

# **Federation Alternative Investments Trust 1**

ARSN 634 838 216

**Consolidated annual report  
For the year ended 30 June 2020**

# Federation Alternative Investments Trust 1

ARSN 634 838 216

## Consolidated annual report For the year ended 30 June 2020

### Contents

Directors' report

Auditor's independence declaration

Consolidated statement of comprehensive income

Consolidated statement of financial position

Consolidated statement of changes in equity

Consolidated statement of cash flows

Notes to the consolidated financial statements

Directors' declaration

Independent auditor's report to the unit holders of Federation Alternative Investments Trust 1

This annual report covers Federation Alternative Investments Trust 1 and its controlled entities.

The Responsible Entity of Federation Alternative Investments Trust 1 is EQT Responsible Entity Services Ltd. (ABN 94 101 103 011) (AFSL 223271).

The Responsible Entity's registered office is:

Level 1, 575 Bourke Street  
Melbourne, VIC 3000.

## Directors' report

The directors of EQT Responsible Entity Services Ltd., the Responsible Entity of Federation Alternative Investments Trust 1 (the "Fund" or "Fund 1"), present their report together with the consolidated financial statements of Fund 1 and its controlled entities (the "Group") for the year ended 30 June 2020.

### Principal activities

The Fund was constituted on 11 December 2018 and commenced operations on 11 December 2018. The Fund was registered with the Australian Securities and Investments Commission on 24 July 2019.

The Group invests in renewable energy, social health and education related real estate and growing operating companies that meet a social and economic need in accordance with the provisions of the Fund's Constitution and the Product Disclosure Statement.

The Group did not have any employees during the year.

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

The various service providers for the Fund are detailed below:

<b>Service</b>	<b>Provider</b>
Responsible Entity	EQT Responsible Entity Services Ltd
Investment Manager	Federation Asset Management Pty Ltd
Administrator	Apex Fund Services Ltd
Custodian	EQT Responsible Entity Services Ltd
Statutory Auditor	Ernst & Young

### Directors

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

Philip D Gentry	(Chairman)
Harvey H Kalman	(resigned 1 September 2020)
Travis R Goudie	
Russell W Beasley	(appointed 1 September 2020)
Janine West	(appointed 1 September 2020)

### Review and results of operations

During the year, the Group continued to invest its funds in accordance with the provisions of the relevant constitutions and with the Product Disclosure Statement.

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

	Year ended 30 June 2020 \$'000	For the period 11 December 2018 to 30 June 2019 \$'000
Operating profit/(loss) before tax for the year	5,789	2,351

There were no distributions declared for the year ended 30 June 2020 and 30 June 2019.

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

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

On 24 July 2019, the Fund and Federation Alternative Assets Trust 2, a controlled entity of the Fund, were registered with the Australian Securities and Investments Commission. Fund 1 changed its name from Federation Alternative Assets Trust 1 to Federation Alternative Investments Trust 1.

In August 2019, the Group conducted a restructure of its holdings in its subsidiary trusts in order to deliver better efficiencies for unit holders. The restructuring has involved amending the constitutions of the Private Equity, Real Estate and Renewable Energy stapled feeder trusts to allow direct investment by the Group into each trust within a stapled feeder. When the structure was originally established in 2018, it was Fund 1 (which was expected to be a public trading trust and treated like a company for income tax purposes) which held stapled units in the Private Equity, Real Estate and Renewable Energy stapled feeder trusts. The restructuring has allowed Fund 2 (which was intended to be a passive "flow through" entity for taxation purposes) to accept transfer and be issued units in those trusts within a staple which hold interests in real property assets. Fund 1 will continue to hold interests in those trusts within a staple which hold interests in businesses which conduct trading activities.

During the year, the Fund acquired an initial interest in Windlab Limited, an ASX listed company specialising in wind farm development. On 26 June 2020, the takeover of Windlab was completed following a scheme of arrangement. The Fund partnered with Squadron Energy where the Fund holds 25% and Squadron 75% of the asset.

During the year, the Investment Manager launched a specialised real estate investment trust that develops and invests in childcare centres. An information memorandum was issued in October 2019. External funds were raised and the offer closed on 30 January 2020. External investors account for 35% of the ownership of the REIT with FAI owning the balance.

In the opinion of the directors, there were no other significant changes in the state of affairs of the Group that occurred during the year ended 30 June 2020.

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

Harvey H Kalman resigned as a director of EQT Responsible Entity Services Ltd. on 1 September 2020.

Russell W Beasley was appointed as a director of EQT Responsible Entity Services Ltd on 1 September 2020.

Janine West was appointed as a director of EQT Responsible Entity Services Ltd on 1 September 2020.

No other matter or circumstance has arisen since 30 June 2020 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 Group 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 relevant constitutions.

The results of the Group's operations will be affected by a number of factors, including the performance of investment markets in which the Group 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.

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

### **Likely developments and expected results of operations (continued)**

#### **COVID-19 Outbreak**

In March 2020, the World Health Organisation (WHO) officially declared COVID-19 a pandemic. The Directors and the Investment Manager acknowledge the current outbreak of COVID-19 and the increased market volatility it has created within the markets the Fund operates. This volatility has had a corresponding impact on the fair value of the Fund's investment portfolio both during the financial year as well as subsequent to the reporting date. The Responsible Entity and Investment Manager are monitoring developments closely, noting that given the nature of the outbreak and the ongoing developments, there is a high degree of uncertainty and therefore it is not possible at this time to predict the extent and nature of the overall future impact on the Fund. The Investment Manager however, actively manages the financial risks that the Fund is exposed to, with the approach outlined further within Note 3 of these Financial Statements and the Net Asset Values of the Fund continue to be valued in accordance with the frequency set out in the Fund's Offer Documents applying valuation policies reflective of the prevailing market conditions.

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

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

#### **Indemnification of auditor**

The Responsible Entity has not, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify the auditor of the Group against a liability incurred as auditor.

#### **Interests in the Group**

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

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

#### **Environmental regulation**

The operations of the Group 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.

**Auditor's independence declaration**

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

This report is made in accordance with a resolution of the directors of EQT Responsible Entity Services Ltd through a delegated authority given by EQT Responsible Entity Services Ltd.'s Board.



Philip D Gentry  
Chairman

Melbourne

30 September 2020



**Building a better  
working world**

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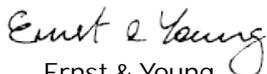
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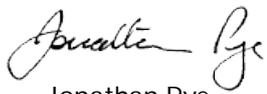
## Auditor's Independence Declaration to the Directors of EQT Responsible Entity Services Ltd as Responsible Entity for Federation Alternative Investments Trust 1

As lead auditor for the audit of the financial report of Federation Alternative Investments Trust 1 for the financial year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

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

This declaration is in respect of Federation Alternative Investments Trust 1 and the entities it controlled during the financial year.

  
Ernst & Young

  
Jonathan Pye  
Partner  
30 September 2020

**Federation Alternative Investments Trust 1**  
**Consolidated statement of comprehensive income**  
**For the year ended 30 June 2020**

**Consolidated statement of comprehensive income**

	Note	Year ended 30 June 2020 \$'000	For the period 11 December 2018 to 30 June 2019 \$'000
<b>Investment income</b>			
Net gains/(losses) on financial instruments at fair value through profit or loss	5	9,197	4,469
Interest income from financial assets at amortised cost		82	13
Other income		-	1
<b>Total investment income/(loss)</b>		<b>9,279</b>	<b>4,483</b>
<b>Expenses</b>			
Performance fees		1,472	894
Management fees		1,019	272
Legal costs		454	605
Administration fees		201	96
Audit fees	18	129	26
Professional and advisory fees		159	66
Responsible Entity fees		53	25
Other expenses		3	47
Loan interest expense		-	9
Property related expenses and outgoings		-	6
Establishment costs		-	86
<b>Total expenses</b>		<b>3,490</b>	<b>2,132</b>
<b>Total operating profit/(loss) for the year</b>		<b>5,789</b>	<b>2,351</b>
<b>Net profit/(loss) before income tax</b>		<b>5,789</b>	<b>2,351</b>
Income tax expense	13	2,736	-
<b>Net profit/(loss) after income tax</b>		<b>3,053</b>	<b>2,351</b>
<b>Finance cost attributable to unit holders</b>			
(Increase)/decrease in net assets attributable to unit holders		3,053	2,351
<b>Total finance cost attributable to unit holders</b>		<b>3,053</b>	<b>2,351</b>
<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>
Increase/(decrease) in net assets attributable to:			
Unit holders of Fund 1 and other controlled entities of Fund 1		3,947	2,369
Unit holders of Fund 2 (Non-controlling interest)		(894)	(18)
<b>Total increase/(decrease) in net assets attributable to unit holders</b>		<b>3,053</b>	<b>2,351</b>

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

## Consolidated statement of financial position

	Note	As at	
		30 June 2020 \$'000	30 June 2019 \$'000
<b>Assets</b>			
Cash and cash equivalents	10	9,077	677
Financial assets at fair value through profit or loss	6	60,758	27,167
Due from related parties	11,14	1,091	30
Receivables	11	195	366
Investment properties	4	-	9,598
<b>Total assets</b>		<b>71,121</b>	<b>37,838</b>
<b>Liabilities</b>			
Borrowings		-	3,493
Loan interest payable		-	9
Payables	12	2,447	1,985
Due to related parties	12,14	1,898	-
Income tax payable	13	78	-
Deferred tax liabilities	13	2,658	-
<b>Total liabilities</b>		<b>7,081</b>	<b>5,487</b>
<b>Total net assets</b>		<b>64,040</b>	32,351
<b>Net assets attributable to unit holders – liability</b>		<b>64,040</b>	<b>32,351</b>
Net assets attributable to unit holders - liability:			
Unit holders of Fund 1 and other controlled entities of Fund 1		64,944	32,368
Unit holders of Fund 2 (Non-controlling interest)		(904)	(17)
<b>Total net assets attributable to unit holders - liability</b>		<b>64,040</b>	<b>32,351</b>

