FCM Cat Fund Australia

ARSN 146 668 322

Annual report
For the year ended 30 June 2023

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Annual report
For the year ended 30 June 2023

Contents

This annual report covers FCM Cat Fund Australia as an individual entity.

The Responsible Entity of FCM Cat Fund Australia 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 FCM Cat Fund Australia (the "Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2023.

Principal activities

The Fund invests in a diversified portfolio of insurance linked securities ("ILS") with global exposure, predominantly catastrophe bonds, foreign forward currency contracts, other related derivatives and cash in accordance with the Information Memorandum and the provisions of the Fund's Constitution.

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:

Service	Provider
Responsible Entity	Equity Trustees Limited
Investment Manager	Fermat Capital Management LLC
Custodian	State Street Australia Limited
Statutory Auditor	Deloitte Touche Tohmatsu
Administrator and Registrar	State Street Australia Limited
Specialist Currency Manager	State Street Australia Limited

Directors

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

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

Review and results of operations

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

The Fund's performance was 0.73% (net of fees) for the year ended 30 June 2023. The Fund's benchmark, the Swiss Re Global Cat Bond Index Total Return Index (SRGLTRR ticker) returned 8.34% for the same period.

The return achieved by the Fund for the reporting period is calculated as the % movement in NAV/ units on issue from 30 June 2022 to 30 June 2023.

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

	Year ended	
	30 June 2023	30 June 2022
Profit/(loss) for the year ($'000)	**3,128**	17,210

Directors' report (continued)

Review and results of operations (continued)

There were no distributions declared for the year ended 30 June 2023 and 30 June 2022.

Significant changes in the state of affairs

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

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

Matters subsequent to the end of the financial year

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

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

Likely developments and expected results of operations

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

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

Indemnification and insurance of officers

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

Indemnification of auditor

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

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

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in Note 18 to the financial statements.

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

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 18 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 9 to the financial statements.

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

Directors' report (continued)

Environmental regulation

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

Rounding of amounts to the nearest thousand dollars

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

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 the Equity Trustees Limited's Board.

P.D. Gentry

Philip D Gentry
Chairman

Melbourne
24 October 2023

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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24 October 2023

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

Dear Board Members,

Independence Declaration – FCM Cat Fund Australia

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the Directors of Equity Trustees Limited, the Responsible Entity, regarding the financial report of FCM Cat Fund Australia (the "Fund").

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

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jon Corbett
Partner
Chartered Accountants

Statement of comprehensive income

	Note	Year ended 30 June 2023 $'000	30 June 2022 $'000
Investment income			
Interest income from financial assets at fair value through profit or loss		**35,497**	28,951
Distribution income		**23**	-
Net foreign exchange gain/(loss)		**1,106**	2,608
Net gains/(losses) on financial instruments at fair value through profit or loss		**(28,042)**	(7,237)
Total investment income/(loss)		**8,584**	24,322
Expenses			
Management fees and costs		**4,575**	6,388
Withholding taxes		**-**	3
Transaction costs		**19**	24
Other expenses	17	**862**	697
Total expenses		**5,456**	7,112
Profit/(loss) for the year		**3,128**	17,210
Other comprehensive income		**-**	-
Total comprehensive income for the year		**3,128**	17,210

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

Statement of financial position

		As at	
		30 June 2023	30 June 2022
	Note	**$'000**	$'000
Assets			
Cash and cash equivalents	11	**22,162**	27,255
Receivables	13	**2,919**	3,240
Due from brokers - receivable for securities sold		**2,529**	51,977
Financial assets at fair value through profit or loss	5	**437,035**	484,840
Margin accounts		**3,398**	3,050
Total assets		**468,043**	570,362
Liabilities			
Payables	14	**1,210**	38,429
Due to brokers - payable for securities purchased	15	**11,903**	41,486
Financial liabilities at fair value through profit or loss	6	**25,779**	64,424
Total liabilities		**38,892**	144,339
Net assets attributable to unit holders - equity		**429,151**	426,023

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

Statement of changes in equity

	Note	Year ended 30 June 2023 $'000	30 June 2022 $'000
Total equity at the beginning of the financial year		**426,023**	482,381
Comprehensive income for the financial year			
Profit/(loss) for the year		**3,128**	17,210
Other comprehensive income		**-**	-
Total comprehensive income		**3,128**	17,210
Transactions with unit holders			
Redemptions	9	**-**	(110,000)
Reinvestment of distributions	9	**-**	36,432
Total transactions with unit holders		**-**	(73,568)
Total equity at the end of the financial year		**429,151**	426,023

