

# **MFS Prudent Capital Trust**

ARSN 629 646 939

## **Annual report**

**For the year ended 30 June 2023**

# MFS Prudent Capital Trust

ARSN 629 646 939

## Annual report

### For the year ended 30 June 2023

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This annual report covers MFS Prudent Capital Trust as an individual entity.

The Responsible Entity of MFS Prudent Capital Trust 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 MFS Prudent Capital Trust (the "Trust"), present their report together with the financial statements of the Trust for the year ended 30 June 2023.

### Principal activities

The Trust invests in a diversified portfolio of global equity securities, debt securities, cash and cash equivalents and short-term government bonds, along with exposure to credit/bond securities in accordance with the Product Disclosure Statement and the provisions of the Trust's Constitution.

The Trust did not have any employees during the year.

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

The various service providers for the Trust are detailed below:

Service	Provider
Responsible Entity	Equity Trustees Limited
Investment Manager	MFS International Australia Pty Ltd
Custodian and Administrator	State Street Australia 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 Trust continued to invest its funds in accordance with the Product Disclosure Statement and the provisions of the Trust's Constitution.

The Trust's performance was 10.87% (net of fees) for the year ended 30 June 2023. The Trust's benchmark, the MSCI World Index (net dividends reinvested), unhedged, in AUD returned 22.43% for the same period.

The Trust's performance is calculated based on the percentage change in the Trust's redemption price over the year (with any distributions paid during the year reinvested). Returns are disclosed after fees and expenses.

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

	Year ended	
	30 June 2023	30 June 2022
Profit/(loss) for the year (\$'000)	3,402	(1,402)
Distributions paid and payable (\$'000)	1,186	-
Distributions (cents per unit)	4.19	-

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

### Likely developments and expected results of operations

The Trust 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 Trust's Constitution.

The results of the Trust's operations will be affected by a number of factors, including the performance of investment markets in which the Trust 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 Trust 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 Trust's Constitution and the Law, the officers remain indemnified out of the assets of the Trust against losses incurred while acting on behalf of the Trust.

### Indemnification of auditor

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

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

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

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

The number of interests in the Trust 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 Trust

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

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

## Directors' report (continued)

### Rounding of amounts to the nearest thousand dollars

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

### Auditor's independence declaration

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

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



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 – MFS Prudent Capital Trust**

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 MFS Prudent Capital Trust (the "Fund").

As lead audit partner for the audits 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

	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	368	315
Dividend and distribution income	343	336
Net foreign exchange gain/(loss)	46	179
Net gains/(losses) on financial instruments at fair value through profit or loss	3,007	(1,875)
Other income	-	1
<b>Total investment income/(loss)</b>	<u>3,764</u>	<u>(1,044)</u>
<b>Expenses</b>		
Management fees and costs	289	298
Withholding taxes	40	30
Transaction costs	28	22
Other expenses	5	8
<b>Total expenses</b>	<u>362</u>	<u>358</u>
<b>Profit/(loss) for the year</b>	<u>3,402</u>	<u>(1,402)</u>
Other comprehensive income	-	-
<b>Total comprehensive income for the year</b>	<u>3,402</u>	<u>(1,402)</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	11	51	2,116
Receivables	13	172	128
Due from brokers - receivable for securities sold		15	37
Financial assets at fair value through profit or loss	6	33,770	29,739
Margin accounts		12	-
<b>Total assets</b>		<u>34,020</u>	<u>32,020</u>
<b>Liabilities</b>			
Distributions payable	10	1,186	-
Payables	14	152	38
Due to brokers - payable for securities purchased		147	333
Financial liabilities at fair value through profit or loss	7	28	-
Margin accounts		-	7
<b>Total liabilities</b>		<u>1,513</u>	<u>378</u>
<b>Net assets attributable to unit holders - equity</b>		<u>32,507</u>	<u>31,642</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>		<b>31,642</b>	32,860
<b>Comprehensive income for the financial year</b>			
Profit/(loss) for the year		<u>3,402</u>	<u>(1,402)</u>
<b>Total comprehensive income</b>		<u>3,402</u>	<u>(1,402)</u>
<b>Transactions with unit holders</b>			
Applications	9	433	2,957
Redemptions	9	(1,784)	(2,773)
Distributions paid and payable	9	<u>(1,186)</u>	<u>-</u>
<b>Total transactions with unit holders</b>		<u>(2,537)</u>	<u>184</u>
<b>Total equity at the end of the financial year</b>		<u>32,507</u>	<u>31,642</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		22,497	18,616
Payments for purchase of financial instruments at fair value through profit or loss		(21,162)	(21,250)
Net sales or purchases of short-term investments at fair value through profit or loss		(2,497)	40
Net foreign exchange gain/(loss)		61	233
Net movement in margin accounts		(19)	7
Interest income received from financial assets at fair value through profit or loss		340	351
Dividends and distributions received		291	319
Other income received		-	55
Management fees and costs paid		(287)	(299)
Other expenses paid		(26)	(30)
<b>Net cash inflow/(outflow) from operating activities</b>	12(a)	<u>(802)</u>	<u>(1,958)</u>
<b>Cash flows from financing activities</b>			
Proceeds from applications by unit holders		433	2,957
Payments for redemptions by unit holders		(1,681)	(2,773)
<b>Net cash inflow/(outflow) from financing activities</b>		<u>(1,248)</u>	<u>184</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2,050)</b>	<b>(1,774)</b>
Cash and cash equivalents at the beginning of the year		2,116	3,944
Effect of foreign currency exchange rate changes on cash and cash equivalents		(15)	(54)
<b>Cash and cash equivalents at the end of the year</b>	11	<u>51</u>	<u>2,116</u>

