

# **MELLING CAPITAL MANAGEMENT DYNAMIC VOLATILITY FUND**

ARSN 617 841 040

**GENERAL PURPOSE FINANCIAL REPORT  
FOR THE PERIOD 1 JULY 2021 TO 1 MARCH 2022**

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## GENERAL PURPOSE FINANCIAL REPORT FOR THE PERIOD 1 JULY 2021 TO 1 MARCH 2022

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This annual report covers Melling Capital Management Dynamic Volatility Fund as an individual entity.

The Responsible Entity of Melling Capital Management Dynamic Volatility 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, Victoria 3000.

## DIRECTORS' REPORT

The directors of Equity Trustees Limited, the Responsible Entity of Melling Capital Management Dynamic Volatility Fund (the "Fund"), present their report together with the financial statements of the Fund for the period 1 July 2021 to 1 March 2022.

### Principal activities

Until its termination on 1 March 2022, the Fund invested primarily in managed funds (listed and unlisted), Exchange Traded Funds (ETFs) and cash in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

During the period, all assets of the Fund were liquidated and returned to unit holders.

The Fund did not have any employees during the period.

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

The various service providers for the Fund are detailed below:

Service	Provider
Responsible Entity	Equity Trustees Limited
Investment Manager	Melling Capital Management Pty Ltd
Administrator and Custodian	Mainstream Fund Services Pty Ltd (an Apex Group Company)
Statutory Auditor	Ernst & Young

### Directors

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

Philip D Gentry	Chairman
Michael J O'Brien	
Russell W Beasley	

### Review and results of operations

These are the final financial statements of the Fund, which has terminated.

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

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

	For the period 1 July 2021 to 1 March 2022	Year ended 30 June 2021
Profit/(loss) before finance costs attributable to unit holders for the period (\$)	<b>17,323</b>	1,059,330
Distributions paid and payable (\$)	<b>776,746</b>	232,128
Distributions (cents per unit)	<b>13.67</b>	3.74

### Significant changes in the state of affairs

The Fund terminated on 1 March 2022 when all unit holders' entitlements were redeemed.

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

## DIRECTORS' REPORT (CONTINUED)

### Matters subsequent to the end of the period

No matter or circumstance has arisen since 1 March 2022 that has significantly affected, or may have a significant effect on:

- i. the operations of the Fund; or
- ii. the results of those operations; or
- iii. the state of affairs of the Fund.

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

### 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 period are disclosed in Note 15 to the financial statements.

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

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the period are disclosed in Note 15 to the financial statements.

### Interests in the Fund

The movement in units on issue in the Fund during the period is disclosed in Note 7 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 a Commonwealth, State or Territory law.

### Rounding of amounts to the nearest dollar

Amounts in the Directors' report have been rounded to the nearest dollar 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 4.

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  
6 September 2022



**Building a better  
working world**

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## **Auditor's independence declaration to the directors of Equity Trustees Limited as Responsible Entity for Melling Capital Management Dynamic Volatility Fund**

As lead auditor for the audit of the financial report Melling Capital Management Dynamic Volatility Fund for the financial period ended 1 March 2022, I declare to the best of my knowledge and belief, there have been:

- a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;
- b. No contraventions of any applicable code of professional conduct in relation to the audit; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

Ernst & Young

Rohit Khanna  
Partner  
6 September 2022

Melling Capital Management Dynamic Volatility Fund  
Statement of comprehensive income  
For the period 1 July 2021 to 1 March 2022

**STATEMENT OF COMPREHENSIVE INCOME**

		For the period 1 July 2021 to 1 March 2022	Year ended 30 June 2021
	Note	\$	\$
<b>Investment income</b>			
Distribution income		2,248	160,042
Net gains/(losses) on financial instruments at fair value through profit or loss		60,425	1,043,988
<b>Total investment income/(loss)</b>		<b>62,673</b>	<b>1,204,030</b>
<b>Expenses</b>			
Management costs	15	19,559	67,475
Performance fees	15	-	53,420
Other expenses	14	25,791	23,805
<b>Total expenses</b>		<b>45,350</b>	<b>144,700</b>
<b>Profit/(loss) before finance costs attributable to unit holders for the period</b>		<b>17,323</b>	<b>1,059,330</b>
<b>Finance costs attributable to unit holders</b>			
Distributions to unit holders	8	(776,746)	(232,128)
(Increase)/decrease in net assets attributable to unit holders	7	759,423	(827,202)
<b>Profit/(loss) for the period</b>		<b>-</b>	<b>-</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>