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 2023** **$'000**	30 June 2022 $'000
Cash flows from operating activities			
Proceeds from sale of financial instruments at fair value through profit or loss		**566,273**	328,148
Payments for purchase of financial instruments at fair value through profit or loss		**(565,039)**	(296,596)
Net foreign exchange gain/(loss)		**1,335**	2,677
Net change in margin accounts		**(348)**	4,912
Interest income received from financial assets at fair value through profit or loss		**35,398**	28,349
Other income received		**192**	-
Management fees and costs paid		**(4,234)**	(6,465)
Other expenses paid		**(941)**	(572)
Net cash inflow/(outflow) from operating activities	12(a)	**32,636**	60,453
Cash flows from financing activities			
Payments for redemptions by unit holders		**(37,500)**	(72,500)
Distributions paid to unit holders		**-**	(1,504)
Net cash inflow/(outflow) from financing activities		**(37,500)**	(74,004)
Net increase/(decrease) in cash and cash equivalents		**(4,864)**	(13,551)
Cash and cash equivalents at the beginning of the year		**27,255**	40,875
Effect of foreign currency exchange rate changes on cash and cash equivalents		**(229)**	(69)
Cash and cash equivalents at the end of the year	11	**22,162**	27,255
Non-cash operating and financing activities	12(b)	**23**	39,323

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

Notes to the financial statements

Contents

1 General information

These financial statements cover FCM Cat Fund Australia (the "Fund") as an individual entity. The Fund is an Australian registered managed investment scheme which was constituted on 29 September 2010 and will terminate in accordance with the provisions of the Fund's Constitution or by Law.

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

The Fund invests in a diversified portfolio of insurance linked securities ("ILS") with global exposure, predominantly catastrophe bonds, foreign forward currency contracts, other related derivatives and cash in accordance with the Information Memorandum and the provisions of the Fund's Constitution.

The financial statements were authorised for issue by the directors on the date the Directors' declaration was signed. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

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

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

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

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

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

(ii) New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2022 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

(iii) New standards and interpretations not yet adopted

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

We are currently assessing whether the introduction of the *IFRS 17 Insurance contracts* will have a material effect on the financial statements of the Fund.

2 Summary of significant accounting policies (continued)

(b) Financial instruments

(i) Classification

- Financial assets

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

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

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

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

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

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

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

- Financial liabilities

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

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

(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 liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

(iii) Measurement

- Financial instruments at fair value through profit or loss

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

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Measurement (continued)

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 within 'net gains/(losses) on financial instruments at fair value through profit or loss' in the period in which they arise.

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

- Financial instruments at amortised cost

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

Cash and cash equivalents, receivables, due from brokers, margin accounts, payables and due to brokers are carried at amortised cost.

(iv) Repurchase and reverse repurchase agreements

- Reverse repurchase agreements

Under reverse repurchase agreements, the Fund sells securities that it holds with an agreement to repurchase the same security at an agreed upon price and date. Securities sold under reverse repurchase agreements are reflected as a financial liability at fair value. Interest payments are recorded as a component of interest expense. The Fund may receive a fee for use of the security by the counterparty, which may result in interest income to the Fund.

A reverse repurchase agreement involves the risk that the market value of the security sold by a Fund may decline below the repurchase price of the security. The Fund segregates assets determined to be liquid or otherwise covers its obligations under reverse repurchase agreements.

(v) Impairment

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

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

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

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(vi) 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

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

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

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

The Fund's units are classified as equity as they satisfy the following criteria under AASB 132 *Financial Instruments: Presentation:*

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Fund's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund, and is not a contract settled in the Fund's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

(d) Cash and cash equivalents

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

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

(e) Margin accounts

Margin accounts comprise of cash held as collateral for derivative transactions and insurance linked bonds. The cash is held by the broker and is only available to meet margin calls. It is not included as a component of cash and cash equivalents.

2 Summary of significant accounting policies (continued)

(f) Investment income

(i) Interest income

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

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

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

(ii) Distributions

Trust distributions are recognised on an entitlement basis.