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

## Notes to the financial statements

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## 1 General information

These financial statements cover MFS Prudent Capital Trust (the "Trust") as an individual entity. The Trust is an Australian registered managed investment scheme which was constituted on 9 October 2018, commenced operations on 6 November 2018 and will terminate in accordance with the provisions of the Trust's Constitution or by Law.

The Responsible Entity of the Trust 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 Trust invests in a diversified portfolio of global equity securities, debt securities, cash and cash equivalents and short-term government bonds, along with exposure to credit/bond securities in accordance with the Product Disclosure Statement and the provisions of the Trust'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 Trust 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 Trust 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 Trust also comply with IFRS as issued by the International Accounting Standards Board (IASB).

#### (ii) New and amended standards adopted by the Trust

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 that will affect the current or future periods.

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

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

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

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments

#### (i) Classification

- Financial assets

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

For unit trusts, 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 for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Trust's business model's objective. Consequently, the debt securities, including short-term debt securities with maturities of up to one year from the date of acquisition, are measured at fair value through profit or loss.

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

- Financial liabilities

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

For financial liabilities that are not classified and measured at fair value through profit or loss, these are classified as financial liabilities at amortised cost (management fees and costs payable, redemptions payable, other payables, withholding tax payable, due to brokers and margin accounts).

#### (ii) Recognition and derecognition

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

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

#### (iii) Measurement (continued)

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

For further details on how the fair value of financial instruments is determined please see Note 5 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, margin accounts and due from brokers are carried at amortised cost.

#### (iv) Impairment

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

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

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

#### (v) Offsetting financial instruments

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

Financial assets and liabilities that have been offset are disclosed in Note 4.

### (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 Trust at any time for cash based on the redemption price, which is equal to a proportionate share of the Trust'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 Trust.

## 2 Summary of significant accounting policies (continued)

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

The Trust'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 Trust'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 Trust, and is not a contract settled in the Trust'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 Trust's main income generating activity.

### (e) Margin accounts

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

### (f) Investment income

#### (i) Interest income

Interest income from financial assets at amortised cost is recognised using the effective interest method and includes interest from cash and cash equivalents. Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities measured at fair value through 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 Trust estimates cash flows considering all contractual terms of the financial instruments (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

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

#### (ii) Dividends and distributions

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

Trust distributions are recognised on an entitlement basis.

## 2 Summary of significant accounting policies (continued)

### (g) Expenses

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

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

### (h) Income tax

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

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

### (i) Distributions

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

### (j) Foreign currency translation

#### (i) Functional and presentation currency

Balances included in the Trust'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 Trust competes for funds and is regulated. The Australian dollar is also the Trust's presentation currency.

#### (ii) Transactions and balances

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

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

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

### (k) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by 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.

### (l) Receivables

Receivables may include amounts for interest, dividends and trust distributions. Interest, 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.



## 2 Summary of significant accounting policies (continued)

### (m) Payables

Payables include liabilities and accrued expenses owed by the Trust 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.

