

# **KFM Income Fund**

ARSN 126 274 575

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

# KFM Income Fund

ARSN 126 274 575

## Annual report For the year ended 30 June 2023

### 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 KFM Income Fund

This annual report covers KFM Income Fund as an individual entity.

The Responsible Entity of KFM Income Fund is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975).

The Responsible Entity's registered office is:

Level 1, 575 Bourke Street  
Melbourne, VIC 3000.

## Directors' report

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

### Principal activities

The Fund invests predominantly in high yielding securities listed on the Australian Securities Exchange, such as hybrid securities (fixed and floating), money market and fixed interest investments, property trusts, preference shares, utilities and infrastructure stocks and ordinary shares, particularly high yielding securities such as bank shares, as well as cash. Option strategies are used for generating income and asset protection. The Fund invests in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

The Fund did not have any employees during the year.

There were no 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	Kaplan Funds Management Pty Limited
Custodian and Administrator	National Australia Bank Limited
Statutory Auditor	Deloitte Touche Tohmatsu

### Directors

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

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

### Review and results of operations

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

The Fund's performance is calculated based on the percentage change in the Redemption Price in the Fund over the period (with any distributions paid during the period reinvested). Returns are disclosed after fees and expenses but before taxes.

The Fund's performance was 8.05% (net of fees) for the year ended 30 June 2023. The Fund's benchmark, the 1-year Bank Bill Swap Rate (BBSW) plus 4% returned 7.74% for the same period.

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

	<b>Year ended</b>	
	<b>30 June 2023</b>	<b>30 June 2022</b>
Profit/(loss) for the year (\$'000)	<b>1,086</b>	13
Distributions paid and payable (\$'000)	<b>905</b>	1,531
Distributions (cents per unit)	<b>5.0999</b>	6.5374

## Directors' report (continued)

### 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 Product Disclosure Statement and the provisions of the Fund's Constitution.

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

### Indemnification and insurance of officers

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

### Indemnification of auditor

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

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

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

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

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

### Interests in the Fund

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

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

### Environmental regulation

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

### Rounding of amounts to the nearest thousand dollars

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

## Directors' report (continued)

### Auditor's independence declaration

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

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



Philip D Gentry  
Chairman

Melbourne  
14 September 2023

14 September 2023

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

Dear Board Members,

#### **Independence Declaration – KFM Income Fund**

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

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

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

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Jonathon Corbett  
Partner  
Chartered Accountants

## Statement of comprehensive income

	Note	Year ended	
		30 June 2023 \$'000	30 June 2022 \$'000
<b>Investment income</b>			
Interest income from financial assets at fair value through profit or loss		46	20
Dividend income		496	474
Distribution income		268	313
Net gains/(losses) on financial instruments at fair value through profit or loss		389	(535)
Other income		<u>2</u>	<u>3</u>
<b>Total investment income/(loss)</b>		<u><b>1,201</b></u>	<u><b>275</b></u>
<b>Expenses</b>			
Management fees and costs	16	91	140
Performance fees	16	-	80
Transaction costs		15	16
Other expenses	14	<u>9</u>	<u>26</u>
<b>Total expenses</b>		<u><b>115</b></u>	<u><b>262</b></u>
<b>Profit/(loss) for the year</b>		<u><b>1,086</b></u>	<u><b>13</b></u>
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<u><b>1,086</b></u>	<u><b>13</b></u>

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

## Statement of financial position

	Note	As at	
		30 June 2023 \$'000	30 June 2022 \$'000
<b>Assets</b>			
Cash and cash equivalents	10	504	2,981
Receivables	12	84	99
Financial assets at fair value through profit or loss	5	<u>11,564</u>	<u>16,250</u>
<b>Total assets</b>		<u>12,152</u>	<u>19,330</u>
<b>Liabilities</b>			
Distributions payable	9	423	1,109
Due to brokers - payable for securities purchased		-	577
Payables	13	30	43
Financial liabilities at fair value through profit or loss	6	<u>41</u>	<u>143</u>
<b>Total liabilities</b>		<u>494</u>	<u>1,872</u>
<b>Net assets attributable to unit holders - equity</b>	8	<u>11,658</u>	<u>17,458</u>