(g) Expenses

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

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

(h) Income tax

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

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

(i) Distributions

The Fund may distribute its distributable income, in accordance with the Fund’s Constitution, to unit holders by cash or reinvestment. The distributions are recognised in the statement of changes in equity.

(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.

2 Summary of significant accounting policies (continued)

(j) Foreign currency translation (continued)

(ii) Transactions and balances

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

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

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

(k) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by year end. The due from brokers balance is held for collection and is recognised initially at fair value and subsequently measured at amortised cost.

(l) Receivables

Receivables may include amounts for interest and trust distributions. Trust distributions are accrued when the right to receive payment is established. Where applicable, interest is accrued on a weekly basis. Amounts are generally received within 30-90 days of being recorded as receivables.

Other receivables relate to payments to collateral trust accounts on private deals that typically mature within 12 months. The amounts can be claimed if a qualifying natural catastrophe occurs. If there are no events, the posted collateral is returned to the investor.

(m) Payables

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

(n) Applications and redemptions

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

(o) Goods and services tax (GST)

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

2 Summary of significant accounting policies (continued)

(p) Use of estimates and judgements

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

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

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

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

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

(q) Rounding of amounts

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

(r) Comparative revisions

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

3 Financial risk management

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

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

All investments present a risk of loss of capital. The maximum loss of capital on international interest bearing securities, term loans, reverse repurchase agreements and unlisted unit trusts is limited to the fair value of those positions. The maximum loss of capital on long forward currency contracts and forward currency contracts sold short is limited to the notional contract values of those positions.

The investments of the Fund, and associated risks, are managed by a specialist Investment Manager, Fermat Capital Management LLC ("Fermat"), 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 Information Memorandum.

3 Financial risk management (continued)

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

(a) Market risk

(i) Price risk

The Fund is exposed to price risk on international interest bearing securities, primarily ILS. Price risk on ILS is due to the unpredictability of natural catastrophes which, when they occur, can cause short term unrealised losses (price decrease) and ultimately partial or total realised losses of principal.

Fermat manages price risk for the Fund by investing in an ILS portfolio diversified through the selection of individual securities that have, for example, different triggering mechanisms, different catastrophe exposures, or different issuers. This security selection is completed in line with the guidelines of the IMA. Risk exposure restrictions are:

- Under normal circumstances, maximum exposure to non-natural catastrophe risk instruments of 10% of the portfolio (at the time of purchase); and
- Under normal circumstances, maximum exposure to any single security of 10% of the portfolio (at the time of purchase).

The table at Note 3(b) summarises the sensitivity 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 +/-15% (2022: +/-15%).

(ii) Foreign exchange risk

The Fund operates internationally and holds both monetary and non-monetary assets denominated in currencies other than the Australian dollar. Foreign exchange risk arises as the value of monetary securities denominated in other currencies fluctuate due to changes in exchange rates. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk and not foreign exchange risk. The Responsible Entity has appointed State Street Bank and Trust Company, a specialist currency manager, to undertake a foreign currency overlay program to execute foreign exchange hedging transactions aimed at minimising any non-Australian dollar exposure.

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

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

As at 30 June 2023	**US Dollars A$'000**	**Euro A$'000**	**Japanese Yen A$'000**	**British Pounds A$'000**	**New Zealand Dollars A$'000**
Cash and cash equivalents	**18,392**	**6**	**3,134**	**153**	**-**
Margin Accounts	**3,398**	**-**	**-**	**-**	**-**
Receivables	**2,596**	**99**	**189**	**9**	**15**
Due from brokers - receivable for securities sold	**1,119**	**-**	**1,410**	**-**	**-**
Financial assets at fair value through profit or loss	**374,268**	**7,054**	**18,961**	**2,341**	**1,314**
Payables	**(373)**	**-**	**-**	**-**	**-**
Due to brokers - payable from securities purchased	**(8,462)**	**-**	**(3,441)**	**-**	**-**
Financial liabilities at fair value through profit or loss	**(25,554)**	**(146)**	**(8)**	**(53)**	**(18)**
Net exposure	**365,384**	**7,013**	**20,245**	**2,450**	**1,311**
Net increase/(decrease) in exposure from forward currency contracts	**(363,052)**	**(6,928)**	**(20,198)**	**(2,398)**	**(1,293)**
Net exposure including forward currency contracts	**2,332**	**85**	**47**	**52**	**18**