### (n) Applications and redemptions

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

### (p) Use of estimates and judgements

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

For more information on how fair value is calculated refer to Note 5 to the financial statements.

### (q) Rounding of amounts

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

### (r) Comparative revisions

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

### 3 Financial risk management

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

The Trust's overall risk management programme focuses on ensuring compliance with the Trust's Product Disclosure Statement and the investment guidelines of the Trust. It also seeks to maximise the returns derived for the level of risk to which the Trust is exposed and seeks to minimise potential adverse effects on the Trust's financial performance.

All investments present a risk of loss of capital. The maximum loss of capital on long equity securities unit trusts and debt securities are limited to the fair value of those positions. The maximum loss of capital on derivatives is limited to the notional contract values of those positions.

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

The Trust 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 Trust is exposed to price risk on equity securities listed or quoted on recognised securities exchanges. Price risk arises from investments held by the Trust for which prices in the future are uncertain.

At the portfolio level, price risk is controlled through diversification across markets. At an individual security level, given MFS's focus on bottom up security selection, company specific risk, such as weaknesses in a firm's balance sheet or management turnover, are carefully evaluated in the course of its research. MFS will not purchase a security whose fundamentals indicate an unacceptably high level of risk in relation to potential capital appreciation, and will generally sell a stock when its fundamentals decline. Price targets for selling a security are set at purchase and serve as a means of prompting continual review.

The table at Note 3(b) summarises the sensitivities of the Trust's assets and liabilities to price risk. The analysis is based on the reasonably possible shift that the investment portfolio in which the Trust invests moves by +/-9%(2022:+/-13%).

##### (ii) Foreign exchange risk

The Trust operates internationally and holds both monetary and non-monetary assets denominated in currencies other than the Australian dollar. Foreign exchange risk arises as the value of monetary securities denominated in other currencies fluctuate due to changes in exchange rates. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk and not foreign exchange risk. However, the Investment Manager monitors the exposure of all foreign currency denominated assets and liabilities.

In keeping with the bottom up approach to selecting what MFS believes to be high quality stocks, all MFS analysts examine currency exposure as an integral part of the individual company valuation process. When looking at downside risk associated with any company, currency plays an important role in the stress testing conducted by the analysts. Stress tests are run for all companies, which examine the potential risk on a company's bottom line earnings associated with any move in relevant currencies and the subsequent impact on the stock's performance. In this way, potential currency impacts are built into the MFS valuation process through their fundamental, bottom up research at the individual stock level. However, at the portfolio level, MFS does not seek to actively manage currencies and would hedge only for defensive purposes in rare circumstances. The Trust uses forward currency contracts to manage foreign exchange risk.

However, for accounting purposes, the Trusts do not designate any derivatives as hedges in a hedging relationship, and hence, these derivative financial instruments are classified as at fair value through profit or loss.

### 3 Financial risk management (continued)

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

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

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

As at 30 June 2023	US Dollars \$'000	Euro \$'000	Japanese Yen \$'000	British Pounds \$'000	All other foreign currencies \$'000
Cash and cash equivalents	2	-	-	-	-
Receivables	90	12	7	-	35
Due from brokers - receivable for securities sold	15	-	-	-	-
Financial assets at fair value through profit or loss	20,404	7,629	2,835	886	2,016
Margin accounts	12	-	-	-	-
Payables	-	-	(1)	-	-
Due to brokers - payable from securities purchased	(147)	-	-	-	-
Financial liabilities at fair value through profit or loss	(28)	-	-	-	-
<b>Net exposure</b>	<b>20,348</b>	<b>7,641</b>	<b>2,841</b>	<b>886</b>	<b>2,051</b>
Net increase/(decrease) in exposure from forward currency contracts	157	(157)	-	-	-
<b>Net exposure including forward currency contracts</b>	<b>20,505</b>	<b>7,484</b>	<b>2,841</b>	<b>886</b>	<b>2,051</b>
As at 30 June 2022	US Dollars \$'000	Euro \$'000	Japanese Yen \$'000	British Pounds \$'000	All other foreign currencies \$'000
Cash and cash equivalents	2,051	-	10	-	-
Receivables	69	5	14	-	28
Due from brokers - receivable for securities sold	37	-	-	-	-
Financial assets at fair value through profit or loss	18,958	6,318	3,200	478	785
Payables	-	-	(1)	-	-
Margin accounts	(7)	-	-	-	-
Due to brokers - payable from securities purchased	(292)	(41)	-	-	-
<b>Net exposure</b>	<b>20,816</b>	<b>6,282</b>	<b>3,223</b>	<b>478</b>	<b>813</b>
Net increase/(decrease) in exposure from forward currency contracts	109	(99)	(10)	-	-
<b>Net exposure including forward currency contracts</b>	<b>20,925</b>	<b>6,183</b>	<b>3,213</b>	<b>478</b>	<b>813</b>