*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
<b>Total equity at the beginning of the financial year</b>	8	<b>17,458</b>	14,740
<b>Comprehensive income for the financial year</b>			
Profit/(loss) for the year		1,086	13
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<u><b>1,086</b></u>	<u>13</u>
<b>Transactions with unit holders</b>			
Applications	8	2,996	7,676
Redemptions	8	(9,416)	(3,579)
Reinvestment of distributions	8	439	139
Distributions paid and payable	8	(905)	(1,531)
<b>Total transactions with unit holders</b>		<u><b>(6,886)</b></u>	<u>2,705</u>
<b>Total equity at the end of the financial year</b>		<u><b>11,658</b></u>	<u>17,458</u>

*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
<b>Cash flows from operating activities</b>			
Proceeds from sale of financial instruments at fair value through profit or loss		7,907	6,643
Payments for purchase of financial instruments at fair value through profit or loss		(3,511)	(9,089)
Interest income received from financial assets at fair value through profit or loss		43	20
Dividend received		494	474
Distribution received		284	313
Other income received		2	3
GST received/(paid)		4	5
Management fees and costs paid		(99)	(130)
Performance fees paid		-	(80)
Transaction costs paid		(15)	(16)
Other expenses paid		(14)	(25)
<b>Net cash inflow/(outflow) from operating activities</b>	11(a)	<u>5,095</u>	<u>(1,882)</u>
<b>Cash flows from financing activities</b>			
Proceeds from applications by unit holders		2,996	7,676
Payments for redemptions by unit holders		(9,416)	(3,579)
Distributions paid to unit holders		(1,152)	(382)
<b>Net cash inflow/(outflow) from financing activities</b>		<u>(7,572)</u>	<u>3,715</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>(2,477)</u>	<u>1,833</u>
Cash and cash equivalents at the beginning of the year		<u>2,981</u>	<u>1,148</u>
<b>Cash and cash equivalents at the end of the year</b>	10	<u>504</u>	<u>2,981</u>
Non-cash operating and financing activities	11(b)	439	139

*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	Fair value measurement
5	Financial assets at fair value through profit or loss
6	Financial liabilities at fair value through profit or loss
7	Derivative financial instruments
8	Net assets attributable to unit holders - equity
9	Distributions to unit holders
10	Cash and cash equivalents
11	Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities
12	Receivables
13	Payables
14	Other expenses
15	Remuneration of auditors
16	Related party transactions
17	Events occurring after the reporting period
18	Contingent assets and liabilities and commitments

## 1 General information

These financial statements cover KFM Income Fund (the "Fund") as an individual entity. The Fund is an Australian registered managed investment scheme which was constituted on 12 July 2007 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 predominantly in high yielding securities listed on the Australian Securities Exchange, such as hybrid securities (fixed and floating), money market and fixed interest investments, property trusts, preference shares, utilities and infrastructure stocks and ordinary shares, particularly high yielding securities such as bank shares, as well as cash. Option strategies are used for generating income and asset protection. The Fund invests in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

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

## 2 Summary of significant accounting policies

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

### (a) Basis of preparation

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

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

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

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

In the case of net assets attributable to unit holders, the units are redeemable on demand at the unit 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, amendments and interpretations not yet adopted*

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

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

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

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

#### *i. Classification*

- Financial assets

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

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

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

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

For equity securities 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 both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business objective. Consequently, the debt securities are measured at fair value through profit or loss.

For cash and cash equivalents and receivables, these assets are held in order to collect the contractual cash flows. The contractual terms of these assets give rise on specified dates, to cash flow 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 (distributions payable, due to brokers - payable for securities purchased, and payables).

#### *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 their fair value. Transaction costs of financial assets and liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive income.

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

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

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

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

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, payables and due to brokers are carried at amortised cost.

#### *iv. Impairment*

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

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

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

#### *v. Offsetting financial instruments*

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

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

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

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

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) 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 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. Dividends and distributions*

Dividend income is recognised on the ex-dividend date. The Fund only invests in domestic securities, hence no foreign withholding tax is incurred.

Trust distributions are recognised on an entitlement basis.

### **(f) Expenses**

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

The management fees and costs cover certain ordinary expenses such as Responsible Entity fees, investment management fees (other than the performance fee), custodian fees, and administration and audit fees.

