

**Mortgage Income Fund  
(registered as Common Fund No.1)**

ARSN 092 615 506

**Annual report**

**For the year ended 30 June 2020**

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

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

The Responsible Entity's registered office is:

Level 1, 575 Bourke Street  
Melbourne, VIC 3000.

## Directors' report

The directors of Equity Trustees Limited, the Responsible Entity of Mortgage Income Fund (registered as Common Fund No.1), (the "Fund") present their report together with the financial statements of the Fund for the year ended 30 June 2020.

### Principal activities

The Fund invests in first registered mortgage assets secured by office, rental, industrial and other commercial properties at a maximum loan to valuation ratio ("LVR") of 67% through its investment in EQT Wholesale Mortgage Income Fund in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

The Fund did not have any employees during the year.

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

The various service providers for the Fund are detailed below:

Service	Provider
Responsible Entity	Equity Trustees Limited
Investment Manager	Equity Trustees Limited
Custodian and Administrator *	Equity Trustees Limited
Unit Registry	OneVue Fund Services Pty Ltd
Financial Statements Preparation	PricewaterhouseCoopers
Statutory Auditor	Deloitte Touche Tohmatsu

\* State Street Australia Limited was appointed as Custodian and Administrator on 1 August 2020 following the retirement of Equity Trustees Limited who acted as Custodian and Administrator until 31 July 2020.

### Directors

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

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

### Review and results of operations

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

The Fund's performance was 3.09% (net of fees) for the year ended 30 June 2020. The Fund's benchmark, the RBA Cash Rate returned 0.73% for the same period.

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

	Year ended	
	30 June 2020	30 June 2019
Profit for the year (\$'000)	<b>2,591</b>	3,013
Distributions paid and payable (\$'000)	<b>2,591</b>	3,016
Distributions (cents per unit)	<b>3.10</b>	3.15

### **COVID-19 Outbreak**

In March 2020, the World Health Organisation (WHO) officially declared COVID-19 a pandemic.

The Directors and the Investment Manager acknowledge the current outbreak of COVID-19 and the increased market volatility it has created within the markets the Fund operates. This volatility has had a corresponding impact on the fair value of the Fund's investment portfolio both during the financial year as well as subsequent to the reporting date.

The Responsible Entity and Investment Manager are monitoring developments closely, noting that given the nature of the outbreak and the ongoing developments, there is a high degree of uncertainty and therefore it is not possible at this time to predict the extent and nature of the overall future impact on the Fund. The Investment Manager however, actively manages the financial risks that the Fund is exposed to, and there has been no change in the frequency that the Net Asset Values of the Fund continue to be valued at with valuation policies reflective of the prevailing market conditions being applied.

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

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

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

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

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

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

State Street Australia Limited was appointed as Custodian and Administrator on 1 August 2020 following the retirement of Equity Trustees Limited who acted as Custodian and Administrator until 31 July 2020.

Equity Trustees Limited currently operate the EQT Wholesale Mortgage Income Fund (WMIF) and Mortgage Income Fund (MIF) from both an investment and administration perspective. The nature of the underlying investors within, and resultant investment strategies for, these Funds across both WMIF and MIF are similar and therefore to improve the delivery of our investment services to clients, both Funds will be consolidated to allow:

- A more focussed approach to investing monies for client groups with similar investment objectives; therefore, allowing Equity Trustees Limited to deliver more appropriate investment solutions to achieve their objectives
- Improved asset management operational efficiencies within trade execution and risk management, and
- Implementation of a new performance reporting system to deliver informative and relevant performance reporting.

As a result of these up-coming changes, this Fund once consolidated will be wound-up and therefore terminated within 12 months of the date the Directors' declaration is executed, being 28 October 2020. Consequently, the directors of the Responsible Entity have determined that the going concern basis of preparation is no longer appropriate and the financial statements have been prepared on a liquidation basis.

Except as described above, no other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may have a significant effect on:

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

### **Likely developments and expected results of operations**

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

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

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

**Indemnification and insurance of officers**

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

**Indemnification of auditor**

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

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

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in Note 14 to the financial statements.

