2023 and 30 June 2022, all receivables, cash and short-term deposits are held with counterparties with a credit rating of AA/Aa or higher and are either callable on demand or due to be settled within 1 week. Management consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

##### *(i) Debt securities*

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

The table below summarises the credit rating composition for the Fund's interest bearing securities assets using Standard and Poor's or Moody's ratings.

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
	<b>International debt securities rating</b>	
AA-	-	120
A+	1,264	2,010
A	8,788	7,595
A-	-	347
BBB+	14,870	7,006
BBB	7,826	5,318
BBB-	8,724	3,692
BB	6,529	4,457
BB-	11,247	5,105
CC	-	192
<b>Total</b>	<b>59,248</b>	<b>35,842</b>

There are no significant concentrations of credit risk to counterparties at 30 June 2023 or 30 June 2022.

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

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

##### *(ii) Derivative financial instruments*

The Fund restricts its exposure to credit losses on the trading of derivative instruments it holds by entering into master netting arrangements with counterparties with whom it undertakes a significant volume of transactions. The credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are closed and settled on a net basis. The Fund's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangements.

#### **(d) Liquidity risk**

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

Exposure to liquidity risk for the Fund may arise from the requirement to meet daily unit holder redemption requests or to fund foreign exchange related cash flow requirements.

Liquidity risk is managed by the Investment Manager by ensuring that the Fund, as far as possible, holds only highly liquid, marketable sovereign debt securities and that there is a reasonable cash balance at all times to deal with any redemptions. This risk may be higher where the Fund invests in bonds where a bond is issued by the government of an emerging market country or where a derivative instrument has to be traded over-the-counter with a single party.

In order to manage the Fund's overall liquidity, the Responsible Entity has the discretion to reject an application for units and to defer or adjust redemption of units if the exercise of such discretion is in the best interests of unit holders. The Fund did not reject or withhold any redemptions during 2023 and 2022.

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

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Units are redeemed on demand at the unit holders' option. However, the Responsible Entity does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash flows, as holders of these instruments typically retain them for the medium to long term.

	<b>Less than 1 month</b> <b>\$'000</b>	<b>1 to 6 months</b> <b>\$'000</b>	<b>6 to 12 months</b> <b>\$'000</b>	<b>Over 12 months</b> <b>\$'000</b>	<b>Total</b> <b>\$'000</b>
<b>As at 30 June 2023</b>					
Distributions payable	1,039	-	-	-	1,039
Payables	53	111	-	-	164
Payable for unit redemptions	159	-	-	-	159
Net assets attributable to unit holders	<u>60,238</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>60,238</u>
<b>Contractual cash flows (excluding derivatives)</b>	<b>61,489</b>	<b>111</b>	<b>-</b>	<b>-</b>	<b>61,600</b>
As at 30 June 2022					
Distributions payable	595	-	-	-	595
Payables	-	70	-	-	70
Net assets attributable to unit holders	<u>36,695</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,695</u>
<b>Contractual cash flows (excluding derivatives)</b>	<b>37,290</b>	<b>70</b>	<b>-</b>	<b>-</b>	<b>37,360</b>

### 3 Financial risk management (continued)

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

##### (ii) Maturities of gross settled derivative financial liabilities

The table below analyses the Fund's gross settled derivative financial instruments in a loss position for which the contractual maturities are considered to be essential to an understanding of the timing of cash flows based on the Fund's investment strategy.

	Less than 1 month \$'000	1 to 6 months \$'000	6 to 12 months \$'000	Over 12 months \$'000	Total \$'000
<b>As at 30 June 2023</b>					
Forward currency contracts	345	29	-	-	374
<b>Total gross settled derivatives</b>	<b>345</b>	<b>29</b>	<b>-</b>	<b>-</b>	<b>374</b>
As at 30 June 2022					
Forward currency contracts	272	2	-	-	274
<b>Total gross settled derivatives</b>	<b>272</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>274</b>

### 4 Fair value measurement

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

- Financial assets/liabilities at fair value through profit or loss (see Note 5 and Note 6)
- Derivative financial instruments (see Note 7)

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

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement 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).

The Fund values its investments in accordance with accounting policies set out in Note 2 to the financial statements.

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

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and listed equity securities) are based on their last traded prices at the close of trading at the end of the reporting period or where there was no trade, their quoted market prices at the close of trading at the end of the reporting period without any deduction for estimated future selling costs.