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

## Consolidated statement of changes in equity

	Year ended 30 June 2020 \$'000	For the period 11 December 2018 to 30 June 2019 \$'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 consolidated statement of changes in equity should be read in conjunction with the accompanying notes.*

## Consolidated statement of cash flows

	Notes	Year ended 30 June 2020 \$'000	For the period 11 December 2018 to 30 June 2019 \$'000
<b>Cash flows from operating activities</b>			
Payments for purchase of financial instruments at fair value through profit or loss		(24,972)	(22,697)
Payment for purchase of investment properties		-	(9,598)
Interest income received from financial assets at amortised cost		82	13
GST refund and loan facilitation fee received		345	-
Other expenses paid		(3,131)	(534)
Expenses paid on behalf of unlisted unit trusts		(2,317)	-
<b>Net cash inflow/(outflow) from operating activities</b>	19	<b>(29,993)</b>	<b>(32,816)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		1,343	3,493
Loan paid on behalf of subsidiary trusts		(3,262)	-
Proceeds from applications by unit holders in the unconsolidated subsidiary trust		11,731	-
Proceeds from applications		28,581	30,000
<b>Net cash inflow/(outflow) from financing activities</b>		<b>38,393</b>	<b>33,493</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>8,400</b>	<b>677</b>
Cash and cash equivalents at the beginning of the year		677	-
<b>Cash and cash equivalents at the end of the year</b>	10	<b>9,077</b>	<b>677</b>

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

## **Notes to the consolidated financial statements**

### **Contents**

1. General information
2. Summary of significant accounting policies
3. Financial risk management
4. Fair value measurement
5. Net gains/(losses) on financial instruments at fair value through profit or loss
6. Financial assets at fair value through profit or loss
7. Net assets attributable to unit holders - liability
8. Capital risk management
9. Distributions to unit holders
10. Cash and cash equivalents
11. Receivables
12. Payables
13. Income tax
14. Related party transactions
15. Parent entity information
16. Contingent assets and liabilities and commitments
17. Events occurring after the reporting period
18. Remuneration of auditor
19. Borrowings
20. Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

## 1. General information

These consolidated financial statements cover Federation Alternative Investments Trust 1 ("Fund" or "Fund 1") and its controlled entities and Federation Alternative Investments Trust 2 ("Fund 2") and its controlled entities (collectively, the "Group"). Fund 1 and Fund 2 are stapled entities such that a unit in Fund 1 may not be dealt with without also dealing with a unit in Fund 2. The Fund was constituted on 11 December 2018 and will terminate in accordance with the provisions of the Fund's Constitution or the Law. The Fund is a for profit entity domiciled in Australia.

Investors are issued stapled units with each stapled security comprising one unit in Fund 1, which is stapled to one unit in Fund 2 ("Stapled Security"). Securities of Funds 1 and 2 are stapled on 12 December 2018. Stapled Securities cannot be traded or dealt with separately.

The Responsible Entity of the Fund is EQT Responsible Entity Services Ltd (ABN 94 101 103 011) (AFSL 223271) (the "Responsible Entity"). The Responsible Entity's registered office is Level 1, 575 Bourke Street, Melbourne, VIC 3000. The consolidated financial statements are presented in the Australian currency unless otherwise noted.

The Group invests in renewable energy, social health and education related real estate and growing operating companies that meet a social and economic need in accordance with the provisions of the Fund's Constitution and the Product Disclosure Statement.

In August 2019, the Group conducted a restructure of its holdings in its subsidiary trusts in order to deliver better efficiencies for unit holders. The restructuring has involved amending the stapling deeds of the Private Equity, Real Estate and Renewable Energy stapled feeder trusts to allow direct investment by the Group into each trust within a stapled feeder. When the structure was originally established in 2018, it was Fund 1 (which is expected to be a public trading trust and treated like a company for income tax purposes) which held stapled units in the Private Equity, Real Estate and Renewable Energy stapled feeder trusts. The restructuring has allowed Fund 2 (which is intended to be a passive "flow through" entity for taxation purposes) to accept transfer and be issued units in those trusts within a staple which hold interests real property assets. Fund 1 will continue to hold interests in those trusts within a staple which hold interests in businesses which conduct trading activities.

During the year, the Fund acquired an initial interest in Windlab Limited, an ASX listed company specialising in wind farm development. On 26 June 2020, the takeover of Windlab was completed following a scheme of arrangement. The Fund partnered with Squadron Energy where the Fund holds 25% and Squadron 75% of the asset.

During the year, the Investment Manager launched a specialised real estate investment trust that develops and invests in childcare centres. An information memorandum was issued in October 2019. External funds were raised and the offer closed on 30 January 2020. External investors account for 35% of the ownership of the REIT with FAI owning the balance.

The consolidated 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 consolidated financial statements.

## 2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated 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 Group 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 consolidated 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 Group manages financial assets at fair value through profit or loss based on the economic circumstances at any given point in time.

#### *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 standards, interpretations and amendments adopted by the Group*

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2020, except for the adoption of new standards effective as of 1 July 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

#### **AASB 16 Leases**

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases as the Group is the lessor in the lease arrangements entered. Since the Group's current application is in line with this, this had no material impact on the consolidated financial statements of the Group.

#### **AASB Interpretation 23 Uncertainty over Income Tax Treatment**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

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

### a. Basis of preparation (continued)

The Group applies significant judgement in identifying uncertainties over income tax treatments.

Upon adoption of the Interpretation, the Group considered whether it had any uncertain tax positions. The interpretation did not have an impact on the consolidated financial statements of the Group.

#### ***Amendments to AASB 123 Borrowing Costs***

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group's current application is in line with this, this had no material impact on the consolidated financial statements of the Group.

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the consolidated financial statements of the Group.

### b. Principles of consolidation

The Group is comprised of Federation Alternative Investments Trust 1 (Fund 1 or Parent) and Federation Alternative Investments Trust 2 (Fund 2), which are stapled such that a unit in Fund 1 may not be dealt with without also dealing with a unit in Fund 2.

Fund 1 has been identified as the Acquirer and the parent entity of the Group for the purposes of preparing the consolidated financial report. Fund 2 will be consolidated under the Stapling arrangement and identified as the Acquiree. The Fund represents the consolidation of Fund 1 and Fund 2 and their controlled entities collectively referred to as the Group.

Interests in controlled entities that meet the definition of investment entity are classified as at fair value through profit or loss, and measured at fair value and as such, the Fund does not consolidate these entities except where these entities are wholly owned by the Fund and are created as special purpose vehicles thus not meeting the definition of investment entity.

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

### b. Principles of consolidation (continued)

The consolidated statements of the Group include Federation Alternative Investments Trust 1 and its controlled entities and Federation Alternative Investments Trust 2 and its controlled entities. The financial statements of the Group include the following subsidiaries:

Name	Principal activity	Ownership %	
		2020	2019
Federation Alternative Assets Private Equity Trust 1 ("PET1")	Investment	100	100
Federation Alternative Assets Private Equity Subtrust 1A ("PE1A") <sup>(1)</sup>	Investment	100	100
Federation Alternative Assets Private Equity Subtrust 1A1 ("PE1A1") <sup>(2)</sup> Federation Alternative Assets Private Equity Subtrust 1A2 ("PE1A2") <sup>(2)</sup>	Investment	100	100
Federation Alternative Assets Real Estate Trust 2 ("RET2")	Investment	100	100
Federation Alternative Assets Real Estate Subtrust 2A ("RE2A") <sup>(3)</sup>	Investment	100	100
Federation Alternative Assets Renewable Energy Trust 1	Investment	100	100
Federation Alternative Assets Investments Trust 2	Investment	100	100
Federation Alternative Assets Private Equity Trust 2 ("PET2")	investment	100	100
Federation Alternative Assets Private Equity Subtrust 2A ("PE2A") <sup>(4)</sup>	Investment	100	100
Federation Alternative Assets Real Estate Trust 1	Investment	100	100
Federation Alternative Assets Renewable Energy Trust 2 ("RENT2")	Investment	100	100
Federation Alternative Assets Renewable Energy Subtrust 2A ("REN2A") <sup>(5)</sup>	Investment	100	100

- (1) PE1A is a 100% owned subsidiary of PET1.  
(2) PE1A1 and PE1A2 are 100% owned subsidiary of PE1A.  
(3) RE2A is a 100% owned subsidiary of RET2.  
(4) PE2A is a 100% owned subsidiary of PET2.  
(5) REN2A is a 100% owned subsidiary of RENT2.

Intercompany transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

### c. Financial instruments

#### i. Classification

- Financial assets

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

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

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

The Group's portfolio of financial assets is managed and performance is evaluated on a fair value basis in accordance with the Group's documented investment strategy. The Group'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 equity securities and unlisted unit trusts, 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 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.

For investment properties, the Group's policy is for the Trustee to evaluate information about these financial instruments on a fair value basis together with other related financial information. For further information regarding investment properties, refer to Note 2(d).

- **Financial liabilities**

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 (payables, due to related parties, income tax payable and deferred tax liabilities).