As at 30 June 2022	US Dollars A$'000	Euro A$'000	Japanese Yen A$'000	British Pounds A$'000
Cash and cash equivalents	8,113	4	-	31
Receivables	2,823	66	139	8
Due from brokers - receivable for securities sold	51,977	-	-	-
Financial assets at fair value through profit or loss	426,102	5,530	18,332	2,168
Payables	(16)	-	-	(1)
Due to brokers - payable from securities purchased	(41,486)	-	-	-
Financial liabilities at fair value through profit or loss	(64,235)	(33)	(148)	(8)
Margin accounts	3,050	-	-	-
Net exposure	386,328	5,567	18,323	2,198
Net increase/(decrease) in exposure from forward currency contracts	(382,989)	(5,597)	(18,333)	(2,202)
Net exposure including forward currency contracts	3,339	(30)	(10)	(4)

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

The table at Note 3(b) summarises the sensitivities of the Fund's monetary assets and liabilities to foreign exchange risk. The analysis is based on the reasonably possible shift that the Australian dollar weakened and strengthened by 15% (2022: +/-10%) against the material foreign currencies to which the Fund is exposed.

(iii) Interest rate risk

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

The Fund's interest bearing financial instruments expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The impact of interest rate risk on the profit and net assets attributable to unit holders is considered immaterial to the Fund and thus is not included in the sensitivity analysis below. A significant portion of the Fund's portfolio is composed of floating rate catastrophe bonds. Floating rate catastrophe bonds are not materially sensitive to interest rate changes as the interest payments that are received on these assets will adjust as interest rates move.

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.

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unit holders to market risks. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in foreign exchange rates 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	
	+15%	-15%
	$'000	$'000
As at 30 June 2023	**61,688**	**(61,688)**
As at 30 June 2022	63,062	(63,062)

	Impact on operating profit/Net assets attributable to unit holders									
	Foreign exchange risk									
	+15%	-15%	+15%	-15%	+15%	-15%	+15%	-15%	+15%	-15%
	US Dollars	US Dollars	Euro	Euro	Japanese Yen	Japanese Yen	British Pounds	British Pounds	New Zealand Dollars	New Zealand Dollars
	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
As at 30 June 2023	**350**	**(350)**	**13**	**(13)**	**7**	**(7)**	**8**	**(8)**	**3**	**(3)**
As at 30 June 2022	334	(334)	(3)	3	(1)	1	-	-	-	-

The sensitivity factors for 30 June 2022 were +/-10% for Foreign exchange risk.

3 Financial risk management (continued)

(c) Credit risk

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

The 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 and amounts due from brokers balances. None of these assets are impaired nor past their due date. The maximum exposure to credit risk is the carrying of these balances at the reporting date.

The Fund determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 30 June 2023 and 30 June 2022, all receivables, amounts due from brokers, cash and short-term deposits are held with counterparties with a credit rating of AA- or higher. 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.

The Fund manages credit risk in line with the requirements of the IMA as follows:

(i) Catastrophe bonds

For catastrophe bonds, counterparty credit risk is mitigated through the use of collateral trust accounts that are managed by third parties and are subject to restrictive investment guidelines. Further, trust account holdings and third party managers are monitored on a periodic basis.

(ii) Other forms of ILS

For other forms of ILS such as private notes or similar instruments, counterparty risk is managed through the use of segregated trust accounts along with periodic monitoring of collateral accounts and counterparties.

(iii) Derivative financial instruments

For derivative financial instruments, State Street Bank and Trust Company as Currency Manager, has established daily derivatives trading limits such that transactions only take place with participants of the Australian Securities Exchange in accordance with their Derivatives Policy and Derivatives Risk Statement.

(iv) Cash and cash equivalents

Cash and cash equivalents are generally held for trading and cash flow management purposes only at a usual level of not greater than 10% of the Fund. Cash is held as deposits with the Fund's Custodian.

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of at least AA- (2022: at least AA-) (as determined by Standard and Poor's).