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

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 14 to the financial statements.

**Interests in the Fund**

The movement in units on issue in the Fund during the year 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 Commonwealth, State or Territory law.

**Rounding of amounts to the nearest thousand dollars**

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

**Auditor's independence declaration**

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 24.

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.



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Philip D Gentry  
Chairman

Melbourne  
28 October 2020

**Mortgage Income Fund**  
**Statement of comprehensive income**  
**For the year ended 30 June 2020**

**Statement of comprehensive income**

	Note	Year ended	
		30 June 2020 \$'000	30 June 2019 \$'000
<b>Investment income</b>			
Distribution income		3,079	3,577
Management fees rebate		5	9
Other income		21	18
Interest income from financial assets at amortised cost		2	11
<b>Total net investment income</b>		<b>3,107</b>	<b>3,615</b>
<b>Expenses</b>			
Management fees	14	476	541
Other expenses		40	61
<b>Total expenses</b>		<b>516</b>	<b>602</b>
<b>Operating profit for the year</b>		<b>2,591</b>	<b>3,013</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>2,591</b>	<b>3,013</b>

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

**Mortgage Income Fund**  
**Statement of financial position**  
**As at 30 June 2020**

**Statement of financial position**

	Note	As at	
		30 June 2020 \$'000	30 June 2019 \$'000
<b>Assets</b>			
Cash and cash equivalents	9	274	766
Receivables	11	909	876
Financial assets at fair value through profit or loss	5	76,681	89,931
<b>Total assets</b>		<b>77,864</b>	<b>91,573</b>
<b>Liabilities</b>			
Distributions payable	8	583	735
Payables	12	76	364
<b>Total liabilities</b>		<b>659</b>	<b>1,099</b>
<b>Net assets attributable to unit holders - equity</b>	7	<b>77,205</b>	<b>90,474</b>

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

**Mortgage Income Fund**  
**Statement of changes in equity**  
**For the year ended 30 June 2020**

**Statement of changes in equity**

	Note	Year ended	
		30 June 2020 \$'000	30 June 2019 \$'000
<b>Total equity at the beginning of the financial year</b>		90,474	97,741
<b>Comprehensive income for the financial year</b>			
Profit for the year		2,591	3,013
Other comprehensive income		-	-
<b>Total comprehensive income for the financial year</b>		<u>2,591</u>	<u>3,013</u>
<b>Transactions with unit holders</b>			
Applications	7	3,587	5,276
Redemptions	7	(17,039)	(12,728)
Reinvestment of distributions	7	183	188
Distributions paid and payable	7	(2,591)	(3,016)
<b>Total transactions with unit holders</b>		<u>(15,860)</u>	<u>(10,280)</u>
<b>Total equity at the end of the financial year</b>		<u>77,205</u>	<u>90,474</u>

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



**Mortgage Income Fund**  
**Statement of cash flows**  
**For the year ended 30 June 2020**

**Statement of cash flows**

	Note	Year ended	
		30 June 2020 \$'000	30 June 2019 \$'000
<b>Cash flows from operating activities</b>			
Proceeds from sale of financial instruments at fair value through profit or loss		13,250	7,500
Interest income received from financial assets at amortised cost		2	12
Distributions received		3,243	3,617
Other income received		22	29
Management fees paid		(472)	(545)
Other expenses paid		(35)	(62)
<b>Net cash inflow from operating activities</b>	10(a)	<b>16,010</b>	10,551
<b>Cash flows from financing activities</b>			
Proceeds from applications by unit holders		3,394	5,286
Payments for redemptions by unit holders		(17,336)	(12,500)
Distributions paid to unit holders		(2,560)	(2,857)
<b>Net cash outflow from financing activities</b>		<b>(16,502)</b>	(10,071)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(492)</b>	480
Cash and cash equivalents at the beginning of the year		766	286
<b>Cash and cash equivalents at the end of the year</b>	9	<b>274</b>	766
Non-cash operating and financing activities	10(b)	183	188

*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 Mortgage Income Fund (registered as Common Fund No.1), (the "Fund") as an individual entity. The Fund is an Australian registered managed investment scheme which was constituted on 31 October 1971 and will terminate in accordance with the Fund's Constitution or by Law.