#### *ii. Recognition and derecognition*

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

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

#### *iii. Measurement*

- **Financial instruments at fair value through profit or loss**

At initial recognition, the Group measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the consolidated 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 'financial assets or liabilities at fair value through profit or loss' category are presented in the consolidated statement of comprehensive income in the period in which they arise.

For financial assets and financial liabilities at amortised cost, they are initially measured at fair value including directly attributable costs and are subsequently measured according to their classification.

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

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

#### *iv. Impairment*

At each reporting date, the Group shall measure the loss allowance on financial assets at amortised cost (cash due from related parties 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 Group 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 a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

The 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.

#### *v. Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when the Group 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 or with the right to offset in the consolidated statement of financial position.

### **d. Investment properties**

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time that the cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market and property specific conditions at the balance date. Fair value is the amount at which the investment property could be exchanged between knowledgeable, willing parties in an orderly arm's length transaction. A willing seller is neither a forced seller nor one prepared to sell at a price not considered reasonable in the market.

The best evidence of fair value is current prices in an active market for similar properties. Where such information is not available the directors consider information from a variety of sources including:

- Capitalised income projections based upon a property's estimated net market income, and a capitalisation rate derived from an analysis of market evidence;
- current prices in an active market for properties of a different nature or recent prices of similar properties in less active markets, adjusted to reflect those differences;
- discounted cash flow projections based on reliable estimates of future cash flows.

Gains or losses arising from changes in the fair value of investment properties are recognised in the statement of comprehensive income in the year in which they arise.

Where the Group and the Fund dispose of an investment property at fair value in an arm's length transaction, the fair value immediately prior to the sale is adjusted to the transaction price, with a corresponding adjustment recorded in profit or loss.

Transfers are made to investment property when, and only when, there is a change in use, evidenced by commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of development with a view to sale.

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

### **d. Investment properties (continued)**

The fair value of investment properties recorded in the statement of financial position may include the cost of acquisition, additions, refurbishments, improvements, lease incentives, leasing costs and assets relating to fixed increases in operating lease rentals in future years.

At the end of each reporting period, the directors update their assessment of the fair value of each property, taking into account the most recent valuations. The directors determine a property's value within a range of reasonable fair value estimates. Fair value is determined using a long term investment period. Specific circumstances of the owner are not taken into account.

Under AASB 140 *Investment Property*, investment properties, including any plant and equipment, are not subject to depreciation. However, depreciation allowances in respect of certain buildings, plant and equipment are currently available to investors for taxation purposes

### **e. Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

### **f. Net assets attributable to unit holders**

The Fund is an illiquid close-ended registered managed investment scheme and is not subject to redemptions and further applications.

### **g. Cash and cash equivalents**

For the purpose of presentation in the consolidated 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. Bank overdrafts are shown within borrowings in the consolidated statement of financial position.

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

### **h. Investment income**

#### *i. Interest income*

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

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group 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.

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

### **h. Investment income (continued)**

Interest income on financial assets at fair value through profit or loss is also recognised in the consolidated 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(c) to the consolidated financial statements.

#### *ii. Dividends and distributions*

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense. The Group currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the consolidated statement of comprehensive income.

Fund distributions are recognised on an entitlement basis.

### **i. Expenses**

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

### **j. Income tax**

The Group is comprised of investment strategies with each investment strategy comprising an Active Fund and a Passive Fund. Fund 1 has been classified as the Active Fund and Fund 2 as the Passive Fund.

Interests in the Active Fund and Passive Fund should be treated separately for income tax purposes, notwithstanding that they are stapled.

The Responsible Entity intends that the Passive Fund elects to be treated as an Attribution Managed Investment Trust (AMIT), subject to the Passive Fund satisfying the relevant eligibility requirements. Under current legislation, the Passive Fund is not subject to income tax provided it attributes the entirety of the taxable income to its unit holders.

The Active Fund is treated as a company for income tax purposes. Accordingly, any distributions from the Active Fund will generally be treated as a franked or unfranked dividends for tax purposes.

Under current legislation, the Fund which is treated as a company for tax purposes, is subject to income tax at 30% on taxable income.

The Company may incur withholding tax imposed by certain countries on investment income. Such income will be recorded net of withholding tax in the consolidated statement of comprehensive income. Income tax expense comprises current and deferred tax.

Income tax expense is recognised in the net profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in other comprehensive income. Current tax is expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at reporting date and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantially enacted.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Deferred tax assets are reviewed at each balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

A deferred tax liability is recognised when there is a taxable temporary difference between the tax base of an asset or liability and its corresponding carrying amount in the consolidated statement of financial position. This arises when the carrying amount of an asset exceeds its tax base.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intend either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

### **j. Income tax (continued)**

Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

The taxation benefits will be obtained only if the assessable income derived is of a nature and an amount sufficient to enable the benefit of deductions to be realised; conditions for deductibility imposed by the law are complied with; and there are no changes in tax legislation which adversely affect the realisation of the benefit of the deductions. For further information regarding income tax, refer to Note 11.

### **k. Distributions to unit holders**

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

### **l. Increase/decrease in net assets attributable to unit holders**

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

### **m. Foreign currency translation**

#### *i. Functional and presentation currency*

Balances included in the Group's consolidated 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 Group competes for funds and is regulated. The Australian dollar is also the Group'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 consolidated statement of comprehensive income.

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

### **n. Receivables**

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Where applicable, interest is accrued on a daily basis. Amounts are generally received within 30 days of being recorded as receivables.

### **o. Payables**

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

### **p. 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.

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

### **q. 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 consolidated 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 consolidated statement of financial position. Cash flows relating to GST are included in the consolidated statement of cash flows on a gross basis.

### **r. Use of estimates**

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the current and next financial period. Estimates 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.

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. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

### **s. Comparative period**

For the purposes of the consolidated statement of financial position, consolidated comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows including notes, comparative information is shown as at or for the period from 11 December 2018 to 30 June 2019.

### **t. 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 consolidated financial statements. Amounts in the consolidated financial statements have been rounded to the nearest thousand dollars, unless otherwise indicated.

### **u. Comparative revisions**

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

## **3. Financial risk management**

The Group'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 Group's overall risk management programme focuses on ensuring compliance with the Group's Product Disclosure Statement and the investment guidelines of the Group. It also seeks to maximise the returns derived for the level of risk to which the Group is exposed and seeks to minimise potential adverse effects on the Group's financial performance. The Group's policy allows it to use derivative financial instruments in managing its financial risks.

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

### 3. Financial risk management (continued)

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

*i. Price risk*

The Group is exposed to price risk on its investments in unlisted equity securities and unlisted unit trusts. These investments comprise 100% of the Group's financial assets at fair value through profit or loss.

The price risk is managed by Federation Asset Management Pty Ltd, the investment manager of the Group.

The table at Note 3(a) summarises the sensitivities of the Group's assets and liabilities to price risk. The analysis is based on the reasonably possible shift that the investment portfolio in which the Fund invests moves by +/- 10% (2019: +/-10%).

*ii. Foreign exchange risk*

The Group invests purely in Australia and therefore is not subject to foreign exchange risk.

*iii. Interest rate risk*

Interest rate risk management is undertaken by maintaining as close to a fully invested position as possible thus limiting the exposure of the Group to interest rate risk.

The Group's interest bearing financial assets expose them to risks associated with the effects of fluctuation in the prevailing levels of market interest rate on its financial positions and cash flows. The impact of interest rate risk on net assets attributable to unit holders and operating profit are considered immaterial to the Group.

#### a. Summarised sensitivity analysis

The following table summarises the sensitivity of the Group'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 Group invests. As a result, historic variations in risk variables should not be used to predict future variances in the risk variables.

Impact on operating profit/net assets attributable to unit holders				
	Price risk		Interest rate risk	
	-10%	+10%	-100bps	+100bps
	\$'000	\$'000	\$'000	\$'000
As at 30 June 2020	(6,076)	6,076	(181)	181
As at 30 June 2019	(3,677)	3,677	(6)	6

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

#### **b. Credit risk**

The Group 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 Group.

The Group does not have a significant concentration of credit risk that arises from an exposure to a single counterparty or group of counterparties having similar characteristics. The main concentration of credit risk, to which the Group is exposed, arises from cash and cash equivalents. None of these assets are impaired nor past their due date. The maximum exposure to credit risk at the reporting date is the carrying amount of cash and cash equivalents.

The Group 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 2020 and 30 June 2019, 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. Cash and cash equivalents*

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of AA or higher.

##### *ii. Other*

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

##### *iii. Maximum exposure to credit risk*

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

#### **c. 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 is not substantial as there are no unit holder redemptions.

### 3. Financial risk management (continued)

#### c. Liquidity risk (continued)

Liquidity risk is managed by Apex Fund Services and Federation Asset Management.

##### 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.

	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 2020</b>					
Payables	-	81	-	2,366	2,447
Due to related parties	1,898	-	-	-	1,898
<b>Contractual cash flows (excluding derivatives)</b>	<b>1,898</b>	<b>81</b>	<b>78</b>	<b>2,366</b>	<b>4,423</b>
<b>As at 30 June 2019</b>					
Borrowings	-	-	-	3,493	3,493
Payables	-	-	1,091	894	1,985
Contractual cash flows (excluding derivatives)			1,091	4,387	5,487

### 4. Fair value measurement

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

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

## 4. Fair value measurement (continued)

### a. Fair value in an inactive or unquoted market (level 3)

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

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

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

Investments in unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such Funds. The Fund may make adjustments to the value based on considerations such as: liquidity of the Investee Fund or its underlying investments, the value date of the net asset value provided, or any restrictions on redemptions and the basis of accounting.