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

**STATEMENT OF FINANCIAL POSITION**

	Note	1 March 2022 \$	As at 30 June 2021 \$
<b>Assets</b>			
Cash and cash equivalents	9	-	3,518,939
Receivables	11	-	99,745
Due from brokers – receivable for securities sold		-	487,373
Financial assets at fair value through profit or loss	5	-	3,473,141
<b>Total assets</b>		-	<b>7,579,198</b>
<b>Liabilities</b>			
Distributions payable	8	-	232,128
Payables	12	-	527,907
<b>Total liabilities (excluding net assets attributable to unit holders)</b>		-	<b>760,035</b>
<b>Net assets attributable to unit holders - liability</b>	<b>7</b>	-	<b>6,819,163</b>

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

**STATEMENT OF CHANGES IN EQUITY**

	For the period 1 July 2021 to 1 March 2022 \$	Year ended 30 June 2021 \$
<b>Total equity at the beginning of the period</b>	-	-
<b>Comprehensive income for the period</b>		
Profit/(loss) for the period	-	-
Other comprehensive income	-	-
<b>Total comprehensive income</b>	-	-
Transactions with owners in their capacity as owners	-	-
<b>Total equity at the end of the period</b>	-	-

Under Australian Accounting Standards, net assets attributable to unit holders are classified as a liability rather than equity. As a result there was no equity at the end of the period.

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

Melling Capital Management Dynamic Volatility Fund  
Statement of cash flows  
For the period 1 July 2021 to 1 March 2022

STATEMENT OF CASH FLOWS

	Note	For the period 1 July 2021 to 1 March 2022 \$	Year ended 30 June 2021 \$
<b>Cash flows from operating activities</b>			
Proceeds from sale of financial instruments at fair value through profit or loss		4,060,697	3,022,896
Payments for purchase of financial instruments at fair value through profit or loss		(39,758)	(82,653)
Distributions received		99,904	360,895
Management costs paid		(47,795)	(54,824)
Performance fees paid		(53,420)	-
Other expenses paid		(26,728)	(25,208)
<b>Net cash inflow/(outflow) from operating activities</b>	10(a)	<b>3,992,900</b>	<b>3,221,106</b>
<b>Cash flows from financing activities</b>			
Payments for redemptions by unit holders		(6,735,093)	(661,080)
Distributions paid to unit holders		(776,746)	(11,066)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(7,511,839)</b>	<b>(672,146)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(3,518,939)</b>	<b>2,548,960</b>
Cash and cash equivalents at the beginning of the period		3,518,939	969,979
<b>Cash and cash equivalents at the end of the period</b>	9	<b>-</b>	<b>3,518,939</b>
Non-cash operating and financing activities	10(b)	232,128	102,745

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

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## 1. GENERAL INFORMATION

These financial statements cover Melling Capital Management Dynamic Volatility Fund (the "Fund") as an individual entity. The Fund is an Australian registered managed investment scheme which was constituted on 9 June 2015. The Fund terminated its operations on 1 March 2022 when all assets of the Fund were realised and all units were redeemed out of the Fund.

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.

Until its termination on 1 March 2022, the Fund invested primarily in managed funds (listed and unlisted), Exchange Traded Funds (ETFs) and cash 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 periods 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.

As the Fund was terminated on 1 March 2022, the going concern basis of preparation is no longer appropriate and the financial statements have been prepared on a liquidation basis. The liquidation basis means assets have been written down to the lower of their carrying amounts and net realisable value and additional liabilities have been recognised to the extent there was a present obligation at the reporting date. The accounting policies set out below have been applied within this context. As there were no assets or liabilities at the reporting date, adopting the liquidation basis did not change the carrying amounts of any assets or liabilities. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current.

#### 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 period beginning 1 July 2021 that have a material impact on the amounts recognised in the prior periods or will affect the current or future

### b. Financial instruments

#### i. Classification

- Financial assets

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

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

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

The Fund's portfolio of financial assets is managed and performance is evaluated on a fair value basis in accordance with 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 unlisted unit trusts, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments are measured at fair value through profit or loss.