(v) Repurchase and reverse repurchase agreements

The Fund may engage in repurchase and reverse repurchase transactions. Under the terms of a repurchase agreement, the Fund takes possession of an underlying debt obligation (collateral) subject to an obligation of the seller to repurchase, and the Fund to resell the obligation at an agreed upon price and time. The underlying securities for all repurchase agreements are held in safekeeping at the Fund's custodian. The market value of the collateral must be equal to or exceed the total amount of the repurchase obligations, including interest. Securities purchased under repurchase agreements are reflected as an asset in the statement of financial position. If the counterparty should default, the Fund will seek to sell the securities which it holds as collateral to reduce its losses. This could involve procedural costs or delays in addition to a loss on the securities if their value should fall below their repurchase price. The counterparty to the outstanding reverse repurchase agreements as at 30 June 2023 was JPMorgan Securities plc with a rating of A+ (30 June 2022, was JPMorgan Securities plc with a rating of A+).

3 Financial risk management (continued)

(c) Credit risk (continued)

(vi) Other

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

(vii) 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.

(d) Liquidity risk

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

The Fund's main exposure to liquidity risk arises from the requirement to meet monthly unit holders' redemption requests or the need to fund foreign exchange related cash flow requirements. In general, most catastrophe bonds can be traded in the secondary market, however in the event of large natural catastrophe events (hurricanes, earthquakes etc.), the liquidity of the Fund's net assets cannot be guaranteed. While the withdrawal procedures are designed to minimise negative impacts on the Fund's net asset value, the Fund may suffer losses due to withdrawals that are not compensated by the buy/sell spread.

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

(i) Maturities of non-derivative financial liabilities

All non-derivative financial liabilities of the Fund in the current period have maturities of less than 1 month. Units are redeemed on demand at the unit holders' option. However, the Responsible Entity does not envisage that the contractual maturity will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

(ii) Maturities of net settled derivative financial instruments

The table below analyses the Fund's net settled derivative financial instruments based on their contractual maturity. The Fund may, at its discretion, settle financial instruments prior to their original contractual settlement date, in accordance with its investment strategy, where permitted by the terms and conditions of the relevant instruments.

	Less than 1 month	**1-6 months**	**6-12 months**	**Over 12 months**	**Non-stated maturity**	**Total**
As at 30 June 2023	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Net settled derivatives						
Forward currency contracts	**(489)**	**-**	**-**	**-**	**-**	**(489)**
Total net settled derivatives	**(489)**	**-**	**-**	**-**	**-**	**(489)**
As at 30 June 2022						
Net settled derivatives						
Forward currency contracts	-	(6,440)	-	-	-	(6,440)
Total net settled derivatives	-	(6,440)	-	-	-	(6,440)

4 Fair value measurement

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

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

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

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

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

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

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

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

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include catastrophe bonds and over-the-counter derivatives.

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.

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

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded or not at all. When observable prices are not available for these securities, the Investment Manager uses one or more valuation techniques (e.g. the market approach, the income approach) for which sufficient and reliable data is available. Within level 3, the use of the market approach generally consists of using comparable market transactions, while the use of the income approach generally consists of the net present value of estimated future cash flows, adjusted as appropriate for liquidity, credit, market and/or other risk factors.

For further information on valuation processes, please refer to Note 4(e) to the financial statements.

4 Fair value measurement (continued)

(c) Recognised fair value measurements

The table below presents the Fund's financial assets and liabilities measured and recognised at fair value as at 30 June 2023 and 30 June 2022.

As at 30 June 2023	**Level 1 $'000**	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Financial assets				
Forward currency contracts	**-**	**594**	**-**	**594**
Unlisted unit trusts	**-**	**33,097**	**-**	**33,097**
International interest bearing securities	**-**	**292,639**	**105,905**	**398,544**
Term loans	**-**	**-**	**4,800**	**4,800**
Total financial assets	**-**	**326,330**	**110,705**	**437,035**
Financial liabilities				
Forward currency contracts	**-**	**1,083**	**-**	**1,083**
Reverse repurchase agreement	**-**	**24,696**	**-**	**24,696**
Total financial liabilities	**-**	**25,779**	**-**	**25,779**

As at 30 June 2022	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Financial assets				
Forward currency contracts	-	595	-	595
Unlisted unit trusts	-	32,708	-	32,708
International interest bearing securities	-	300,282	138,429	438,711
Term loans	-	-	12,826	12,826
Total financial assets	-	333,585	151,255	484,840
Financial liabilities				
Forward currency contracts	-	7,035	-	7,035
Reverse repurchase agreement	-	57,389	-	57,389
Total financial liabilities	-	64,424	-	64,424

As at 30 June 2023, the Fund held level 3 investment of Isosceles with nil fair value.