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

### b. 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 2020 and 30 June 2019.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>As at 30 June 2020</b>				
<b>Financial assets</b>				
Unlisted equities	-	-	34,122	34,122
Unlisted unit trusts	-	-	26,636	26,636
<b>Total financial assets</b>	-	-	<b>60,758</b>	<b>60,758</b>
<b>As at 30 June 2019</b>				
<b>Financial assets</b>				
Unlisted equities	-	-	27,167	27,167
Investment properties	-	-	9,598	9,598
<b>Total financial assets</b>	-	-	<b>36,765</b>	<b>36,765</b>

## 4. Fair value measurement (continued)

### c. Fair value measurements using significant unobservable inputs (level 3)

The following table presents the movement in Level 3 instruments for the year ended 30 June 2020 by class of financial instrument.

	Unlisted equities	Unlisted Unit Trust	Investment properties	Investment in associate	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	-	-	-	-	-
Purchases	22,698	-	9,598	-	32,296
Sales	-	-	-	-	-
Net unrealised gains/(losses) on financial assets at fair value through profit or loss	4,469	-	-	-	4,469
Closing balance – 30 June 2019	27,167	-	9,598	-	36,765
Purchases	-	24,972	-	-	24,972
Reclassification <sup>(1)</sup>	-	-	(9,598)	-	(9,598)
Net unrealised gains/(losses) on financial assets at fair value through profit or loss	6,955	1,664	-	-	8,619
<b>Closing balance – 30 June 2020</b>	<b>34,122</b>	<b>26,636</b>	<b>-</b>	<b>-</b>	<b>60,758</b>

(1) – The investment properties are not reflected in the consolidated financial statements of Fund 1 for the financial year ending 30 June 2020 as during the year Fund 1 no longer holds 100% interest in Federation Education Real Estate Investment Trust (“FREIT”) (formerly Federation Real Estate Subtrust 1A), and thus Fund 1 measures its investment in FREIT at fair value .

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 year (2019: Nil).

#### i. Valuation inputs and relationships to fair value

The fair value of Level 3 investments is determined using recognised valuation techniques such as the capitalisation of net income method, relevant transaction values and various other analyses.

Investment properties are valued based on recent transaction prices as the most material input used in determining the values, as such the Fund did not create material alternate quantitative inputs when measuring fair value as it has primarily relied on recent transaction prices.

If a property is purchased within six months prior to the reporting period and where there is no existing external valuation, the Fund may value the property at acquisition costs plus any capital expenditures incurred following the acquisition, provided the Responsible Entity is satisfied that this represents fair value at the reporting date and has been applied in these reports.

#### 4. Fair value measurement (continued)

##### c. Fair value measurements using significant unobservable inputs (level 3)

The following table summarises the quantitative information about the significant unobservable inputs used in the level 3 fair value measurements.

Description	Valuation technique	Unobservable inputs	Range	Sensitivity
<b>As at 30 June 2020:</b>				
Unlisted equities	Blended multiples	Historic trading data	-0.5% – 0.5 % of the blended multiple	0.5% increase (decrease) in multiple would result in an increase (decrease) in fair value by \$164,000 or 48 Basis Points
Unlisted unit trust	Net asset value as at 30 June 2020	Net asset value as at 30 June 2020	N/A	Direct
<b>As at 30 June 2019:</b>				
Unlisted equities	Blended multiples	Historic trading data	-0.5% – 0.5 % of the blended multiple	0.5% increase (decrease) in multiple would result in an increase (decrease) in fair value by \$100,000 or 45 Bps.

##### ii. 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 being level 3 securities. Further analysis, should it be required, is undertaken to determine the accounting significance of the identification. For certain security types, in selecting the most appropriate valuation model, management performs back testing and considers actual market transactions. Changes in allocation to or from level 3 are analysed at the end of each reporting period and are disclosed in Note (c) above.

Valuations of the assets are undertaken in accordance with the valuation policy which shall include an annual review or more frequent review by the Investment Manager and the Responsible Entity. They ensure that valuation methods and polices used in relation to Group are consistent with the accounting principles and within the range of ordinary commercial practice.

##### d. Financial instruments not carried at fair value

The carrying value of cash and cash equivalents, receivables and payables are assumed to approximate their fair values due to their short-term nature.

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

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

	Year ended 30 June 2020 \$'000	For the period 11 December 2018 to 30 June 2019 \$'000
Net gains/(losses) on financial assets at fair value through profit or loss	9,197	4,469
<b>Total net gains/(losses) on financial instruments at fair value through profit or loss</b>	<b>9,197</b>	<b>4,469</b>

## 6. Financial assets at fair value through profit or loss

	30 June 2020 \$'000	As at 30 June 2019 \$'000
Unlisted unit trusts	26,636	-
Investments in unlisted equities	34,122	27,167
<b>Total financial assets at fair value through profit or loss</b>	<b>60,758</b>	<b>27,167</b>

## 7. Net assets attributable to unit holders

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

	Units '000	\$ '000
<b>Units</b>		
Opening balance	-	-
Applications (1)	30,000	30,000
Change in net assets attributable to unit holders	-	2,351
<b>Closing balance – 30 June 2019</b>	<b>30,000</b>	<b>32,351</b>
Reclassification		<b>55</b>
Subdivision (1)	<b>3,589</b>	-
Applications	<b>28,560</b>	<b>28,581</b>
Change in net assets attributable to unit holders	-	<b>3,053</b>
<b>Closing balance – 30 June 2020</b>	<b>62,149</b>	<b>64,040</b>

	Units '000	\$'000
Unit holders of Fund 1 and other controlled entities of Fund 1	31,074	64,944
Unit holders of Fund 2 (Non-controlling interest)	31,075	(904)
<b>Closing balance – 30 June 2020</b>	<b>62,149</b>	<b>64,040</b>

The ordinary units and initial investor units have been consolidated and are referred to as units in the above table. 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.

## 7. Net assets attributable to unit holders (continued)

(1) On 26 July 2019 the Group decided to consolidate and divide 30,000,000 ordinary units on issue in the Fund to 33,589,022 units and subsequently reclassify all ordinary units on issue at that date as Initial Investor Units ("Initial Investor Units"). Initial Investor Units have the same rights, restrictions and obligations as ordinary units, other than having an additional right to participate as a co-investor in particular investments alongside either Fund 1 or Fund 2. This co-investment right is available to the Initial Investor Unit holder for a maximum period of 5 years from the time that it is first issued an Initial Investor Unit.

On 11 December 2018, the Group issued 200 initial units ("Initial Units") with a par value of \$1 to Federation Asset Management Holdings Pty Ltd, the Parent Company of the Investment Manager, Federation Asset Management Pty Ltd. The holders of Initial Units will not have an interest or be entitled to a share in any

distribution. The holders of Initial Units are entitled to receive notice of and attend general meetings of ordinary members but have no voting rights. On winding up of the Funds, the holder of Initial Units is only entitled to payment of the price paid by the holder to acquire the Initial Units. An additional 40 Initial Units were issued and 10 units were redeemed during the year ended 30 June 2020.

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## 8. 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.

## 9. Distributions to unit holders

There were no distributions declared for the year ended 30 June 2020 (30 June 2019: Nil).

## 10. Cash and cash equivalents

	As at	
	30 June 2020 \$'000	30 June 2019 \$'000
Cash at bank	9,077	677
<b>Total cash and cash equivalents</b>	<b>9,077</b>	<b>677</b>

## 11. Receivables

	As at	
	30 June 2020 \$'000	30 June 2019 \$'000
GST receivable	195	366
Others	-	30
Due from related party	1,091	-
<b>Total receivables</b>	<b>1,286</b>	<b>396</b>

## 12. Payables

	As at	
	30 June 2020 \$'000	30 June 2019 \$'000
Performance fees payable	2,366	894
Due to related parties	1,898	-
Tax payable	78	-
Audit fees payable	55	28
Administration fees payable	26	103
Legal fees payable	-	306
Professional fees payable	-	57
Responsible Entity fees payable	-	25
Payable for investments	-	565
Valuation fees payable	-	1
Insurance payable	-	6
<b>Total payables</b>	<b>4,423</b>	<b>1,985</b>

## 13. Income tax

The Group calculates the year's income tax expense using the tax rate that would be applicable to the expected total annual earnings. The major components of income tax expense in the consolidated statement of comprehensive income are:

	Year ended 30 June 2020 \$'000
<b>Income taxes</b>	
<b>Current income tax expense</b>	<b>78</b>
Deferred income tax:	
Revaluation of financial assets at fair value through profit or loss	3,982
Losses available for offsetting gains future taxable income	(451)
Other temporary differences	(873)
<b>Total deferred income tax</b>	<b>2,658</b>
<b>Income tax expense recognised in consolidated statement of comprehensive income</b>	<b>2,736</b>

### 13. Income tax (continued)

Reconciliation of tax expense and the accounting profit multiplied by the Group's tax rate, as follows:

	Year ended 30 June 2020 \$'000
<b>Accounting profit before tax</b>	<b>5,789</b>
Adjustment to accounting loss before tax referable to passive trusts	889
Subtotal	6,678
At the Group's statutory tax rate of 30% (2019:30%)	<b>2,003</b>
<b>Adjustments</b>	
Deferred tax asset on tax losses not previously recognised	(451)
Deferred tax liability on prior year net unrealised gains/(losses) on investments not previously recognised	1,311
Other adjustment	(127)
<b>Income tax expense reported in the statement of comprehensive income</b>	<b>2,736</b>

	As at 30 June 2020 \$'000
<b>Deferred tax</b>	
Deferred tax (liabilities)/assets comprise of temporary differences attributed to:	
Revaluation of financial assets at fair value through profit or loss	3,982
Losses available for offsetting gains future taxable income	(451)
Other temporary differences	(873)
<b>Total net deferred tax liability</b>	<b>2,658</b>

The temporary differences in the prior year has not been recognised in the comparative period as some active trusts were previously classified as passive trusts in the prior year.