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

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

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

### **(h) Distributions**

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

### **(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.

### **(j) 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 the end of the year. The due from brokers balance is held for collection and is recognised initially at fair value and subsequently measured at amortised cost.

### **(k) Receivables**

Receivables may include amounts for interest, dividends 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 the Fund and any distributions declared which are unpaid as at the end of the reporting period.

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

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

### **(o) 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.

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

### **(p) 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.

### **(q) 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 and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Constitution, the 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.

All investments present a risk of loss of capital. The maximum loss of capital on long equity and debt securities is limited to the fair value of those positions.

The investments of the Fund, and associated risk, are managed by a specialist Investment Manager, Kaplan Funds Management Pty Limited 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 Investment Manager's approach to reducing financial risk is largely through adjustments to asset allocation. At the security level the focus is on stability of income and credit holdings by investment grade issuers. The buy and write strategy controls price risk through selection of appropriate option strike prices and maturities. The Fund is denominated in Australian dollar and is not exposed to currency risk. The Fund's liquidity profile is tested annually.

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 equity securities and debt securities listed or quoted on recognised securities exchanges. Price risk arises from investments held by the Fund for which prices in the future are uncertain.

Price risk is managed by the Investment Manager. The Investment Manager mitigates price risk through diversification and a careful selection of securities and other financial instruments in accordance with the investment mandate of the Fund.

The Fund's overall market positions are monitored on a regular basis by the Investment Manager. This information and the compliance with the Fund's Product Disclosure Statement are reported to the Investment Manager's compliance manager and other key management personnel.

The table at Note 3(b) 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% (2022:+/- 10%)

#### *ii. 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 fluctuation in the prevailing market interest rate on its financial position and cash flows. The risk is measured using sensitivity analysis.

The Fund's main interest rate risk arises from its investment in floating rate notes and convertible notes.

### 3 Financial risk management (continued)

#### ii. Interest rate risk (continued)

Interest rate risk is managed by the Investment Manager. The Investment Manager takes into account its assessment of market interest rates to determine the mix between fixed and floating rate securities in the portfolio.

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

	Floating interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>As at 30 June 2023</b>			
<b>Financial assets</b>			
Cash and cash equivalents	504	-	504
Receivables	-	84	84
Financial assets at fair value through profit or loss	<u>578</u>	<u>10,986</u>	<u>11,564</u>
<b>Total financial assets</b>	<u>1,082</u>	<u>11,070</u>	<u>12,152</u>
<b>Financial liabilities</b>			
Distributions payable	-	423	423
Payables	-	30	30
Financial liabilities at fair value through profit or loss	<u>-</u>	<u>41</u>	<u>41</u>
<b>Total financial liabilities</b>	<u>-</u>	<u>494</u>	<u>494</u>
<b>Net exposure</b>	<u>1,082</u>	<u>10,576</u>	<u>11,658</u>
<b>As at 30 June 2022</b>			
<b>Financial assets</b>			
Cash and cash equivalents	2,981	-	2,981
Receivables	-	99	99
Financial assets at fair value through profit or loss	<u>570</u>	<u>15,680</u>	<u>16,250</u>
<b>Total financial assets</b>	<u>3,551</u>	<u>15,779</u>	<u>19,330</u>
<b>Financial liabilities</b>			
Distributions payable	-	1,109	1,109
Due to brokers - payable for securities purchased	-	577	577
Payables	-	43	43
Financial liabilities at fair value through profit or loss	<u>-</u>	<u>143</u>	<u>143</u>
<b>Total financial liabilities</b>	<u>-</u>	<u>1,872</u>	<u>1,872</u>
<b>Net exposure</b>	<u>3,551</u>	<u>13,907</u>	<u>17,458</u>

The table at Note 3(b) summarises the impact of an increase/decrease in interest rates on the Fund's operating profit and net assets attributable to unit holders through changes in fair value or changes in future cash flows. The analysis is based on the reasonably possible shift that the interest rates changed by +/- 25 basis points (2022: +/- 25 basis points) from the year end rates with all other variables held constant.