Term loans invested in by the Fund are corporate bonds that are issued by insurance companies. The insurance company gets the capital it needs and in return, the Fund is paid interest on the investment. Similar to the other level 3 private deals, a third party broker price is received for all term loans held by the Fund. Unlike the other private deals, these typically have a maturity of 3 to 7 years.

The investments included in Level 3 of the hierarchy are the private deal investments that are conceptually similar to catastrophe bonds, but are structured as a preferred share investment in a special purpose vehicle ("SPV") and which was fair valued with reference to third party price from the broker. The SPV enters into a reinsurance contract with a protection buyer ("Cedent"), usually an insurance or reinsurance company. The investor posts collateral into a trust account and this collateral can be claimed by the Cedent if a qualifying natural catastrophe occurs. The preferred shares pay a fixed dividend similar to an insurance premium or a catastrophe bond coupon payment and at maturity, if there are no events, the posted collateral is returned to the investor. These are typically 12-month investments.

4 Fair value measurement (continued)

(d) Transfer between levels

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

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

(e) 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 2023 and 30 June 2022 by class of financial instrument.

	International interest bearing securities $'000
Opening balance - 1 July 2021	138,227
Purchases	98,264
Sales	(96,189)
Gains/(losses) recognised in the statement of comprehensive income	10,953
Closing balance - 30 June 2022*	151,255
Purchases	**38,615**
Sales	**(67,180)**
Gains/(losses) recognised in the statement of comprehensive income	**(11,985)**
Closing balance - 30 June 2023*	**110,705**

*Includes unrealised gains or (losses) recognised in profit or loss attributable to balances held at the end of the reporting period

4 Fair value measurement (continued)

(e) Fair value measurements using significant unobservable inputs (level 3) (continued)

(i) Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in the level 3 fair value measurements. See below for the valuation processes adopted.

Description	Fair value $'000	Unobservable inputs	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
As at 30 June 2023				
International interest bearing securities	**105,905**	**Third party price (indicative) from the broker***	**N/A**	**Direct**
Term Loans	**4,800**	**Third party price (indicative) from the broker***	**N/A**	**Direct**
As at 30 June 2022				
International interest bearing securities	138,429	Third party price (indicative) from the broker*	N/A	Direct
Term Loans	12,826	Third party price (indicative) from the broker*	N/A	Direct

* For these investments, the Investment Manager receives a single broker price for the actual instrument.

However the price is indicative and comes from a single source. When reviewing the broker price for reasonableness, the Investment Manager considers the following:

- the absence or presence of catastrophes that would directly impact the investment

- whether the market spread tightened or widened

- whether there are any issues with the underlying collateral

- the impact of seasonality for hurricane-exposed bonds.

There were no significant inter-relationships between unobservable inputs that materially affect fair values.

(ii) Valuation processes

The Fund primarily invests in fixed income securities, consisting predominantly of catastrophe bonds. Fixed income that are not listed on a national securities exchange but for which external pricing sources (such as dealer quotes or independent pricing services) are available, are stated at their estimated fair value. The values assigned by the Investment Manager to the fixed income are determined in good faith and are based on information from external pricing sources and are applied on a consistent basis. In rare cases where recent trading activity or other information may not, in the opinion of the Investment Manager, be reflected in pricing obtained from external sources, the Investment Manager may arrive at estimated fair value via adjusting external pricing in consideration of such information. Long positions will be marked on the bid side subject to the Investment Manager's discretion to mark such positions differently if and when deemed appropriate. In the event that there is no prevailing market price for a particular security, the Investment Manager's Investment Committee will convene to discuss the most reasonable method to value the portfolio holding. The Investment Manager will then consult with the Fund's Administrator to determine the most reasonable valuation for the security in question.

If there is no catastrophe event, or trigger event, before the maturity date of the contract, investors will receive back their principal investment at maturity on top of the interest payments they have received.

4 Fair value measurement (continued)

(f) Financial instruments not carried at fair value

The carrying values of cash and cash equivalents, receivables, due from brokers, margin accounts, payables and due to brokers approximate their fair values due to their short-term nature.

The financial instruments not measured at FVTPL include:

i. Cash and cash equivalents, balances due from/to brokers and receivables/payables under sale and repurchase agreements. These are short-term financial assets and financial liabilities whose carrying amounts approximate fair value, because of their short-term nature and the high credit quality of counterparties; and

ii. Net assets attributable to unit holders. The Fund routinely redeems and issues the units at the amount equal to the proportionate share of net assets of the Fund at the time of redemption, calculated on a basis consistent with that used in these financial statements. Accordingly, the carrying amount of net assets attributable to unitholders approximates their fair value.