The quoted market prices used for financial assets and liabilities held by the Fund is a calculated mid price using the current bid and ask prices.

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

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

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

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

#### 4 Fair value measurement (continued)

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

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

##### (c) Recognised fair value measurements

The table below presents the Fund's financial assets and liabilities measured and recognised at fair value as at 30 June 2023.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>As at 30 June 2023</b>				
<b>Financial assets</b>				
Forward currency contracts	-	272	-	272
Fixed interest securities	<u>59,248</u>	-	-	<u>59,248</u>
<b>Total financial assets</b>	<b><u>59,248</u></b>	<b>272</b>	-	<b><u>59,520</u></b>
<b>Financial liabilities</b>				
Forward currency contracts	-	374	-	374
<b>Total financial liabilities</b>	<b>-</b>	<b>374</b>	-	<b>374</b>
 <b>As at 30 June 2022</b>				
Financial assets				
Forward currency contracts	-	417	-	417
Fixed interest securities	<u>35,650</u>	192	-	<u>35,842</u>
<b>Total financial assets</b>	<b><u>35,650</u></b>	<b>609</b>	-	<b><u>36,259</u></b>
Financial liabilities				
Forward currency contracts	-	274	-	274
<b>Total financial liabilities</b>	<b>-</b>	<b>274</b>	-	<b>274</b>

##### (d) Transfer between levels

Management's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels in the fair value hierarchy at the end of the reporting period.

##### (e) Financial instruments not carried at fair value

Financial instruments not measured at fair value through the profit and loss include:

- i. Cash and cash equivalents, balances due from/to brokers and receivables/payables under sale and repurchase agreements. These are short-term financial assets and financial liabilities whose carrying values approximate fair value, because of their short-term nature and the high credit quality of counterparties; and
- ii. Net assets attributable to unit holders, as the Fund routinely redeems and issues units at an amount equal to the proportionate share of the Fund's net assets at the time of redemption, calculated on a basis consistent with that used in these financial statements. Accordingly, the carrying value of net assets attributable to unit holders approximates their fair value. Any difference is not material in the current year or prior year.

## 5 Financial assets at fair value through profit or loss

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Derivatives	272	417
Fixed interest securities	<u>59,248</u>	<u>35,842</u>
<b>Total financial assets at fair value through profit or loss</b>	<b><u>59,520</u></b>	<b><u>36,259</u></b>

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in Note 3 and Note 4 to the financial statements.

## 6 Financial liabilities at fair value through profit or loss

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Derivatives	<u>374</u>	<u>274</u>
<b>Total financial liabilities at fair value through profit or loss</b>	<b><u>374</u></b>	<b><u>274</u></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 3 and Note 4 to the financial statements.

## 7 Derivative financial instruments

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

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

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

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

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

Certain transactions may give rise to a form of leverage. Such transactions may include, among others, reverse repurchase agreements, loans of portfolio securities, and the use of when-issued, delayed-delivery or forward commitment transactions. Leverage may be incurred when it is believed that is advantageous to increase the investment capacity of a Fund or to facilitate the clearance of transactions. Leverage creates opportunity for greater total returns for a Fund, but it also may magnify losses. The use of derivatives may also create leverage risk.

## 7 Derivative financial instruments (continued)

The Fund holds the following derivatives:

### (a) Forward currency contracts

Forward currency contracts are primarily used by the Fund to economically hedge against foreign currency exchange rate risks on its non-Australian dollar denominated trading securities. The Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing bid price at the end of each reporting period. The Fund recognises a gain or loss equal to the change in fair value at the end of each reporting period.

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

	Contractual/ notional \$'000	Assets \$'000	Liabilities \$'000
<b>As at 30 June 2023</b>			
Forward currency contracts	<u>51,649</u>	<u>272</u>	<u>374</u>
<b>Total derivatives</b>	<u>51,649</u>	<u>272</u>	<u>374</u>

As at 30 June 2022

Forward currency contracts	25,546	417	274
<b>Total derivatives</b>	<u>25,546</u>	<u>417</u>	<u>274</u>

Information about the Fund's exposure to credit risk, foreign exchange, interest rate risk and about the methods and assumptions used in determining fair values is provided in Note 3 and Note 4 to the financial statements. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial instruments disclosed above.