## 14. Related party transactions

The Responsible Entity of the Fund is EQT Responsible Entity Services Ltd. (ABN 94 101 103 011) (AFSL 223271). Accordingly, transactions with entities related to EQT Responsible Entity Services Ltd are disclosed below.

The Responsible Entity has contracted services to Federation Asset Management Pty Ltd, to act as Investment Manager for the Fund, and Apex Fund Services 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 EQT Responsible Entity Services Ltd at any time during or since the end of the financial year and up to the date of this report.

Philip D Gentry	(Chairman)
Harvey H Kalman	(resigned 1 September 2020)
Travis R Goudie	
Russell W Beasley	(appointed 1 September 2020)
Janine West	(appointed 1 September 2020)

#### 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.

### b. Key management personnel compensation

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

### c. Key management personnel loans

The Group 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.

### d. Other transactions within the Group

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

### e. Responsible Entity fees, Investment Manager's fees and other transactions

Under the terms of the Fund's Constitution and Product Disclosure Statement for the Group, the Responsible Entity and the Investment Manager are entitled to receive management fees.

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:

	As at	
	30 June 2020	30 June 2019
	\$	\$
Management fees for the year	1,019,401	272,689
Performance fees	1,472,266	893,898
Responsible Entity fees for the year	53,375	25,000
Performance fees payable at year-end	2,366,165	893,898
Responsible Entity fees payable at year-end	-	25,000

## **14. Related party transactions (continued)**

### **e. Responsible Entity fees, Investment Manager's fees and other transactions (continued)**

Performance fees – The performance fee accrues daily and is payable as soon as practicable after the receipt of distributions whether from realisation or otherwise of from or in respect of each underlying investment. To achieve a performance fee, the investment must achieve a hurdle return based on an IRR of 8.0% after investors have received an amount equal to their aggregate contributions. The Investment Manager is entitled to 20% of the performance fee after the hurdle rate and initial capital is paid to investors.

Management fees – The base management fee payable to the Investment Manager is 1.6% per annum. This is calculated on the aggregate subscription amount and payable quarterly in advance.

Due to / from affiliates are comprised of payment or elimination transactions with respect to management, operating and transaction expenses paid on behalf of affiliates, obligations under the Fund Support Deed with Federation Asset Management, and funding that may be drawn in respect of loans to Windlab or its holding trusts.

As at 30 June 2020, the Group issued 230 Initial Units with a par value of \$1 to Federation Asset Management Holdings Pty Ltd, the Parent Company of the Investment Manager, Federation Asset Management Pty Ltd. The holders of Initial Units will not have an interest or be entitled to a share in any distribution. The holders of Initial Units are entitled to receive notice of and attend general meetings of ordinary members but have no voting rights. On winding up of the Funds, the holder of Initial Units is only entitled to payment of the price paid by the holder to acquire the Initial Units.

As described in the July 2019 Product Disclosure Statement, Federation Asset Management Holdings Pty Ltd ("Support Provider"), being the Parent Company of the Investment Manager, has undertaken to pay an amount equivalent to 2.75% of the funds raised under that offer, in favour of the Fund (this amount referred to as the "Fund Support Payment" amount). This Fund Support Payment as at 30 June 2020 totals to \$716,583 (2019: nil). The undertaking is a one-off obligation, payable by the Support Provider to the Fund at the Support Payment Calculation Date, being:

- whilst the Fund is not listed, the earlier of the date that the Fund is terminated or the date that the term of the Fund ends (the expected term expiry is 25 September 2024, subject to any subsequent extensions); and
- if the Fund is listed, such time as nominated in the Product Disclosure Statement written for the purposes of such listing

### **f. Related party unit holdings**

Parties related to the Fund (including EQT Responsible Entity Services Ltd, its related parties and other schemes managed by EQT Responsible Entity Services Ltd and the Investment Manager) held no units in the Fund as at 30 June 2020 (30 June 2019: nil).

## 14. Related party transactions (continued)

### g. Investments

The Fund did not hold any investments in EQT Responsible Entity Services Ltd or its related parties during the year (2019: nil).

The Fund held investments in the following schemes which are also managed by EQT Responsible Entity Services Ltd or its related parties:

	Fair value of investment	Interest held	Distributions earned	Distributio ns receivable	Units acquired during the year	Units disposed during the year
	\$	%	\$	\$		
<b>As at 30 June 2020</b>						
FAI PE 1A3	4,646,881	61.7%	-	-	4,625,000	-
FAI PE 1A4	259,768	20.0%	-	-	250,000	-
FAI RENT1A	9,881,288	41.6%	-	-	12,771,426	2,890,142
FER	11,748,296	65.2%	-	-	12,285,882	-
Synergis Fund	100,000	0.4%	-	-	100,000	-

FAI PE 1A3 – Federation Alternative Assets Private Equity Subtrust 1A3

FAI PE 1A4 – Federation Alternative Assets Private Equity Subtrust 1A4

FAI RENT1A – Federation Alternative Assets Renewable Energy Subtrust 1A

FER – Federation Education REIT

Synergis – Synergis Fund

At 30 June 2019, the Fund did not hold unlisted trusts as at that date, The Fund held 100% of the assets.

## 15. Parent entity information

The individual financial statement of the parent entity show the following aggregate amounts:

Statement of comprehensive income	Year ended 30 June 2020 \$'000	For the period 11 December 2018 to 30 June 2019 \$'000
Profit / (loss) for the year	(62)	(858)
<b>Total comprehensive profit / (loss) for the year</b>	<b>(62)</b>	<b>(858)</b>

Statement of financial position	30 June 2020 \$'000	As at 30 June 2019 \$'000
<b>Total assets</b>	<b>65,147</b>	32,790
<b>Total liabilities</b>	<b>(202)</b>	(422)
<b>Net assets</b>	<b>64,944</b>	<b>32,368</b>
<b>Net assets attributable to unit holders</b>	<b>64,944</b>	<b>32,368</b>
<b>Total net assets attributable to unit holders</b>	<b>64,944</b>	<b>32,368</b>

## 16. Contingent assets and liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2020 (30 June 2019: Nil).

## 17. 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 consolidated statement of financial position as at 30 June 2020 or on the results and cash flows of the Fund for the year ended on that date.

## 18. Remuneration of auditor

During the year the following fees were paid or payable for services provided by the auditor of the Group.

	Year ended 30 June 2020 \$	For the period 11 December 2018 to 30 June 2019 \$
<b>Ernst &amp; Young</b>		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	129,454	26,125
<b>Total remuneration of Ernst &amp; Young</b>	<b>129,454</b>	<b>26,125</b>

The auditor's remuneration is borne by the Group. Fees are stated exclusive of GST.

## 19. Borrowings

	As at	
	30 June 2020 \$'000	30 June 2019 \$'000
Bank facility	-	3,493
<b>Total borrowings</b>	<b>-</b>	<b>3,493</b>

Key terms:

Utilisation date:	7 June 2019
Termination date:	7 June 2024
Interest rate:	BBSY plus margin
Line fee:	2.95%
Liquidity fee:	0.25%

The facility was applied to the acquisition of a child-care centre at St. Clair, South Australia. The borrowings are still in place but are not reflected in the Fund 1 consolidated accounts for the financial year ending 30 June 2020 as during the year Fund 1 no longer holds 100% interest in Federation Education Real Estate Investment Trust (formerly Federation Real Estate Subtrust 1A) who holds the relevant borrowings and as such measures its investment at fair value.

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

	Year ended 30 June 2020 \$'000	For the period 11 December 2018 to 30 June 2019 \$'000
Change in net assets attributable to unit holders	3,053	2,351
Net change in receivables	171	(366)
Increase in due from related parties	(1,061)	(30)
Increase in financial instruments at fair value through profit or loss	(33,591)	(36,765)
Increase in due to related parties	1,898	
Net change in payables	453	1,994
Movement in deferred tax balances	(966)	-
Loan facilitation fee received in behalf of unlisted unit trusts	50	
<b>Net cash inflow from operating activities</b>	<b>(29,993)</b>	<b>(32,816)</b>

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- a. The consolidated financial statements and notes set out on pages 5 to 36 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 2020 and of its performance for the year ended on that date.
- b. There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; 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 EQT Responsible Entity Services Ltd through a delegated authority given by EQT Responsible Entity Services Ltd's Board.



Philip D Gentry  
Chairman

Melbourne  
30 September 2020



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## Independent Auditor's Report to the Unitholders of Federation Alternative Investments Trust 1 and its controlled entities

### Opinion

We have audited the financial report of Federation Alternative Investments Trust 1 and its controlled entities (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2020 and of its consolidated financial performance for the year ended on that date; and
- b) 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 Group 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Information Other than the Financial Report and Auditor's Report Thereon

The directors of EQT Responsible Entity Services Ltd (the Responsible Entity) are responsible for the other information. The other information is the directors' report accompanying the financial report.

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 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.



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

## Responsibilities of the Directors for the Financial Report

The directors of the Responsible Entity 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 Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment 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 Group's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



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- ▶ 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 Group'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 Group 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.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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.