5 Financial assets at fair value through profit or loss

	As at	
	30 June 2023	30 June 2022
	$'000	$'000
Derivatives	**594**	595
Unlisted unit trusts	**33,097**	32,708
International interest bearing securities	**398,544**	438,711
Term loans	**4,800**	12,826
Total financial assets at fair value through profit or loss	**437,035**	484,840

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

6 Financial liabilities at fair value through profit or loss

	As at	
	30 June 2023	30 June 2022
	$'000	$'000
Derivatives	**1,083**	7,035
Reverse repurchase agreements	**24,696**	57,389
Total financial liabilities at fair value through profit or loss	**25,779**	64,424

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

7 Derivative financial instruments

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

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

7 Derivative financial instruments (continued)

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

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

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

The Fund holds the following derivatives:

Forward currency contracts

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

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

As at 30 June 2023

	Contractual/ notional	**Assets**	**Liabilities**
	$'000	**$'000**	**$'000**
Forward currency contracts	**393,869**	**594**	**1,083**
Total derivatives	**393,869**	**594**	**1,083**

As at 30 June 2022

	Contractual/ notional	Assets	Liabilities
	$'000	$'000	$'000
Forward currency contracts	572,153	595	7,035
Total derivatives	572,153	595	7,035

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

8 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual arrangement.

The Fund considers all investments in managed investment schemes (the ″Schemes″) to be structured entities. The Fund invests in Schemes for the purpose of capital appreciation and/or earning investment income.

The exposure to investments in related party Schemes at fair value, and any related party amounts recognised in the statement of comprehensive income is disclosed at Note 18(i) to the financial statements.

9 Net assets attributable to unit holders - equity

Under AASB 132 *Financial Instruments: Presentation*, puttable financial instruments are classified as equity where certain criteria are met. The Fund shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions. The Fund's units are classified as equity as they meet the definition of a financial instrument to be classified as equity.

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

	Year ended			
	30 June 2023 Units '000	**30 June 2023 $'000**	30 June 2022 Units '000	30 June 2022 $'000
Opening balance	**460,243**	**426,023**	538,205	482,381
Redemptions	**-**	**-**	(118,610)	(110,000)
Reinvestment of distributions	**-**	**-**	40,648	36,432
Profit/(loss) for the year	**-**	**3,128**	-	17,210
Closing balance	**460,243**	**429,151**	460,243	426,023

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

There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

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

Capital risk management

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

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

10 Distributions to unit holders

There were no distributions declared for the year ended 30 June 2023 and 30 June 2022.

11 Cash and cash equivalents

	As at	
	30 June 2023	30 June 2022
	$'000	$'000
Cash at bank	**22,162**	27,255
Total cash and cash equivalents	**22,162**	27,255

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

	Year ended	
	30 June 2023	30 June 2022
	$'000	$'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Profit/(loss) for the year	**3,128**	17,210
Proceeds from sale of financial instruments at fair value through profit or loss	**566,273**	328,148
Payments for purchase of financial instruments at fair value through profit or loss	**(565,039)**	(296,596)
Net (gains)/losses on financial instruments at fair value through profit or loss	**28,042**	7,237
Net foreign exchange (gain)/loss	**229**	69
Distribution income reinvested	**(23)**	(2,891)
Net interest bought/(sold)	**(228)**	(590)
Net change in margin accounts	**(348)**	4,912
Net change in receivables	**321**	2,760
Net change in payables	**281**	194
Net cash inflow/(outflow) from operating activities	**32,636**	60,453
(b) Non-cash operating and financing activities		
The following distribution payments to unit holders were satisfied by the issue of units under the distribution reinvestment plan	**-**	36,432
The following purchases of investments were satisfied by the participation in dividend and distribution reinvestment plans	**23**	2,891
Total non-cash operating and financing activities	**23**	39,323

13 Receivables

	As at	
	30 June 2023	30 June 2022
	$'000	$'000
Interest receivable	**2,908**	3,037
GST receivable	**11**	138
Other receivables	**-**	65
Total receivables	**2,919**	3,240