For cash and cash equivalents and receivables, these assets are held in order to collect the contractual cash flows and 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.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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

- 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, management costs payable, performance fees payable and other expenses 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. 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.

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 and receivables are carried at amortised cost.

#### **iv. Impairment**

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

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

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

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

#### **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 are classified as financial liabilities as the Fund is required to distribute its distributable income in accordance with the Fund's Constitution.

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.

Net assets attributable to unitholders as at 1 March 2022 was nil.

#### **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 represent the Fund's main income generating activity.

Cash and cash equivalents as at 1 March 2022 was nil.

### **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.

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

#### **ii. Distributions**

Trust distributions are recognised on an entitlement basis.

### **f. Expenses**

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

As per the Fund's Product Disclosure Statement (PDS), ordinary expenses such as investment management fees, Responsible Entity fees, custodian and administration fees, audit fees, and other ordinary expenses of operating the Fund are covered by the management costs.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **g. Income tax**

Under current legislation, the Fund is not subject to income tax provided it distributes the entirety of its taxable income to its unit holders on present entitlement basis.

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.

### **h. Distributions**

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

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

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

### **j. Foreign currency translation**

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

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

#### **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 the end of the period. 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 daily basis. Amounts are generally received within 30 days of being recorded as receivables.

#### **m. Payables**

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

A separate distributions 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 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 period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund's financial instruments, quoted market prices are readily available. 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 dollar unless otherwise indicated.

## **3. FINANCIAL RISK MANAGEMENT**

The Fund held no assets or liabilities at the end of the period. As a result, the Fund was not exposed to market risk, credit risk and liquidity risk as at 1 March 2022.

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 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 securities and unlisted unit trusts is limited to the fair value of those positions.

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

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

### **a. Market risk**

#### **i. Price risk**

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

The Investment Manager mitigates this price risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the Board. The Fund's overall market positions are monitored on a daily basis by the Fund's Investment Manager.

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 investment portfolio in which the Fund invests moves by +/-10% (2021: +/-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.

### 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### a. Market risk (continued)

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

The Fund's interest bearing financial instruments expose it to risks associated with the effects of fluctuations in the prevailing market interest rates on its financial position and cash flows. The impact of the interest rate risk on profit and net assets attributable to unit holders is considered immaterial to the Fund.

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, interest rates and the historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market movements resulting from changes in the performance of and/or correlation between the performances of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variances in the risk variables.

	Impact on operating profit/ net assets attributable to unit holders	
	Price risk	
	+10%	-10%
	\$	\$
As at 30 June 2021	347,314	(347,314)

As at 1 March 2022, the Fund did not hold any assets or liabilities and as such there was no exposure to price risk.

#### 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 1 March 2022, the Fund did not hold any assets and had no credit risk exposure.

#### 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 Fund invests in unlisted managed investment funds and other financial instruments. Investments in unlisted managed investment funds expose the Fund to the risk that the Responsible Entity of those funds may be unwilling or unable to fulfil redemption requests within the timeframe required by the Fund. At 1 March 2022, there were no financial assets at fair value through profit or loss where the Responsible Entity has suspended redemptions due to a lack of liquidity in its underlying funds (30 June 2021: nil).

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 2022 and 2021.

### 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### d. Liquidity risk (continued)

##### 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.

### 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 at fair value through profit or loss (see Note 5)

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.

The Fund held no financial assets or financial liabilities as at 1 March 2022.

#### 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.

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. Recognised fair value measurements

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

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
As at 30 June 2021				
Financial assets				
Unlisted unit trusts	-	3,473,141	-	3,473,141
<b>Total financial assets</b>	<b>-</b>	<b>3,473,141</b>	<b>-</b>	<b>3,473,141</b>

The Fund held no financial assets or financial liabilities as at 1 March 2022.

#### c. 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.

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

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

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

## 5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at	
	1 March 2022	30 June 2021
	\$	\$
Unlisted unit trusts	-	3,473,141
<b>Total financial assets at fair value through profit or loss</b>	<b>-</b>	<b>3,473,141</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. 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 unrelated Schemes at fair value is disclosed in the following table:

	Fair value of investment	
	1 March 2022	30 June 2021
	\$	\$
Unlisted unit trusts	-	3,473,141
<b>Total unrelated Schemes</b>	<b>-</b>	<b>3,473,141</b>

The fair value of the Schemes is included in financial assets at fair value through profit or loss in the statement of financial position.