*Ernst & Young*  
Ernst & Young

*Jonathan Pye*  
Jonathan Pye  
Partner  
Sydney  
30 September 2020

# **Federation Alternative Investments Trust 2**

ARSN 634 840 458

**Annual report**  
**For the year ended 30 June 2020**

# Federation Alternative Investments Trust 2

ARSN 634 840 458

## Annual report For the year ended 30 June 2020

### Contents

Directors' report

Auditor's independence declaration

Statement of comprehensive income

Statement of financial position

Statement of changes in equity

Statement of cash flows

Notes to the financial statements

Directors' declaration

Independent auditor's report to the unit holders of Federation Alternative Investments Trust 2

This annual report covers Federation Alternative Investments Trust 2.

The Responsible Entity of Federation Alternative Investments Trust 2 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 Federation Alternative Investments Trust 2 (the "Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2020. These financial statements have been prepared as it is a disclosing entity under the *Corporations Act 2001*.

### Principal activities

The Fund was constituted on 11 December 2018 and commenced operations on 11 December 2018. The Fund was registered with the Australian Securities and Investments Commission on 24 July 2019.

The Fund invests in renewable energy, social health and education related real estate and growing operating companies that meet a social and economic need in accordance with the provisions of the Fund's Constitution and the Product Disclosure Statement.

The Fund did not have any employees during the year.

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

The various service providers for the Fund are detailed below:

<b>Service</b>	<b>Provider</b>
Responsible Entity	Equity Trustees Limited
Investment Manager	Federation Asset Management Pty Ltd
Administrator	Apex Fund Services Ltd
Custodian	Equity Trustees Limited
Statutory Auditor	Ernst & Young

### 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)
Harvey H Kalman	(resigned 1 September 2020)
Ian C Westley	(resigned 3 July 2020)
Russell W Beasley	(appointed 1 September 2020)
Michael J O'Brien	

### Review and results of operations

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

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

	<b>Year ended</b>	<b>For the period 11</b>
	<b>30 June 2020</b>	<b>December</b>
		<b>2018 to</b>
		<b>30 June 2019</b>
Operating profit/(loss) for the year (\$'000)	<b>(889)</b>	<b>(18)</b>

There were no distributions declared for the year ended 30 June 2020 and 30 June 2019.

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

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

On 24 July 2019, the Federation Alternative Investments Trust 2 and Federation Alternative Investments Trust 1 (together the "Group"), a related party of the Fund, were registered with the Australian Securities and Investments Commission. The Fund changed its name from Federation Alternative Assets Trust 2 to Federation Alternatives Investments Trust 2.

In August 2019, the Group conducted a restructure of its holdings in its subsidiary trusts in order to deliver better efficiencies for unit holders. The restructuring has involved amending the constitutions of the Private Equity, Real Estate and Renewable Energy stapled feeder trusts to allow direct investment by the Group into each trust within a stapled feeder. When the structure was originally established in 2018, it was Fund 1 (which is expected to be a public trading trust and treated like a company for income tax purposes) which held stapled units in the Private Equity, Real Estate and Renewable Energy stapled feeder trusts. The restructuring has allowed Fund 2 (which is intended to be a passive "flow through" entity for taxation purposes) to accept transfer and be issued units in those trusts within a staple which hold interests in real property assets. Fund 1 will continue to hold interests in those trusts within a staple which hold interests in businesses which conduct trading activities.

During the year, the Fund acquired an initial interest in Wind lab Limited, an ASX listed company specialising in wind farm development. On 26 June 2020, the takeover of Wind lab was completed following a scheme of arrangement. The Fund partnered with Squadron Energy where the Fund holds 25% and Squadron 75% of the asset.

During the year, the Investment Manager launched a specialised real estate investment trusts that develops and invests in child care centres. An information memorandum was issued in October 2019. External funds were raised and the offer closed on 30 January 2020. External investors account for 35% of the ownership of the REIT with FAI owning the balance.

In the opinion of the directors, there were no other significant changes in the state of affairs of the Group that occurred during the year ended 30 June 2020.

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

Ian C Westley resigned as a director of Equity Trustees Limited on 3 July 2020.

Harvey H Kalman resigned as a director of Equity Trustees Limited on 1 September 2020.

Russell W Beasley was appointed as a director of Equity Trustees Limited on 1 September 2020.

No other matter or circumstance has arisen since 30 June 2020 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 Group 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 relevant constitutions.

The results of the Group's operations will be affected by a number of factors, including the performance of investment markets in which the Group 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.

### **COVID-19 Outbreak:**

In March 2020, the World Health Organisation (WHO) officially declared COVID-19 a pandemic. The Directors and the Investment Manager acknowledge the current outbreak of COVID-19 and the increased market volatility it has created within the markets the Fund operates. This volatility has had a corresponding impact on the fair value of the Fund's investment portfolio both during the financial year as well as subsequent to the reporting date.

## Directors' report (continued)

### Likely developments and expected results of operations (continued)

The Responsible Entity and Investment Manager are monitoring developments closely, noting that given the nature of the outbreak and the ongoing developments, there is a high degree of uncertainty and therefore it is not possible at this time to predict the extent and nature of the overall future impact on the Fund. The Investment Manager however, actively manages the financial risks that the Fund is exposed to, with the approach outlined further within Note 3 of these Financial Statements and the Net Asset Values of the Fund continue to be valued in accordance with the frequency set out in the Fund's Offer Documents, applying valuation policies reflective of the prevailing market conditions.

### Indemnification and insurance of officers

No insurance premiums are paid for out of the assets of the Group 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 Trust against losses incurred while acting on behalf of the Trust.

### Indemnification of auditor

The Responsible Entity has not, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify the auditor of the Group against a liability incurred as auditor.

### Interests in the Group

The movement in units on issue in the Group during the year is disclosed in Note 3 to the financial statements.

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

### Environmental regulation

The operations of the Group 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.

### 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

30 September 2020



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## Auditor's Independence Declaration to the Directors of Equity Trustees Limited as Responsible Entity for Federation Alternative Investments Trust 2

As lead auditor for the audit of the financial report of Federation Alternative Investments Trust 2 for the financial year ended 30 June 2020, I declare to the best of my knowledge and belief, there have been:

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

*Ernst & Young*  
Ernst & Young

*Jonathan Pye*  
Jonathan Pye  
Partner  
30 September 2020

## Statement of comprehensive income

	Year ended 30 June 2020 \$'000	For the period 11 December 2018 to 30 June 2019 \$'000
<b>Investment income</b>		
Net loss on financial assets at fair value through profit or loss	(471)	-
Interest income from financial assets at amortised cost	34	13
<b>Total investment income/(loss)</b>	<b>(437)</b>	<b>13</b>
<b>Expenses</b>		
Legal fees	278	-
Audit fees	49	13
Responsible Entity fees	39	-
Administration fees	37	11
Professional and consulting fees	48	-
Other expenses	1	7
<b>Total expenses</b>	<b>452</b>	<b>31</b>
<b>Operating profit/(loss) for the year</b>	<b>(889)</b>	<b>(18)</b>
<b>Finance cost attributable to unit holders</b>		
(Increase)/decrease in net assets attributable to unit holders	889	18
<b>Total finance cost attributable to unit holders</b>	<b>889</b>	<b>18</b>
<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

	Note	As at	
		30 June 2020 \$'000	30 June 2019 \$'000
<b>Assets</b>			
Cash and cash equivalents	6	9,077	645
Financial asset at fair value through profit or loss	14	11,480	-
Due from related parties	11	8,038	1,130
Receivables	8	24	31
<b>Total assets</b>		<b>28,619</b>	1,806
<b>Liabilities</b>			
Payables	9	34	26
Due to related parties	11	29,489	1,796
<b>Total liabilities (excluding net assets attributable to unit holders)</b>		<b>29,523</b>	1,822
<b>Net assets attributable to unit holders – liability</b>	4	<b>(904)</b>	(16)

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

## Statement of changes in equity

	<b>Year ended 30 June 2020 \$'000</b>	For the period 11 December 2018 to 30 June 2019 \$'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.*

## Statement of cash flows

	Note	Year ended 30 June 2020 \$'000	For the period 11 December 2018 to 30 June 2019 \$'000
<b>Cash flows from operating activities</b>			
Interest income received from financial assets at amortised cost		34	13
Payments for purchase of financial assets at fair value through profit or loss		(11,951)	-
Received from related parties		27,692	1,796
Paid to related parties		(6,879)	(1,160)
Other expenses paid		(465)	(6)
<b>Net cash inflow/(outflow) from operating activities</b>	7	<b>8,431</b>	<b>643</b>
<b>Cash flows from financing activities</b>			
Proceeds from applications by unit holders		1	2
<b>Net cash inflow/(outflow) from financing activities</b>		<b>1</b>	<b>2</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>8,432</b>	<b>645</b>
Cash and cash equivalents at the beginning of the year		645	-
<b>Cash and cash equivalents at the end of the year</b>	6	<b>9,077</b>	<b>645</b>

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

## Notes to the financial statements

### Contents

1. General information
2. Summary of significant accounting policies
3. Financial risk management
4. Net assets attributable to unit holders - liability
5. Distributions to unit holders
6. Cash and cash equivalents
7. Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities
8. Receivables
9. Payables
10. Remuneration of auditor
11. Related party transactions
12. Fair value measurement
13. Net gains/(losses) on financial instruments at fair value through profit or loss
14. Financial assets at fair value through profit or loss
15. Contingent assets and liabilities and commitments
16. Events occurring after the reporting period

## 1. General information

Federation Alternative Investments is comprised of Federation Alternative Assets Trust 1 ("Fund 1") and its controlled entities and Federation Alternative Investments Trust 2 ("Fund" or "Fund 2") and its controlled entities (the "Group"). Fund 1 and Fund 2 are stapled entities such that a unit in Fund 1 may not be dealt with without also dealing with a unit in Fund 2.