14 Payables

	As at	
	30 June 2023	30 June 2022
	$'000	$'000
Interest payable	**373**	430
Management fees and costs payable	**837**	496
Redemptions payable	**-**	37,500
Withholding tax payable	**-**	3
Total payables	**1,210**	38,429

15 Due to brokers

The Fund received cash in advance totalling $11,902,713 (2022: $41,485,544) for interest bearing securities which matured before the end of the reporting period, however were subject to an extended loss development period. The extended loss development period is the period after the maturity date of the security whereby claims resulting from an event that occurred prior to the maturity date can be filed and verified. Given the remote nature of the risk of the potential losses in the period, it has been agreed that interest bearing securities to the value of $11,902,713 (2022: $41,585,544) are used as collateral for the cash advance. In the event where no additional claims are made, the bond collateral is returned to the Fund. The matured securities are recorded in amounts due from brokers and the cash in advance amounts are recorded in due to brokers.

16 Remuneration of auditors

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

	Year ended	
	30 June 2023	30 June 2022
	$	$
Deloitte Touche Tohmatsu		
Audit and other assurance services		
Audit of financial statements	**24,172**	22,140
Total auditor remuneration and other assurance services	**24,172**	22,140
Taxation services		
Tax compliance services	**8,251**	7,784
Total remuneration for taxation services	**8,251**	7,784
Total remuneration of Deloitte Touche Tohmatsu	**32,423**	29,924
PricewaterhouseCoopers		
Audit and other assurance services		
Audit of compliance plan	**2,346**	2,342
Total auditor remuneration and other assurance services	**2,346**	2,342
Total remuneration of PricewaterhouseCoopers	**2,346**	2,342

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

17 Other expenses

	Year ended	
	30 June 2023	30 June 2022
	$'000	$'000
Other expenses	**862**	697
Total other expenses	**862**	697

18 Related party transactions

The Responsible Entity of FCM Cat Fund Australia 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 Fermat Capital Management LLC to act as Investment Manager, State Street Australia Limited to act as Specialist Currency Manager, Custodian, Administrator and Registrar for the Fund. The contracts are on normal commercial terms and conditions.

(a) Key management personnel

(i) Directors

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

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

(ii) Responsible Entity

Other than fees paid to the Responsible Entity, there were no other transactions.

(iii) 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) Transactions with key management personnel

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

(c) Key management personnel unit holdings

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

(d) Key management personnel compensation

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

(e) Key management personnel loans

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

18 Related party transactions (continued)

(f) Other transactions within the Fund

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

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

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

	Year ended	
	30 June 2023	30 June 2022
	$	$
Management fees for the year	**4,151,014**	6,006,637
Responsible Entity fees for the year	**157,460**	221,641
Management fees payable at year end	**836,712**	495,600

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

The management fees borne by the Fund are paid to the Investment Manager, who in turn provides the on-payment of the fees to the respective service providers. Expense recoveries include Responsible Entity fees, Custodian and Administrator fees and other expenses.

(h) Related party unit holdings

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

(i) Investments

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

As at 30 June 2023	**Fair value of investment $**	**Interest held %**	**Distributions received* $**	**Distributions receivable $**	**Units acquired during the year**	**Units disposed during the year**
GAM FCM ILS Yield Fund	**33,097,361**	**13.02**	**23,176**	**-**	**21,376**	**-**

18 Related party transactions (continued)

(i) Investments (continued)

As at 30 June 2022	Fair value of investment $	Interest held %	Distributions received $	Distributions receivable $	Units acquired during the year	Units disposed during the year
GAM FCM ILS Yield Fund	32,708,576	21.22	-	-	2,576,157	-

*The distribution income was fully reinvested in the underlying fund

19 Events occurring after the reporting period

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

20 Contingent assets and liabilities and commitments

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

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) The financial statements and notes set out on pages 6 to 34 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its performance for the financial year ended on that date.

(b) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and

(c) Note 2(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

P.D. Gentry

Philip D Gentry
Chairman

Melbourne
24 October 2023

Deloitte.

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Independent Auditor's Report to the Unitholders of FCM Cat Fund Australia

Opinion

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

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

(i) giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

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

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

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

Other Information

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

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

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

Responsibilities of the Directors for the Financial Report

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

Deloitte.

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Jon Corbett
Partner
Chartered Accountants

Melbourne, 24 October 2023