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

The Fund invests in first registered mortgage assets secured by office, rental, industrial and other commercial properties at a maximum loan to valuation ratio ("LVR") of 67% through its investment in EQT Wholesale Mortgage Income Fund 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 of the Responsible Entity (the "Directors") on the date the Directors' declaration was signed. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

## **2 Summary of significant accounting policies**

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

### **(a) Basis of preparation**

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

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

As a result of the up-coming changes noted in the Directors' report, this fund once consolidated will be wound-up and therefore terminated within 12 months of the date the Director's Declaration is executed, being 28 October 2020. Consequently, the directors of the Trustee have determined that the going concern basis of preparation is no longer appropriate and the financial statements have been prepared on a liquidation basis.

#### *(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.

#### *(ii) New and amended standards adopted by the Fund*

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2019 that have a material impact on the amounts recognised in prior periods or will affect the current or future periods.

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2020 and have not been early adopted in preparing these financial statements.

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

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

### **(b) Financial assets and liabilities at fair value through profit or loss**

#### *(i) Classification*

##### *Financial assets*

The Fund classifies its financial assets based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Fund's portfolio of financial assets is managed and its performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund uses fair value information to assess performance of the portfolio and to make decisions to rebalance the portfolio or to realise fair value gains or minimise losses through sales or other trading strategies. The Fund's policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

##### *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.

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

#### *(iii) Measurement*

At initial recognition, the Fund measures financial assets and financial liabilities at fair value. Transaction costs of financial assets and financial 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 the financial assets or financial 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.

#### *(iv) 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) Financial assets held at amortised cost**

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses). Impairment losses are presented as separate line item in the statement of comprehensive income.

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

### **(c) Financial assets held at amortised cost (continued)**

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

### **(d) Net assets attributable to unit holders**

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

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

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

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

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

### **(e) 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 these securities represent the Fund's main income generating activity.

### **(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.

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

### **(f) Investment income (continued)**

#### *(i) Interest income (continued)*

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) Dividends and distributions*

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense.

Trust distributions are recognised on an entitlements basis.

### **(g) Expenses**

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

### **(h) Income tax**

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

### **(i) Distributions**

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

### **(j) 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) Receivables**

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

### **(l) Payables**

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

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 year.

### **(m) Applications and redemptions**

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

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

### **(n) Goods and services tax (GST)**

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

### **(o) Use of estimates and judgements**

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

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

### **(p) Rounding of amounts**

The Fund is an entity of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2019/191*, 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.

## **3 Financial risk management**

The Fund's activities expose it to a variety of financial risks including market risk (which incorporates 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.

Equity Trustees Limited, as Responsible Entity and Investment Manager, is responsible for the overall financial risk management of the Fund.

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) Interest rate risk*

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

### **(b) Credit risk**

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

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

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

#### **(c) Liquidity risk**

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

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

Liquidity risk is managed by the Investment Manager maintaining a minimum cash balance as required under the investment guidelines of the Fund.

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 2020 and 2019.

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

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

### **4 Fair value measurement**

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

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.

#### *(i) 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.



#### 4 Fair value measurement (continued)

*(ii) Recognised fair value measurements*

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 30 June 2020 and 30 June 2019.

<b>As at 30 June 2020</b>	<b>Level 1 \$'000</b>	<b>Level 2 \$'000</b>	<b>Level 3 \$'000</b>	<b>Total \$'000</b>
<b>Financial assets</b>				
Unlisted managed investment schemes	-	<b>76,681</b>	-	<b>76,681</b>
<b>Total financial assets</b>	-	<b>76,681</b>	-	<b>76,681</b>
<hr/>				
<b>As at 30 June 2019</b>	<b>Level 1 \$'000</b>	<b>Level 2 \$'000</b>	<b>Level 3 \$'000</b>	<b>Total \$'000</b>
<b>Financial assets</b>				
Unlisted managed investment schemes	-	89,931	-	89,931
<b>Total financial assets</b>	-	89,931	-	89,931

*(iii) Transfers 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.