### 3 Financial risk management (continued)

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

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

The table at Note 3(b) summarises the sensitivities of the Trust's monetary assets and liabilities to foreign exchange risk. The analysis is based on the reasonably possible shift that the Australian dollar weakened or strengthened by 8% (2022: +/-3%) against the material foreign currencies to which the Trust is exposed.

##### (iii) Interest rate risk

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

The Trust'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 risk is measured using sensitivity analysis. The impact of the interest rate risk on the profit and the profit and net assets attributable to unit holders is considered immaterial to the Trust.

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

The Trust's main interest rate risk arises from its investments in cash and cash equivalents.

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

As at 30 June 2023	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>Financial assets</b>				
Cash and cash equivalents	51	-	-	51
Receivables	-	-	172	172
Due from brokers - receivable for securities sold	-	-	15	15
Financial assets at fair value through profit or loss	2,637	12,540	18,593	33,770
Margin accounts	12	-	-	12
<b>Total financial assets</b>	<b>2,700</b>	<b>12,540</b>	<b>18,780</b>	<b>34,020</b>
<b>Financial liabilities</b>				
Distributions payable	-	-	1,186	1,186
Payables	-	-	152	152
Due to brokers - payable for securities purchased	-	-	147	147
Financial liabilities at fair value through profit or loss	-	-	28	28
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>1,513</b>	<b>1,513</b>
<b>Net exposure</b>	<b>2,700</b>	<b>12,540</b>	<b>17,267</b>	<b>32,507</b>

### 3 Financial risk management (continued)

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

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

	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
As at 30 June 2022				
Financial assets				
Cash and cash equivalents	2,116	-	-	2,116
Receivables	-	-	128	128
Due from brokers - receivable for securities sold	-	-	37	37
Financial assets at fair value through profit or loss	-	12,687	17,052	29,739
Total financial assets	2,116	12,687	17,217	32,020
Financial liabilities				
Payables	-	-	38	38
Due to brokers - payable for securities purchased	-	-	333	333
Margin accounts	7	-	-	7
Total financial liabilities	7	-	371	378
Net exposure	2,109	12,687	16,846	31,642

#### (b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Trust'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 Trust'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 Trust 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		Foreign exchange risk	
	+9%	-9%	+8%	-8%
	\$'000	\$'000	\$'000	\$'000
<b>As at 30 June 2023</b>	<b>3,037</b>	<b>(3,037)</b>	<b>2</b>	<b>(2)</b>
As at 30 June 2022	3,866	(3,866)	56	(56)

The sensitivity factors for 30 June 2022 were +/-13% for price risk and +/-3% for foreign exchange risk.

#### (c) Credit risk

The Trust 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 Trust.

The Trust 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 Trust 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 amount of these balances at the reporting date.

### 3 Financial risk management (continued)

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

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

MFS aims to reduce credit risk by following the Trust's investment objectives in terms of its investment decisions.

##### (i) Debt securities

The Trust invests into debt securities subject to its limits as set out in the Product Disclosure Statement. The overall credit risk of the debt securities held is actively monitored by the Investment Manager. The credit rating used for debt securities is based on the following order, where available: Standard & Poor's Rating Services, Moody's Investors Service and Fitch Ratings. Where a credit rating is not provided by the credit rating agenc(ies)/(y), the security issuer's own credit rating may be used, or otherwise the security is treated as unrated.

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

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
<b>Australian debt securities rating</b>		
AAA	7,832	9,532
BBB	287	129
BB	1,747	1,642
B	917	502
CCC	556	391
Not rated	<u>3,838</u>	<u>491</u>
<b>Total</b>	<u>15,177</u>	<u>12,687</u>

#### (d) Liquidity risk

Liquidity risk is the risk that the Trust 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 Trust may arise from the requirement to meet daily unit holder redemption requests, margin calls on derivative transactions or to fund foreign exchange related cash flow requirements.