## 8 Net assets attributable to unit holders - liability

The Fund's units are classified as a liability as they do not meet the definition of a financial instrument to be classified as equity.

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

	Year ended		Year ended	
	30 June 2023	30 June 2023	30 June 2022	30 June 2022
	Units '000	\$'000	Units '000	\$'000
<b>Class I Units</b>				
Opening balance	53,233	36,695	36,729	30,190
Applications	38,281	27,856	22,035	17,445
Redemptions	(17,532)	(12,819)	(6,910)	(5,373)
Reinvestment of distributions	2,093	1,496	1,379	1,072
Increase/(decrease) in net assets attributable to unit holders	-	7,010	-	(6,639)
Closing balance	<b>76,075</b>	<b>60,238</b>	<b>53,233</b>	<b>36,695</b>

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right in the underlying assets of the Fund.

There are two separate classes of units. Each unit within the same class has the same rights as with all other units within that class. There have been no Class A units issued since the Fund's Constitution.

## **8 Net assets attributable to unit holders - liability (continued)**

Units are redeemed on demand at the unit holders' option. However, holders of these instruments typically retain them from medium to long term. As such, the amount expected to be settled within twelve months after the end of the reporting period cannot be reliably determined.

### **Capital risk management**

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

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

## **9 Distributions to unit holders**

The distributions declared for the year were as follows:

	Year ended		Year ended	
	30 June 2023	30 June 2023	30 June 2022	30 June 2022
	\$'000	CPU	\$'000	CPU
<b>Distributions - Class I Units</b>				
September	814	1.22	577	1.34
December	886	1.25	570	1.28
March	854	1.29	572	1.13
June (payable)	1,039	1.37	595	1.12
<b>Total distributions</b>	<b>3,593</b>	<b>5.13</b>	<b>2,314</b>	<b>4.87</b>

## **10 Cash and cash equivalents**

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Cash at bank	1,503	822
<b>Total cash and cash equivalents</b>	<b>1,503</b>	<b>822</b>

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

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

	Year ended	
	30 June 2023 \$'000	30 June 2022 \$'000
Profit/(loss) for the year	-	-
Increase/(decrease) in net assets attributable to unit holders	7,010	(6,639)
Distributions to unit holders	3,593	2,314
Proceeds from sale of financial instruments at fair value through profit or loss	17,880	12,421
Payments for purchase of financial instruments at fair value through profit or loss	(33,559)	(25,017)
Net (gains)/losses on financial instruments at fair value through profit or loss	(7,482)	6,342
Net foreign exchange (gain)/loss	17	(4)
Management fee payments satisfied by issue of units under the differential management fee rebate plan	40	48
Net change in receivables	(367)	(78)
Net change in payables	<u>94</u>	<u>17</u>
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(12,774)</b>	<b>(10,596)</b>
<b>(b) Non-cash operating and financing activities</b>		
The following management fee payments were satisfied by the issue of units under the differential management fee rebate plan	40	48
The following distribution payments to unit holders were satisfied by the issue of units under the distribution reinvestment plan	<u>1,496</u>	<u>1,072</u>
<b>Total non-cash operating and financing activities</b>	<b>1,536</b>	<b>1,120</b>

As described in Note 2(i), income not distributed is included in net assets attributable to unit holders. The change in this amount for the year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

## 12 Receivables

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
Interest receivable	910	536
GST receivable	2	1
Management fees and costs reimbursement receivable	<u>-</u>	<u>8</u>
<b>Total receivables</b>	<b>912</b>	<b>545</b>

## 13 Payables

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
Management fees and costs payable	164	70
<b>Total payables</b>	<b>164</b>	<b>70</b>

## 14 Remuneration of auditors

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

	Year ended 30 June 2023	30 June 2022
	\$	\$
<b>Deloitte Touche Tohmatsu</b>		
<i>Audit and other assurance services</i>		
Audit of financial statements	<u>12,971</u>	11,880
Total auditor remuneration and other assurance services	<u>12,971</u>	11,880
<i>Taxation services</i>		
Tax compliance services	<u>12,479</u>	9,856
Total remuneration for taxation services	<u>12,479</u>	9,856
<b>Total remuneration of Deloitte Touche Tohmatsu</b>	<u>25,450</u>	21,736
 <b>PricewaterhouseCoopers</b>		
<i>Audit and other assurance services</i>		
Audit of compliance plan	<u>2,346</u>	2,346
Total auditor remuneration and other assurance services	<u>2,346</u>	2,346
<b>Total remuneration of PricewaterhouseCoopers</b>	<u>2,346</u>	2,346

The auditors' remuneration is borne by the Fund. Fees are stated exclusive of GST.