### 3 Financial risk management (continued)

#### (b) Summarised sensitivity analysis

The following table summarises the sensitivities 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 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 profit/net assets attributable to unit holders**

	Price risk		Interest rate risk	
	+10%	-10%	+25bps	-25bps
	\$'000	\$'000	\$'000	\$'000
<b>As at 30 June 2023</b>	<b>1,095</b>	<b>(1,095)</b>	<b>3</b>	<b>(3)</b>
As at 30 June 2022	1,414	(1,254)	-	-

#### (c) Credit risk

Credit risk is the risk that a counterparty will be unable or unwilling to pay amounts in full when due.

The Fund is exposed to credit risk from its investments in listed debt securities and money market securities. The Manager mitigates the Fund's credit risk arising from these investments by:

- investing only in money market securities issued by the major domestic banks;
- undertaking thorough research before investing in any listed debt securities; and
- diversifying its portfolio of debt securities.

The Fund is also exposed to credit risk from its cash deposits with banks and amounts due from brokers. None of these assets are impaired nor past due but not impaired.

Concentrations of credit risk are minimised primarily by:

- ensuring counterparties are approved;
- ensuring that transactions are undertaken with a number of counterparties; and
- ensuring that the majority of transactions are undertaken on recognised exchanges.

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

The carrying amounts of financial assets best represent the maximum credit risk exposure at the Statement of financial position date.

##### *i. Debt securities*

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

### 3 Financial risk management (continued)

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

An analysis of debt by rating is set out in the table below.

	BBB+ \$'000	Unrated \$'000	Total \$'000
<b>As at 30 June 2023</b>			
Financial assets at fair value through profit or loss			
Floating rate notes	<u>176</u>	<u>402</u>	<u>578</u>
<b>Total</b>	<b><u>176</u></b>	<b><u>402</u></b>	<b><u>578</u></b>

	BBB+ \$'000	Unrated \$'000	Total \$'000
<b>As at 30 June 2022</b>			
Financial assets at fair value through profit or loss			
Floating rate notes	<u>164</u>	<u>406</u>	<u>570</u>
<b>Total</b>	<b><u>164</u></b>	<b><u>406</u></b>	<b><u>570</u></b>

#### ii. Derivative financial instruments

For derivative financial instruments, the Investment Manager has established limits such that, at any time, less than 10% of the fair value of favourable contracts outstanding are with any individual counterparty.

The Fund also restricts its exposure to credit losses on the trading of derivative instruments it holds by entering into master netting arrangements with counterparties (approved brokers) with whom it undertakes a significant volume of transactions. Master netting arrangements do not result in an offset of financial assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are closed and settled on a net basis. The Fund's overall exposure to credit risk on derivative instruments subject to a master netting arrangement can change substantially within a short period, as it is affected by each transaction subject to the arrangements. As at 30 June 2023, the Fund had no master netting arrangements (30 June 2022: nil).

#### iii. Settlement of securities transactions

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

#### iv. Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of AA- (as determined by Standard & Poor's Ratings Services) or higher.

#### v. Other

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

#### (d) Liquidity risk

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

Exposure to liquidity risk for the Fund may arise from the requirement to meet daily unit holder redemption requests.

The Investment Manager monitors the Fund's liquidity position on a regular basis. The information and the compliance with the Fund's policy are reported to the Investment Manager's compliance manager and other key management personnel.

### 3 Financial risk management (continued)

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

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.

##### *ii. Maturities of gross settled derivative financial instruments*

The table below analyses the Fund's gross 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 \$'000	1 to 6 months \$'000	6 to 12 months \$'000	Over 12 months \$'000	Total \$'000
<b>As at 30 June 2023</b>					
Australian exchange traded options					
Inflows	-	-	-	-	-
(Outflows)	-	(41)	-	-	(41)
<b>Total gross settled derivatives</b>	<b>-</b>	<b>(41)</b>	<b>-</b>	<b>-</b>	<b>(41)</b>
<b>At as 30 June 2022</b>					
Australian exchange traded options					
Inflows	-	-	-	-	-
(Outflows)	-	(138)	(5)	-	(143)
<b>Total gross settled derivatives</b>	<b>-</b>	<b>(138)</b>	<b>(5)</b>	<b>-</b>	<b>(143)</b>

### 4 Fair value measurement

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

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

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

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

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

The Fund values its investments in accordance with the accounting policies set out in Note 2 to the financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

## 4 Fair value measurement (continued)

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

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives, interest bearing securities, and listed equity securities) are based on quoted market prices at the close of trading at the end of the reporting period without any deduction for estimated future selling costs.