Liquidity risk is managed by reviewing the portfolio, MFS aims to maintain a predominantly liquid portfolio, although liquidity is not guaranteed.

In order to manage the Trust'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 Trust did not reject any applications or withhold any redemptions during 2023 and 2022.

### 3 Financial risk management (continued)

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

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

All non-derivative financial liabilities of the Trust in the current period have maturities of less than 1 month.

##### (ii) Maturities of net settled derivative financial instruments

The table below analyses the Trust's net settled derivative financial instruments based on their contractual maturity. The Trust 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	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
<b>As at 30 June 2023</b>					
Net settled derivatives					
Forward currency contracts	1	-	-	-	1
Futures contracts	-	(26)	-	-	(26)
Option contracts	-	53	55	84	192
<b>Total net settled derivatives</b>	<b>1</b>	<b>27</b>	<b>55</b>	<b>84</b>	<b>167</b>
	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
<b>As at 30 June 2022</b>					
Net settled derivatives					
Forward currency contracts	8	-	-	-	8
Futures contracts	-	10	-	-	10
Option contracts	-	133	312	106	551
<b>Total net settled derivatives</b>	<b>8</b>	<b>143</b>	<b>312</b>	<b>106</b>	<b>569</b>

#### 4 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is 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. The gross and net positions of financial assets and liabilities that have been offset in the statement of financial position are disclosed in the first three columns of the tables below.

	Effects of offsetting on the statement of financial position			Related amounts not offset		
	Gross amounts of financial instruments	Gross amounts set off in the statement of financial position	Net amount of financial instruments presented in the statement of financial position	Amounts subject to master netting arrangements	Collateral pledged/received	Net amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 30 June 2023</b>						
<b>Financial assets</b>						
Derivative financial instruments	195	-	195	(2)	-	193
<b>Total</b>	<b>195</b>	<b>-</b>	<b>195</b>	<b>(2)</b>	<b>-</b>	<b>193</b>
<b>Financial liabilities</b>						
Derivative financial instruments	28	-	28	(2)	(12)	14
<b>Total</b>	<b>28</b>	<b>-</b>	<b>28</b>	<b>(2)</b>	<b>(12)</b>	<b>14</b>
<b>As at 30 June 2022</b>						
<b>Financial assets</b>						
Derivative financial instruments	619	(50)	569	-	(7)	562
<b>Total</b>	<b>619</b>	<b>(50)</b>	<b>569</b>	<b>-</b>	<b>(7)</b>	<b>562</b>
<b>Financial liabilities</b>						
Derivative financial instruments	50	(50)	-	-	-	-
<b>Total</b>	<b>50</b>	<b>(50)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

##### (a) Master netting arrangement – not currently enforceable

Agreements with derivative counterparties are based on the International Swaps and Derivatives Association (ISDA) Master Agreement. Under the terms of these arrangements, only when certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Trust does not presently have a legally enforceable right of set-off, these amounts have not been offset in the statement of financial position but have been presented separately in the above table.



## **5 Fair value measurement**

The Trust 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 6 and Note 7)
- Derivative financial instruments (see Note 8)

The Trust 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 Trust 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 Trust relies on information provided by independent pricing services for the valuation of its investments.

### **(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, list equity securities and unit trusts) are based on their quoted market prices at the close of trading at the end of the reporting period without any deduction for estimated future selling costs.

The quoted market price used for financial assets held by the Trust is the current bid price; the quoted market price for financial liabilities is the current asking price. When the Trust 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.

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

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

## 5 Fair value measurement (continued)

### (c) Recognised fair value measurements

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

As at 30 June 2023	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Forward currency contracts	-	1	-	1
Options	-	194	-	194
Equity securities	17,543	-	-	17,543
Unit trusts	855	-	-	855
Fixed interest securities	-	12,540	-	12,540
Short-term notes	-	2,637	-	2,637
<b>Total financial assets</b>	<b>18,398</b>	<b>15,372</b>	<b>-</b>	<b>33,770</b>
<b>Financial liabilities</b>				
Futures contracts	26	-	-	26
Options	-	2	-	2
<b>Total financial liabilities</b>	<b>26</b>	<b>2</b>	<b>-</b>	<b>28</b>
As at 30 June 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Forward currency contracts	-	8	-	8
Futures contracts	10	-	-	10
Options	-	551	-	551
Equity securities	15,372	-	-	15,372
Unit trusts	1,111	-	-	1,111
Fixed interest securities	-	12,687	-	12,687
<b>Total financial assets</b>	<b>16,493</b>	<b>13,246</b>	<b>-</b>	<b>29,739</b>