## 15 Related party transactions

The Responsible Entity of Colchester Emerging Markets Bond Fund is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975). Accordingly, transactions with entities related to Equity Trustees Limited are disclosed below.

The Responsible Entity has contracted services to Colchester Global Investors (Singapore) Pte. Ltd. to act as Investment Manager for the Fund and The Northern Trust Company to act as Custodian and Administrator for the Fund. The contracts are on normal commercial terms and conditions.

### (a) Key management personnel

#### (i) Directors

Key management personnel include persons who were directors of Equity Trustees Limited at any time during or since the end of the financial year and up to the date of this report.

Philip D Gentry	Chairman
Michael J O'Brien	
Russell W Beasley	
Mary A O'Connor	
David B Warren	(appointed 6 March 2023)

#### (ii) Other key management personnel

There were no other key management personnel with responsibility for planning, directing and controlling activities of the Fund, directly or indirectly during the financial year.

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

### **(b) Transactions with key management personnel**

There were no transactions with key management personnel during the reporting period.

### **(c) Key management personnel unit holdings**

Key management personnel did not hold units in the Fund as at 30 June 2023 (30 June 2022: nil).

### **(d) Key management personnel compensation**

Key management personnel are paid by EQT Services Pty Ltd. Payments made from the Fund to Equity Trustees Limited do not include any amounts directly attributable to the compensation of key management personnel.

### **(e) Key management personnel loans**

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

### **(f) 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 management personnel's interests existing at year end.

### **(g) Responsible Entity fees, Investment Manager's fees and other transactions**

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

	Year ended	
	30 June 2023	30 June 2022
	\$	\$
Responsible Entity fees for the year	18,818	16,152
Management fees for the year	253,712	191,979
Management fees and costs reimbursement for the year	-	17,422
Responsible Entity fees payable at year end	6,344	2,379
Management fees payable at year end	88,692	-
Management fees and costs reimbursement receivable at year end	-	7,714

Under the terms of the Fund's Constitution and Product Disclosure Statement for the Fund, management fees and costs includes responsible entity fees paid to the Responsible Entity, management fees paid to the Investment manager and other costs (such as custody, administration and audit fees) paid to other unrelated parties. For information on how management fees and costs are calculated, please refer to the Fund's Product Disclosure Statement.

Management fees and costs reimbursed represent monies put into the Fund to ensure that the Fund's overall management costs remain within that disclosed in the Product Disclosure Statement.

### **(h) Related party unit holdings**

Parties related to the Fund (including Equity Trustees Limited, its related parties and other schemes managed by Equity Trustees Limited and the Investment Manager) held no units in the Fund as at 30 June 2023 (30 June 2022: nil).

### **(i) Investments**

The Fund did not hold any investments in Equity Trustees Limited or its related parties during the year (30 June 2022: nil).

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

No significant events have occurred since the end of the year which would impact on the financial position of the Fund as disclosed in the statement of financial position as at 30 June 2023 or on the results and cash flows of the Fund for the year ended on that date.

## **17 Contingent assets and liabilities and commitments**

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2023 and 30 June 2022.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 6 to 30 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its performance for the financial year ended on that date.
- (b) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (c) Note 2(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors of Equity Trustees Limited through a delegated authority given by Equity Trustees Limited's Board.



Philip D Gentry  
Chairman

Melbourne  
28 September 2023

## Independent Auditor's Report to the Unit Holders of Colchester Emerging Markets Bond Fund

### *Opinion*

We have audited the financial report of Colchester Emerging Markets Bond Fund (the "Fund") which comprises the statement of financial position as at 30 June 2023, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the Directors' declaration.

In our opinion, the accompanying financial report of the Fund is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### *Basis for Opinion*

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

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

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

### *Other Information*

The Directors are responsible for the other information. The other information comprises the information included in the Directors' report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte Organisation.

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

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

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

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

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

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

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



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

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read "Jonathon Corbett".

Jonathon Corbett  
Partner  
Chartered Accountants

Melbourne, 28 September 2023