The quoted market price used for financial assets held by the Fund is the current bid price; the quoted market price for financial liabilities is the current asking price. When the Fund holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

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

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

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

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

### (c) Recognised fair value measurements

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>As at 30 June 2023</b>				
<b>Financial assets</b>				
Australian listed equity securities	10,986	-	-	10,986
Debt securities	578	-	-	578
<b>Total financial assets</b>	<b>11,564</b>	<b>-</b>	<b>-</b>	<b>11,564</b>
<b>Financial liabilities</b>				
Australian exchange traded options	41	-	-	41
<b>Total financial liabilities</b>	<b>41</b>	<b>-</b>	<b>-</b>	<b>41</b>
<b>As at 30 June 2022</b>				
<b>Financial assets</b>				
Australian listed equity securities	15,130	550	-	15,680
Debt securities	570	-	-	570
<b>Total financial assets</b>	<b>15,700</b>	<b>550</b>	<b>-</b>	<b>16,250</b>
<b>Financial liabilities</b>				
Australian exchange traded options	143	-	-	143
<b>Total financial liabilities</b>	<b>143</b>	<b>-</b>	<b>-</b>	<b>143</b>

### (d) Transfer between levels

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

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

## 4 Fair value measurement (continued)

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

The carrying values of cash and cash equivalents, receivables, due to brokers - payable for securities purchased, and payables approximate their fair values due to their short-term nature.

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

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
Australian listed equity securities	7,978	12,057
Australian trust securities	3,008	3,623
Debt securities	578	570
<b>Total financial assets at fair value through profit or loss</b>	<b>11,564</b>	<b>16,250</b>

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

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

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
Australian exchange traded options	41	143
<b>Total financial liabilities at fair value through profit or loss</b>	<b>41</b>	<b>143</b>

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

## 7 Derivative financial instruments

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

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

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

- hedging to protect an asset or liability of the Fund against a fluctuation in market values, 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.

## 7 Derivative financial instruments (continued)

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

The Fund holds the following derivatives:

### Options

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

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

	<b>Contractual/ notional \$'000</b>	<b>Assets \$'000</b>	<b>Liabilities \$'000</b>
<b>As at 30 June 2023</b>			
Australian exchange traded options	<u>1,284</u>	<u>-</u>	<u>41</u>
<b>Total derivatives</b>	<u>1,284</u>	<u>-</u>	<u>41</u>
<b>As at 30 June 2022</b>			
Australian exchange traded options	<u>2,765</u>	<u>-</u>	<u>143</u>
<b>Total derivatives</b>	<u>2,765</u>	<u>-</u>	<u>143</u>

Information about the Fund's exposure to credit risk and 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 financial year is the carrying amount of each class of derivative financial instruments disclosed above.

## 8 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:

	<b>Year ended</b>		<b>Year ended</b>	
	<b>30 June 2023 Units '000</b>	<b>30 June 2022 Units '000</b>	<b>30 June 2023 \$'000</b>	<b>30 June 2022 \$'000</b>
Opening balance	<b>23,691</b>	18,503	<b>17,458</b>	14,740
Applications	<b>3,944</b>	9,359	<b>2,996</b>	7,676
Redemptions	<b>(12,375)</b>	(4,340)	<b>(9,416)</b>	(3,579)
Reinvestment of distributions	<b>590</b>	169	<b>439</b>	139
Distributions paid and payable	-	-	<b>(905)</b>	(1,531)
Profit/(loss) for the year	-	-	<b>1,086</b>	13
<b>Closing balance</b>	<u><b>15,850</b></u>	<u>23,691</u>	<u><b>11,658</b></u>	<u>17,458</u>

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

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. The amount of net assets attributable to unit holders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unit holders.