*(iv) Fair value of financial instruments not carried at fair value*

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

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

	<b>As at</b>	
	<b>30 June 2020 \$'000</b>	<b>30 June 2019 \$'000</b>
Unlisted managed investment schemes	<b>76,681</b>	89,931
<b>Total financial assets at fair value through profit or loss</b>	<b>76,681</b>	89,931

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 arrangements.

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

## 6 Structured entities (continued)

The exposure to investments in related party Schemes at fair value, and any related party amounts recognised in the statement of comprehensive income are disclosed at Note 14 to the financial statements.

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.

## 7 Net assets attributable to unit holders - equity

The Fund shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions set out in Note 2(c).

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

	Year ended		Year ended	
	30 June 2020 Units '000	30 June 2020 \$'000	30 June 2019 Units '000	30 June 2019 \$'000
Opening balance	90,474	90,474	97,738	97,741
Applications	3,587	3,587	5,276	5,276
Redemptions	(17,039)	(17,039)	(12,728)	(12,728)
Reinvestment of distributions	183	183	188	188
Distributions paid and payable	-	(2,591)	-	(3,016)
Profit for the year	-	2,591	-	3,013
<b>Closing balance</b>	<b>77,205</b>	<b>77,205</b>	90,474	90,474

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 to the underlying assets of the Fund.

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

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

### Capital risk management

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

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a 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 year were as follows:

	Year ended		Year ended	
	30 June 2020 \$'000	30 June 2020 CPU	30 June 2019 \$'000	30 June 2019 CPU
<b>Distributions</b>				
September	695	0.78	748	0.77
December	717	0.84	767	0.79
March	593	0.73	766	0.80
June (payable)	583	0.75	735	0.79
Income paid on redemption	3	-	-	-
<b>Total distributions</b>	<b>2,591</b>	<b>3.10</b>	3,016	3.15

## 9 Cash and cash equivalents

	As at	
	30 June 2020 \$'000	30 June 2019 \$'000
Investment in Cash Management Fund	274	766
<b>Total cash and cash equivalents</b>	<b>274</b>	766

## 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

	Year ended	
	30 June 2020 \$'000	30 June 2019 \$'000
Profit/(loss) for the year	2,591	3,013
Proceeds from sale of financial instruments at fair value through profit or loss	13,250	7,500
Net change in receivables	160	42
Net change in payables	9	(4)
<b>Net cash inflow from operating activities</b>	<b>16,010</b>	10,551

### (b) Non-cash operating and financing activities

Issue of units under the distribution reinvestment plan	183	188
<b>Total non-cash operating and financing activities</b>	<b>183</b>	188

## 11 Receivables

	As at	
	30 June 2020	30 June 2019
	\$'000	\$'000
Distributions receivable	703	867
Applications receivable	193	-
GST receivable	13	9
<b>Total receivables</b>	<b>909</b>	<b>876</b>

## 12 Payables

	As at	
	30 June 2020	30 June 2019
	\$'000	\$'000
Management fees payable	47	43
Other expenses reimbursable to the Investment Manager	8	3
Redemptions payable	21	318
<b>Total payables</b>	<b>76</b>	<b>364</b>

## 13 Remuneration of auditor

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

	Year ended	
	30 June 2020	30 June 2019
	\$	\$
<b>Deloitte Touche Tohmatsu</b>		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	14,990	14,780
Audit of compliance plan	5,000	3,770
Total remuneration for audit and other assurance services	<b>19,990</b>	<b>18,550</b>
<i>Taxation services</i>		
Tax compliance services	5,820	5,740
Total remuneration for taxation services	<b>5,820</b>	<b>5,740</b>
<b>Total remuneration of Deloitte Touche Tohmatsu</b>	<b>25,810</b>	<b>24,290</b>

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

## 14 Related party transactions

The Responsible Entity of Mortgage Income Fund (registered as Common Fund No.1) is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975). Accordingly, transactions with entities related to Equity Trustees Limited are disclosed below.