The Fund's maximum exposure to loss from its interest in the Schemes is equal to the fair value of its investments in the Schemes as there are no off-balance sheet exposures relating to any of the Schemes. Once the Fund has disposed of its units in a Scheme it ceases to be exposed to any risk from that Scheme.

During the period 1 July 2021 to 1 March 2022, total gains/(losses) incurred on investments in the Schemes were \$60,425 (2021: \$1,043,988). The Fund also earned distribution income of \$2,248 (2021: \$160,042) as a result of its interests in the Schemes.

## 7. NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS - LIABILITY

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

	For the period		Year ended	
	1 July 2021 to 1 March 2022 Units	1 July 2021 to 1 March 2022 \$	30 June 2021 Units	30 June 2021 \$
Opening balance	6,211,186	6,819,163	7,113,054	6,993,521
Redemptions	(6,422,616)	(6,291,868)	(1,006,369)	(1,104,305)
Reinvestment of distributions	211,430	232,128	104,501	102,745
Increase/(decrease) in net assets attributable to unit holders	-	(759,423)	-	827,202
<b>Closing balance</b>	<b>-</b>	<b>-</b>	<b>6,211,186</b>	<b>6,819,163</b>

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

There are 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 holder's option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within twelve months after the end of the reporting period cannot be reliably determined.

## 7. NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS - LIABILITY (CONTINUED)

### Capital risk management

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

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

## 8. DISTRIBUTIONS TO UNIT HOLDERS

The distributions declared during the period were as follows:

	For the period		Year ended	
	1 July 2021 to 1 March 2022 \$	1 July 2021 to 1 March 2022 CPU	30 June 2021 \$	30 June 2021 CPU
<b>Distributions</b>				
February	776,746	13.67	-	-
June (payable)	-	-	232,128	3.74
<b>Total distributions</b>	<b>776,746</b>	<b>13.67</b>	<b>232,128</b>	<b>3.74</b>

## 9. CASH AND CASH EQUIVALENTS

	As at	
	1 March 2022 \$	30 June 2021 \$
Cash at bank	-	3,518,939
<b>Total cash and cash equivalents</b>	<b>-</b>	<b>3,518,939</b>

The bank account was closed on 1 March 2022.

## 10. RECONCILIATION OF PROFIT/(LOSS) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

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

	For the period	
	1 July 2021 to 1 March 2022 \$	Year ended 30 June 2021 \$
Profit/(loss) for the period	-	-
Increase/(decrease) in net assets attributable to unit holders	(759,423)	827,202
Distributions to unit holders	776,746	232,128
Proceeds from sale of financial instruments at fair value through profit or loss	4,060,697	3,022,896
Payments for purchase of financial instruments at fair value through profit or loss	(39,758)	(82,653)
Net (gains)/losses on financial instruments at fair value through profit or loss	(60,425)	(1,043,988)
Net change in receivables	99,745	199,540
Net change in payables	(84,682)	65,981
<b>Net cash inflow/(outflow) from operating activities</b>	<b>3,992,900</b>	<b>3,221,106</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

	232,128	102,745
<b>Total non-cash operating and financing activities</b>	<b>232,128</b>	<b>102,745</b>

## 11. RECEIVABLES

	As at	
	1 March 2022	30 June 2021
	\$	\$
Distributions receivable	-	97,656
GST receivable	-	2,089
<b>Total receivables</b>	-	99,745

## 12. PAYABLES

	As at	
	1 March 2022	30 June 2021
	\$	\$
Management costs payable	-	28,236
Performance fees payable	-	53,420
Redemptions payable	-	443,225
Other expenses payable	-	3,026
<b>Total payables</b>	-	527,907

## 13. REMUNERATION OF AUDITORS

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

	For the period	
	1 July 2021 to 1 March 2022	Year ended 30 June 2021
	\$	\$
<b>Ernst &amp; Young</b>		
<i>Audit and other assurance services</i>		
Audit of financial statements	15,022	13,782
<b>Total auditor remuneration for audit and other assurance services</b>	<b>15,022</b>	<b>13,782</b>
<i>Taxation services</i>		
Tax compliance services	8,245	7,563
<b>Total auditor remuneration for taxation services</b>	<b>8,245</b>	<b>7,563</b>
<b>Total remuneration of Ernst &amp; Young</b>	<b>23,267</b>	<b>21,345</b>
<b>PricewaterhouseCoopers</b>		
<i>Audit and other assurance services</i>		
Audit of compliance plan	-	1,803
<b>Total auditor remuneration for audit and other assurance services</b>	-	1,803
<b>Total remuneration of PricewaterhouseCoopers</b>	-	1,803

Auditors' remuneration for current period were borne by the Investment Manager. Fees are stated exclusive of GST.