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

## 9 Distributions to unit holders

The distributions declared during the year were as follows:

	Year ended		Year ended	
	30 June 2023 \$'000	30 June 2023 CPU	30 June 2022 \$'000	30 June 2022 CPU
<b>Distributions</b>				
September	177	0.8576	92	0.3893
December	165	0.8034	172	0.7590
March	140	0.7713	158	0.7078
June (payable)	423	2.6676	1,109	4.6813
<b>Total distributions</b>	<b>905</b>	<b>5.0999</b>	<b>1,531</b>	<b>6.5374</b>

## 10 Cash and cash equivalents

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
Cash at bank	504	2,981
<b>Total cash and cash equivalents</b>	<b>504</b>	<b>2,981</b>

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

	Year ended	
	30 June 2023 \$'000	30 June 2022 \$'000
<b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Profit/(loss) for the year	1,086	13
Proceeds from sale of financial instruments at fair value through profit or loss	7,907	6,643
Payments for purchase of financial instruments at fair value through profit or loss	(3,511)	(9,089)
Net (gains)/losses on financial instruments at fair value through profit or loss	(389)	535
Net change in receivables	15	5
Net change in payables	(13)	11
<b>Net cash inflow/(outflow) from operating activities</b>	<b>5,095</b>	<b>(1,882)</b>

### (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

	<u>439</u>	<u>139</u>
<b>Total non-cash operating and financing activities</b>	<b>439</b>	<b>139</b>

## 12 Receivables

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
Dividends and distributions receivable	70	84
GST receivable	7	11
Interest receivable	7	4
<b>Total receivables</b>	<b>84</b>	<b>99</b>

## 13 Payables

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
Management fees and costs payable	30	38
Other expenses payable	-	5
<b>Total payables</b>	<b>30</b>	<b>43</b>

## 14 Other expenses

	Year ended	
	30 June 2023 \$'000	30 June 2022 \$'000
Other expenses	9	18
Legal fees	-	8
<b>Total other expenses</b>	<b>9</b>	<b>26</b>

## 15 Remuneration of auditors

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

	Year ended	
	30 June 2023	30 June 2022
	\$	\$
<b>Deloitte Touche Tohmatsu</b>		
<i>Audit and other assurance services</i>		
Audit of financial statements	11,791	10,800
Total auditor remuneration and other assurance services	11,791	10,800
<i>Taxation services</i>		
Tax compliance services	7,685	7,250
Total remuneration for taxation services	7,685	7,250
<b>Total remuneration of Deloitte Touche Tohmatsu</b>	<b>19,476</b>	<b>18,050</b>
<b>PricewaterhouseCoopers</b>		
<i>Audit and other assurance services</i>		
Audit of compliance plan	2,346	2,346
Total auditor remuneration and other assurance services	2,346	2,346
<b>Total remuneration of PricewaterhouseCoopers</b>	<b>2,346</b>	<b>2,346</b>

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

## 16 Related party transactions

The Responsible Entity of KFM Income 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 Kaplan Funds Management Pty Limited, to act as Investment Manager and National Australia Bank Limited to act as Custodian and Administrator for the Fund. The contracts are on normal commercial terms and conditions.

### (a) Key management personnel

#### i. Directors

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

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

#### ii. 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.

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

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

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

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

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

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

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

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

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

### **(f) Other transactions within the Fund**

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

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

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 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:

	<b>Year ended</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
Management fees and costs for the year	<b>90,923</b>	139,706
Performance fees for the year	-	79,594
Management fees and costs payable at year end	<b>29,782</b>	37,630

For information on how management and performance fees are calculated please refer to the Fund's Product Disclosure Statement.

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.

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

Equity Trustees Limited earned \$31,458 (2022: \$30,000) for Responsible Entity services to the Fund paid from management fees and costs.

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

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

### **(i) Investments**

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

## **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 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.

## **18 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 28 are in accordance with the *Corporations Act 2001*, including:
  - i. complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - ii. giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its performance for the financial year ended on that date.
- (b) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (c) Note 2(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Philip D Gentry  
Chairman

Melbourne  
14 September 2023

## Independent Auditor's Report to the Unit Holders of KFM Income Fund

### *Opinion*

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

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

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

### *Basis for Opinion*

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

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

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

### *Other Information*

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

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

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

### *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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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



DELOITTE TOUCHE TOHMATSU



Jonathon Corbett  
Partner  
Chartered Accountants  
Melbourne, 14 September 2023