These financial statements cover the Fund. The Fund was constituted on 11 December 2018 and will terminate in accordance with the provisions of the Fund's Constitution or the Law.

Investors are issued stapled units with each stapled security comprising one unit in Fund 1, which is stapled to one unit in Fund 2 ("Stapled Security"). Securities of Funds 1 and 2 are stapled on 12 December 2018. Stapled Securities cannot be traded or dealt with separately.

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 Group invests in renewable energy, social health and education related real estate and growing operating companies that meet a social and economic need in accordance with the provisions of the Fund's Constitution and the Product Disclosure Statement.

In August 2019, the Group conducted a restructure of its holdings in its subsidiary trusts in order to deliver better efficiencies for unit holders. The restructuring has involved amending the stapling deeds of the Private Equity, Real Estate and Renewable Energy stapled feeder trusts to allow direct investment by the Group into each trust within a stapled feeder. When the structure was originally established in 2018, it was Fund 1 (which is expected to be a public trading trust and treated like a company for income tax purposes) which held stapled units in the Private Equity, Real Estate and Renewable Energy stapled feeder trusts. The restructuring has allowed Fund 2 (which is intended to be a passive "flow through" entity for taxation purposes) to accept transfer and be issued units in those trusts within a staple which hold interests real property assets. Fund 1 will continue to hold interests in those trusts within a staple which hold interests in businesses which conduct trading activities.

During the year, the Group acquired an initial interest in Wind lab Limited, an ASX listed company specialising in Wind farm development. On 26 June 2020, the takeover of Wind lab was completed following a scheme of arrangement. Fund 1 partnered with Squadron Energy where the Fund 1 holds 25% and Squadron 75% of the asset.

During the year, the Investment Manager launched a specialised real estate investment trusts that develops and invests in child care centres. An information memorandum was issued in October 2019. External funds were raised and the offer closed on 30 January 2020. External investors account for 35% of the ownership of the REIT with FAI owning the balance.

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.

#### 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 standards, interpretations and amendments adopted by the Fund*

The accounting policies adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Fund's annual financial statements for the year ended 30 June 2020, except for the adoption of new standards effective as of 1 July 2019. The Fund has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

#### **AASB 16 Leases**

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. IFRS 16 did not have an impact for the Fund as Fund has not entered into lease arrangements.

#### **AASB Interpretation 23 Uncertainty over Income Tax Treatment**

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

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

### a. Basis of preparation (continued)

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty needs to be followed.

The Fund applies significant judgement in identifying uncertainties over income tax treatments.

Upon adoption of the Interpretation, the Fund considered whether it had any uncertain tax positions. The interpretation did not have an impact on the financial statements of the Fund.

#### **Amendments to AASB 123 Borrowing Costs**

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Fund's current practice is in line with these amendments, they had no impact on the financial statements of the Fund.

Several other amendments and interpretations apply for the first time in 2020, but do not have an impact on the financial statements of the Fund.

### 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 performance is evaluated on a fair value basis in accordance with Fund 2'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 equity securities and unlisted unit trusts, 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 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

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 (payables and amounts due to related parties).

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

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

#### *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 the fair value of the financial assets or financial liabilities from this date.

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

#### *iii. Measurement*

- Financial instruments at fair value through profit or loss

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

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

For financial assets and financial liabilities at amortised cost, they are initially measured at fair value including directly attributable costs and are subsequently measured according to their classification.

#### *iv. Impairment*

At each reporting date, the Fund shall measure the loss allowance on financial assets at amortised cost (cash, due from related parties 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.

#### *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 or with the right to offset in the statement of financial position.

### **c. Net assets attributable to unit holders**

The Fund is an illiquid close-ended registered managed investment scheme and is not subject to redemptions and further applications.

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

### **d. Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions 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. Bank overdrafts are shown within borrowings in the statement of financial position.

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

### **e. Investment income**

#### *i. Interest income*

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

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial 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.

#### *ii. Dividends and distributions*

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense. The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the statement of comprehensive income.

Fund distributions are recognised on an entitlement basis.

### **f. Expenses**

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

### **g. Income tax**

Federation Alternative Investments is comprised of investment strategies with each investment strategy comprising an Active Fund and a Passive Fund. Fund 1 has been classified as the Active Fund and Fund 2 as the Passive Fund.

Interests in the Active Fund and Passive Fund should be treated separately for income tax purposes, notwithstanding that they are stapled.

The Responsible Entity intends that the Passive Fund elects to be treated as an Attribution Managed Investment Trust (AMIT), subject to the Passive Fund satisfying the relevant eligibility requirements. Under current legislation, the Passive Fund is not subject to income tax provided it attributes the entirety of the taxable income to its unit holders.

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

### **h. Distributions**

The Fund may distribute its distributable income, in accordance with the relevant constitutions, 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. Where 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.

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

### **k. Receivables**

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Where applicable, interest is accrued on a daily basis. Amounts are generally received within 30 days of being recorded as receivables.

### **l. Payables**

Payables include liabilities and accrued expenses owed by Fund 2 and any distributions declared which are unpaid as at the end of the year.

### **m. 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.

### **n. 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.

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

### **o. Use of estimates**

The Fund makes estimates, assumptions and judgements that affect the reported amounts of assets and liabilities within the current and next financial period. 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.

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.

### **p. Comparative period**

For the purposes of the statement of financial position, comprehensive income, changes in equity, cash flows including notes, comparative information is shown as at or for the period from 11 December 2018 to 30 June 2019.

### **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 to 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.

The investments of the Fund, and associated risks, are managed by a specialist Investment Manager, Federation Asset Management Pty Ltd under an Investment Management Agreement (IMA) approved by the Responsible Entity and containing the investment strategy and 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.

### *i. Price risk*

The Fund is exposed to price risk on its investments in unlisted unit trusts. These investments comprise 100% of the Group's financial assets at fair value through profit or loss.

The price risk is managed by Federation Asset Management Pty Ltd, the investment manager of the Fund.

### 3. Financial risk management (continued)

#### *i. Price risk (continued)*

The table at Note 3(a) summarises the sensitivities of the Fund's assets and liabilities to price risk. The table at Note 3(a) summarises the sensitivities of the Fund's assets and liabilities to price risk. The analysis is based on the reasonably possible shift that the investment portfolio in which the Fund invests moves by +/- 10% (2019: +/- 10%).

#### *ii. Foreign exchange risk*

The Fund invests purely in Australia and therefore is not subject to foreign exchange risk.

#### *iii. Interest rate risk*

Interest rate risk management is undertaken by maintaining as close to a fully invested position as possible thus limiting the exposure of the Fund to interest rate risk.

The Funds' interest bearing financial assets expose them to risks associated with the effects of fluctuation in the prevailing levels of market interest rate on its financial positions and cash flows. The impact of interest rate risk on net assets attributable to unit holders and operating profit are considered immaterial to the Funds.

#### **a. Summarised sensitivity analysis**

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

	Impact on operating profit/net assets attributable to unit holders			
	Price risk		Interest rate risk	
	-10%	+10%	-100bps	+100bps
	\$'000	\$'000	\$'000	\$'000
<b>As at 30 June 2020</b>	<b>(1,148)</b>	<b>1,148</b>	<b>(181)</b>	<b>181</b>
As at 30 June 2019	-	-	(6)	6

#### **b. 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 Fund does not have a significant concentration of credit risk that arises from an exposure to a single counterparty or group of counterparties having similar characteristics. The main concentration of credit risk, to which the Fund is exposed, arises from cash and cash equivalents. None of these assets are impaired nor past their due date. The maximum exposure to credit risk at the reporting date is the carrying amount of cash and cash equivalents.

### 3. Financial risk management (continued)

#### b. Credit risk (continued)

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 2020 and 30 June 2019, 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. Cash and cash equivalents*

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of AA or higher.

##### *ii. Other*

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

##### *iii. Maximum exposure to credit risk*

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

#### c. 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.

The Fund is illiquid and there are no redemptions hence the fund has little liquidity risk.

### 4. Net assets attributable to unit holders - liability

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

	Units '000	\$ '000
<b>Units</b>		
Opening balance	-	-
Applications (1)	15,000	2
Change in net assets attributable to unit holders	-	(18)
<b>Closing balance – 30 June 2019</b>	<b>15,000</b>	<b>(16)</b>
Subdivision (1)	<b>1,794</b>	-
Applications	<b>14,280</b>	1
Change in net assets attributable to unit holders	-	<b>(889)</b>
<b>Closing balance – 30 June 2020</b>	<b>31,074</b>	<b>904</b>

As noted in Note 1, Fund 1 and Fund 2 are stapled entities such that a unit in Fund 1 may not be dealt with without also dealing with a unit in Fund 2. Due to this stapled relationship, should the need arise Fund 1 would support Fund 2's in meeting its financial obligations as they come due.

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.

#### 4. Net assets attributable to unit holders – liability (continued)

(1) On 26 July 2019 the Group decided to consolidate and divide 15,000,000 Ordinary Units on issue in the Fund to 16,794,511 units and subsequently reclassify all Ordinary Units on issue as Initial Investor Units ("Initial Investor Units"). Initial Investor Units have the same rights, restrictions and obligations as ordinary units, other than having an additional right to participate as a co-investor in particular investments alongside either Fund 1 or Fund 2. This co-investment right is available to the Initial Investor Unit holder for a maximum period of 5 years from the time that it is first issued an Initial Investor Unit. The ordinary units and initial investor units have been consolidated and are referred to as units in the above table.