## 14. OTHER EXPENSES

	For the period	
	1 July 2021 to 1 March 2022	Year ended 30 June 2021
	\$	\$
Audit fees	24,703	21,871
Other expenses	1,088	1,934
<b>Total other expenses</b>	<b>25,791</b>	<b>23,805</b>

## **15. RELATED PARTY TRANSACTIONS**

The Responsible Entity of Melling Capital Management Dynamic Volatility 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 Melling Capital Management Pty Ltd to act as Investment Manager for the Fund and Mainstream Fund Services Pty Ltd 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 includes persons who were directors of Equity Trustees Limited at any time during or since the end of the period and up to the date of this report.

Philip D Gentry	Chairman
Michael J O'Brien	
Russell W Beasley	

#### **ii. Responsible Entity**

Other than fees paid to the Responsibility 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 the activities of the Fund, directly or indirectly during the period.

### **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 of Melling Capital Management Pty Ltd and their associated entities hold nil units in the Fund as at 1 March 2022 (2021: 5,711,011 units).

### **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 the 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 period 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 is entitled to receive management fees. The Investment Manager is also entitled to a performance fee.

## 15. RELATED PARTY TRANSACTIONS (CONTINUED)

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

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

	For the period 1 July 2021 to 1 March 2022 \$	Year ended 30 June 2021 \$
Management costs for the period	19,559	67,475
Performance fees for the period	-	53,420
Management costs payable at period end	-	28,236
Performance fees payable at period end	-	53,420

Equity Trustees Limited earned \$17,145 (30 June 2021: \$69,232) for Responsible Entity services provided to the Fund, paid from management costs.

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

### 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) held no units in the Fund as at 1 March 2022 (30 June 2021: nil).

### i. Investments

The Fund did not hold any investments in Equity Trustees Limited or its related parties during the period (2021: nil).

## 16. EVENTS OCCURRING AFTER THE REPORTING PERIOD

No significant events have occurred since the end of the period which would impact on the financial position of the Fund as disclosed in the statement of financial position as at 1 March 2022 or on the results and cash flows of the Fund for the period ended on that date.

## 17. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

There were no outstanding contingent assets, liabilities or commitments as at 1 March 2022 and 30 June 2021.

## DIRECTORS' DECLARATION

In the opinion of the directors of the Responsible Entity:

- a. The financial statements and notes set out on pages 5 to 21 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 1 March 2022 and of its performance for the period ended on that date.
- b. As outlined in Note 1 to the financial statements, the Fund terminated its operations on 1 March 2022 and all units were redeemed out of the Fund.
- 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  
6 September 2022

## Independent Auditor's Report to the unitholders of Melling Capital Management Dynamic Volatility Fund

### Opinion

We have audited the financial report of Melling Capital Management Dynamic Volatility Fund (the "Fund"), which comprises the statement of financial position as at 1 March 2022, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period from 1 July 2021 to 1 March 2022, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a) giving a true and fair view of the Fund's financial position as at 1 March 2022 and of its financial performance for the period ended on that date; and
- b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### Basis for Opinion

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

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

### Emphasis of Matter

We draw attention to Note 2 of the financial report, which describes the basis of accounting. It is the Directors of the Responsible Entity of the Fund's intention to wind up the Fund prior to the next year end. As a result, the financial report has been on a basis other than going concern as described in Note 2. Our opinion is not modified in respect of this matter.

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

The Directors of the Responsible Entity are responsible for the other information. The other information is the directors' report accompanying the financial report.

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



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

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

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

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

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

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

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

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

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors of the Responsible Entity.



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- ▶ Conclude on the appropriateness of the Directors of the Responsible Entity of the Fund's 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 of the Responsible Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Ernst & Young*

Ernst & Young

Rohit Khanna  
Partner  
Sydney  
6 September 2022