### (d) Transfer between levels

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

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

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

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

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

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Derivatives	195	569
Equity securities	17,543	15,372
Unit trusts	855	1,111
Fixed interest securities	12,540	12,687
Short-term notes	<u>2,637</u>	<u>-</u>
<b>Total financial assets at fair value through profit or loss</b>	<u><b>33,770</b></u>	<u><b>29,739</b></u>

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 5 to the financial statements.

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

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Derivatives	<u>28</u>	<u>-</u>
<b>Total financial liabilities at fair value through profit or loss</b>	<u><b>28</b></u>	<u><b>-</b></u>

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 5 to the financial statements.

## 8 Derivative financial instruments

In the normal course of business, the Trust 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 Trust'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 Trust 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.

## 8 Derivative financial instruments (continued)

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 Trust.

The Trust holds the following derivatives:

### (a) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

### (b) 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 Trust are exchange-traded. The Trust 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.

### (c) Forward currency contracts

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

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

#### As at 30 June 2023

	Contractual/ notional \$'000	Assets \$'000	Liabilities \$'000
Forward currency contracts	157	1	-
Futures contracts	1,119	-	26
Options	<u>11,186</u>	<u>194</u>	<u>2</u>
<b>Total derivatives</b>	<b><u>12,462</u></b>	<b><u>195</u></b>	<b><u>28</u></b>

#### As at 30 June 2022

	Contractual/ notional \$'000	Assets \$'000	Liabilities \$'000
Forward currency contracts	191	8	-
Futures contracts	552	10	-
Options	<u>7,249</u>	<u>551</u>	-
Total derivatives	<u>7,992</u>	<u>569</u>	-

Information about the Trust's exposure to credit risk, foreign exchange risk, interest rate risk and about the methods and assumptions used in determining fair values is provided in Note 3 and Note 5 to the financial statements. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial instruments disclosed above.

## 9 Net assets attributable to unit holders - equity

Under AASB 132 *Financial Instruments: Presentation*, puttable financial instruments are classified as equity where certain criteria are met. The Trust shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions set out in Note 2(c). The Trust's units are classified as equity as they meet the definition of a financial instrument to be classified as equity.

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

	Year ended			
	30 June 2023	30 June 2023	30 June 2022	30 June 2022
	Units '000	\$'000	Units '000	\$'000
Opening balance	29,481	31,642	29,337	32,860
Applications	394	433	2,543	2,957
Redemptions	(1,560)	(1,784)	(2,399)	(2,773)
Distributions paid and payable	-	(1,186)	-	-
Profit/(loss) for the year	-	3,402	-	(1,402)
<b>Closing balance</b>	<b>28,315</b>	<b>32,507</b>	<b>29,481</b>	<b>31,642</b>

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

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

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

## 10 Distributions to unit holders

The distributions declared during the year were as follows:

	Year ended			
	30 June 2023	30 June 2023	30 June 2022	30 June 2022
	\$'000	CPU	\$'000	CPU
<b>Distributions</b>				
June	1,186	4.19	-	-
<b>Total distributions</b>	<b>1,186</b>		<b>-</b>	<b>-</b>

## 11 Cash and cash equivalents

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Cash at bank	51	2,116
<b>Total cash and cash equivalents</b>	<b>51</b>	<b>2,116</b>

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

	Year ended	
	30 June 2023	30 June 2022
	\$'000	\$'000
<b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Profit/(loss) for the year	3,402	(1,402)
Proceeds from sale of financial instruments at fair value through profit or loss	22,497	(21,250)
Payments for purchase of financial instruments at fair value through profit or loss	(21,162)	(18,616)
Net sales or purchases of short-term investments at fair value through profit or loss	(2,497)	40
Net (gains)/losses on financial instruments at fair value through profit or loss	(3,007)	1,875
Net foreign exchange (gain)/loss	15	54
Net interest bought/(sold)	2	35
Net movement in margin accounts	(19)	7
Net change in receivables	(44)	71
Net change in payables	11	(4)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(802)</b>	<b>(1,958)</b>