On 11 December 2018, the Fund issued 10 initial units ("Initial Units") with a par value of \$1 to Federation Asset Management Holdings Pty Ltd, the Parent Company of the Investment Manager, Federation Asset Management Pty Ltd. The holders of Initial Units will not have an interest or be entitled to a share in any distribution. The holders of Initial Units are entitled to receive notice of and attend general meetings of ordinary members but have no voting rights. On winding up of the Fund, the holder of Initial Units is only entitled to payment of the price paid by the member to acquire the Initial Units.

#### 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.

#### 5. Distributions to unit holders

There were no distributions declared for the year ended 30 June 2020 (30 June 2019: Nil).

#### 6. Cash and cash equivalents

	As at	
	30 June 2020 \$'000	30 June 2019 \$'000
Cash at bank	9,077	645
<b>Total cash and cash equivalents</b>	<b>9,077</b>	<b>645</b>

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

	Year ended 30 June 2020 \$'000	For the period 11 December 2018 to 30 June 2019 \$'000
	Change in net assets attributable to unit holders	(889)
Net change in receivables	7	(31)
Increase in due from related parties	(6,908)	(1,130)
Increase in financial instruments at fair value through profit or loss	(11,480)	-
Increase in due to related parties	27,693	1,796
Net change in payables	8	26
<b>Net cash inflow from operating activities</b>	<b>8,431</b>	<b>643</b>

## 8. Receivables

	30 June 2020 \$'000	As at 30 June 2019 \$'000
GST receivable	24	1
Others	-	30
<b>Total receivables</b>	<b>24</b>	<b>31</b>

## 9. Payables

	30 June 2020 \$'000	As at 30 June 2019 \$'000
Administration fees payable	6	14
Audit fees payable	27	12
Payable for investments	1	-
<b>Total payables</b>	<b>34</b>	<b>26</b>

## 10. Remuneration of auditor

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

	Year ended 30 June 2020 \$	For the period 11 December 2018 to 30 June 2019 \$
<b>Ernst &amp; Young</b>		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	48,582	13,205
<b>Total remuneration of Ernst &amp; Young</b>	<b>48,582</b>	<b>13,205</b>

The auditor's remuneration is borne by the Trust. Fees are stated exclusive of GST.

## 11. Related party transactions

The Responsible Entity of the 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 Federation Asset Management Pty Ltd, to act as Investment Manager for the Fund, and Apex Fund Services 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)
Harvey H Kalman	(resigned 1 September 2020)
Ian C Westley	(resigned 3 July 2020)
Russell W Beasley	(appointed 1 September 2020)
Michael J O'Brien	

#### 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.

## **11. Related party transactions (continued)**

### **b. 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.

### **c. Key management personnel loans**

The Group 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.

### **d. Transactions with key personnel**

There were no transactions with key management personnel during the period (2019: nil).

### **e. Key management personnel unit holdings**

Key management personnel did not hold units in the Fund as at 30 June 2020 (30 June 2019: nil)

### **f. Other transactions within the Group**

Due to / from affiliates are comprised of payment or elimination transactions with respect to management, operating and transaction expenses paid on behalf of affiliates, obligations under the Fund Support Deed with Federation Asset Management, and funding that may be drawn in respect of loans to Windlab or its holding trusts.

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Group 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**

Under the terms of the Fund's Constitution and Product Disclosure Statement for the Fund, the Responsible Entity and the Investment Manager are entitled to receive management fees.

During the year, no management fees or responsible entity fees were paid or payable from the Fund. These costs are reflected in the accounts of Fund 1.

For information on how management and performance fees are calculated please refer to the Fund's 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 2020 (30 June 2019: nil).

The Fund did not hold any investments in Equity Trustees Limited or its related parties during the year (2019: nil).

## 11. Related party transactions (continued)

### h. Related party unit holdings (continued)

The Fund held investments in the following schemes which are also managed by Equity Trustees Limited or its related parties:

	Fair value of investment	Interest held	Distributions earned	Distributions receivable	Units acquired during the year	Units disposed during the year
	\$	%	\$	\$		
<b>As at 30 June 2020</b>						
FAI PE Trust 2	(11,235)	100.0%	-	-	-	-
FAI RE Trust 1	11,518,607	100.0%	-	-	-	-
FAI REN Trust 2	(27,563)	100.0%	-	-	-	-

FAI PE Trust 2 – Federation Alternative Assets Private Equity Trust 2

FAI RE Trust 1 – Federation Alternative Assets Real Estate Trust 1

FAI REN Trust 2 – Federation Alternative Assets Renewable Energy Trust 2

As at June 2019, the Fund did not hold investments in unlisted trusts

## 12. Fair value measurement

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

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 the accounting policies set out in Note 2 to the financial statements.

### a. Fair value in an inactive or unquoted market (level 3)

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

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

## 12. Fair value measurement

### a. Fair value in an inactive or unquoted market (level 3) (continued)

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

Investments in unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such Funds. The Fund may make adjustments to the value based on considerations such as: liquidity of the Investee Fund or its underlying investments, the value date of the net asset value provided, or any restrictions on redemptions and the basis of accounting.

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

### b. 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 2020 and 30 June 2019.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>As at 30 June 2020</b>				
<b>Financial assets</b>				
Unlisted unit trusts	-	-	<b>11,480</b>	<b>11,480</b>
<b>Total financial assets</b>	-	-	<b>11,480</b>	<b>11,480</b>
<b>As at 30 June 2019</b>				
<b>Financial assets</b>				
Unlisted equities	-	-	-	-
<b>Total financial assets</b>	-	-	-	-

**c. Fair value measurements using significant unobservable inputs (level 3)**

The following table presents the movement in Level 3 instruments for the year ended 30 June 2020 by class of financial instrument.

	Unlisted Unit Trust	Total
	\$'000	\$'000
Opening balance	-	-
Purchases	-	-
Sales	-	-
Net unrealised gains/(losses) on financial assets at fair value through profit or loss	-	-
Closing balance – 30 June 2019	-	-
Purchases	<b>11,951</b>	<b>11,951</b>
Net unrealised gains/(losses) on financial assets at fair value through profit or loss	<b>(471)</b>	<b>(471)</b>
<b>Closing balance – 30 June 2020</b>	<b>11,480</b>	<b>11,480</b>

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 year (2019: Nil).

*i. Valuation inputs and relationships to fair value*

The fair value of Level 3 investments is determined based on the net asset value of unlisted unit trusts. The core asset of the unlisted unit trusts is real estate. The investment manager of these funds determines the fair value of each asset in the fund or if the asset is under construction, the asset is recorded at cost until such time that fair value can be reliably measured.

The following table summarises the quantitative information about the significant unobservable inputs used in the level 3 fair value measurements. (2019: Nil)

Description	Valuation technique	Unobservable inputs	Range	Sensitivity
<b>As at 30 June 2020:</b>				
<b>Unlisted unit trust</b>	<b>Net asset value as at 30 June 2020</b>	<b>Net asset value as at 30 June 2020</b>	<b>N/A</b>	<b>Direct</b>

## 12. Fair value measurement (continued)

### ii. 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 being level 3 securities. Further analysis, should it be required, is undertaken to determine the accounting significance of the identification. For certain security types, in selecting the most appropriate valuation model, management performs back testing and considers actual market transactions. Changes in allocation to or from level 3 are analysed at the end of each reporting period and are disclosed in Note (c) above.

Valuations of the assets are undertaken in accordance with the valuation policy which shall include an annual review or more frequent review by the Investment Manager and the Responsible Entity. They ensure that valuation methods and polices used in relation to Group are consistent with the accounting principles and within the range of ordinary commercial practice.

### d. Financial instruments not carried at fair value

The carrying value of cash and cash equivalents, receivables and payables are assumed to approximate their fair values due to their short-term nature.

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

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

	Year ended 30 June 2020 \$'000	Period from 11 December 2018 to 30 June 2019 \$'000
Net gains/ (losses) on financial assets at fair value through profit or loss	(471)	-
<b>Total net gains/(losses) on financial instruments at fair value through profit or loss</b>	<b>(471)</b>	<b>-</b>

## 14. Financial assets at fair value through profit or loss

	30 June 2020 \$'000	As at 30 June 2019 \$'000
Investments in unlisted equities	11,480	-
<b>Total financial assets at fair value through profit or loss</b>	<b>11,480</b>	<b>-</b>

## 15. Contingent assets and liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2020 (30 June 2019: 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 2020 or on the results and cash flows of the Fund for the year ended on that date.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- a. The financial statements and notes set out on pages 5 to 26 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 2020 and of its performance for the year ended on that date.
- b. There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; 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  
30 September 2020



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## Independent Auditor's Report to the Unitholders of Federation Alternative Investments Trust 2

### Opinion

We have audited the financial report of Federation Alternative Investments Trust 2 (the Fund), which comprises the statement of financial position as at 30 June 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- b) 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Information Other than the Financial Report and Auditor's Report Thereon

The directors of Equity Trustees Limited (the Responsible Entity) are responsible for the other information. The other information is the directors' report accompanying the financial report.

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

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

## Responsibilities of the Directors for the Financial Report

The directors of the Responsible Entity 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 Fund's ability to continue as a going concern, disclosing, as applicable, matters relating 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 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment 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.



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- ▶ 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.

*Ernst & Young*  
Ernst & Young

*Jonathan Pye*

Jonathan Pye  
Partner  
Sydney  
30 September 2020