## 13 Receivables

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Interest receivable	82	52
Dividends and distributions receivable	62	50
GST receivable	15	13
Management fees reimbursement receivable	13	13
<b>Total receivables</b>	<b>172</b>	<b>128</b>

## 14 Payables

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Management fees and costs payable	37	35
Redemptions payable	103	-
Withholding tax payable	1	1
Other payables	11	2
<b>Total payables</b>	<u>152</u>	<u>38</u>

## 15 Remuneration of auditors

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

	Year ended	
	30 June 2023	30 June 2022
	\$	\$
<b>Deloitte Touche Tohmatsu</b>		
<i>Audit and other assurance services</i>		
Audit of financial statements	<u>15,329</u>	14,040
Total auditor remuneration and other assurance services	<u>15,329</u>	14,040
<i>Taxation services</i>		
Tax compliance services	<u>10,565</u>	9,966
Total remuneration for taxation services	<u>10,565</u>	9,966
<b>Total remuneration of Deloitte Touche Tohmatsu</b>	<u>25,894</u>	24,006
<b>PricewaterhouseCoopers</b>		
<i>Audit and other assurance services</i>		
Audit of compliance plan	<u>2,346</u>	2,342
Total auditor remuneration and other assurance services	<u>2,346</u>	2,342
<b>Total remuneration of PricewaterhouseCoopers</b>	<u>2,346</u>	2,342

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

## 16 Related party transactions

The Responsible Entity of MFS Prudent Capital Trust 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 MFS International Australia Pty Ltd to act as Investment Manager for the Trust and State Street Australia Limited to act as Custodian and Administrator for the Trust. The contracts are on normal commercial terms and conditions.

## 16 Related party transactions (continued)

### (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 Trust, directly or indirectly during the financial year.

### (b) Transactions with key management personnel

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

### (c) Key management personnel unit holdings

Key management personnel did not hold units in the Trust 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 Trust to Equity Trustees Limited do not include any amounts directly attributable to the compensation of key management personnel.

### (e) Key management personnel loans

The Trust 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 Trust

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



## 16 Related party transactions (continued)

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

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

	Year ended	
	30 June 2023	30 June 2022
	\$	\$
Management fees for the year	174,907	191,416
Responsible Entity fees for the year	11,342	9,849
Responsible Entity fees payable at year end	968	1,628
Management fees reimbursement receivable at year end	13,444	12,645

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

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

### (h) Related party unit holdings

Parties related to the Trust (including Equity Trustees Limited, its related parties and other schemes managed by Equity Trustees Limited and the Investment Manager) hold units in the Trust, as follows:

Unit holder As at 30 June 2023	Number of units held opening	Number of units held closing	Fair value of investment \$	Interest held %	Number of units acquired	Number of units disposed	Distributions paid/payable by the Trust \$
<b>MFS International Holdings Pty Ltd</b>	14,545,364	14,545,364	16,699,532	51.37	-	-	609,407

Unit holder As at 30 June 2022	Number of units held opening	Number of units held closing	Fair value of investment \$	Interest held %	Number of units acquired	Number of units disposed	Distributions paid/payable by the Trust \$
MFS International Holdings Pty Ltd	14,545,364	14,545,364	15,611,539	49.34	-	-	-

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

### **(i) Investments**

The Trust did not hold any investments in Equity Trustees Limited or its related parties for 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 Trust as disclosed in the statement of financial position as at 30 June 2023 or on the results and cash flows of the Trust for the year ended on that date.

## **18 Contingent assets and liabilities and commitments**

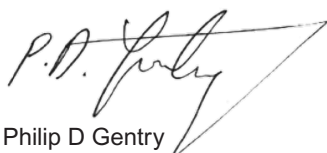
There were no outstanding contingent assets, liabilities or commitments as at 30 June 2023 and 30 June 2022.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 6 to 33 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 Trust'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 Trust 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 MFS Prudent Capital Trust

### *Opinion*

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

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

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

### *Basis for Opinion*

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

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

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

### *Other Information*

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

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

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

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte organisation.

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

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

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

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

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

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

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

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

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Jonathon Corbett

Partner

Chartered Accountants

Melbourne, 14 September 2023