Equity Trustees Limited is the Custodian, Administrator and Investment Manager of the Fund. The contracts are on normal commercial terms and conditions.

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

### **(a) Directors**

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

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

### **(b) 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 financial year.

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

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

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

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

### **(e) 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.

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

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

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

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

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

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

## 14 Related party transactions (continued)

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

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

	<b>30 June 2020</b>	30 June 2019
	<b>\$</b>	<b>\$</b>
Management fees for the year	<b>379,149</b>	430,001
Custodian and administration fees for the year	<b>46,196</b>	52,831
Responsible Entity fees for the year	<b>50,815</b>	58,114
Management fees payable at year end	<b>22,128</b>	20,102
Custodian and administration fees payable at year end	<b>10,359</b>	11,017
Responsible Entity fees payable at year end	<b>14,627</b>	11,432
Other expenses reimbursed to the Responsible Entity for cost incurred on behalf of the Fund during the year	<b>39,941</b>	60,740
Other expenses reimbursable to the Responsible Entity at the end of the year	<b>8,351</b>	2,674

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

The management fees borne by the Fund are paid to the Investment Manager, who in turn provides the on-payment of the fees to the respective service providers. Expense recoveries include Responsible Entity fees, Custodian and Administrator fees and other expenses. Investment management fees reimbursed represent monies put into the Fund to ensure that the Fund's overall management costs remain within that disclosed in the Product Disclosure Statement.

### (i) Related party unit holdings

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

#### As at 30 June 2020

<b>Unit holders</b>	<b>Number of units held opening</b>	<b>Number of units held closing</b>	<b>Fair value of Investment (\$)</b>	<b>Interest held (%)</b>	<b>Number of units acquired</b>	<b>Distributions paid/payable by the Fund (\$)</b>
<b>EQT Growth Fund</b>	<b>37,997,351</b>	<b>37,997,351</b>	<b>37,997,351</b>	<b>49.22</b>	-	<b>1,178,749</b>
<b>Equity Trustees Foundation</b>	<b>200,922</b>	<b>200,922</b>	<b>200,922</b>	<b>0.26</b>	-	<b>6,233</b>

#### As at 30 June 2019

EQT Growth Fund	35,997,351	37,997,351	37,997,351	42.00	2,000,000	1,192,500
Equity Trustees Foundation	200,922	200,922	200,922	0.22	-	6,340

## 14 Related party transactions (continued)

### (j) Investments

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

#### As at 30 June 2020

	Fair value of investment \$	Interest held %	Distributions earned \$	Distribution receivable \$	Units acquired during the year	Units disposed during the year
<b>Cash Management Fund</b>	274,353	0.07	1,986	15	20,185,418	(20,676,819)
<b>EQT Wholesale Mortgage Income Fund</b>	76,681,441	34.71	2,376,040	702,997	-	(13,250,000)

#### As at 30 June 2019

<b>Cash Management Fund</b>	765,754	0.23	10,125	487	16,720,450	(16,240,107)
<b>EQT Wholesale Mortgage Income Fund</b>	89,931,441	39.12	2,709,733	867,019	-	(7,500,000)

## 15 Events occurring after the reporting period

As a result of the up-coming changes noted in the Directors' report, this Fund once consolidated will be wound-up and therefore terminated within 12 months of the date the Directors' declaration is executed, being 28 October 2020.

No other significant events have occurred since the end of the reporting year which would impact on the financial position of the Fund as disclosed in the statement of financial position as at 30 June 2020 or on the results and cash flows of the Fund for the year ended on that date.

## 16 Contingent assets and liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2020 and 30 June 2019.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 5 to 22 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its performance for the financial year ended on that date.
- (b) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (c) Note 2(a) confirms that the financial statements comply with 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.



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Philip D Gentry  
Chairman

Melbourne  
28 October 2020



28 October 2020

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

Dear Board Members,

**Independence Declaration – Mortgage Income Fund (registered as Common Fund No 1)**

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 Mortgage Income Fund (registered as Common Fund No 1) (the "Fund").

As lead audit partner for the audit of the financial statements of the Fund for the financial year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours faithfully

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU



Chester Hii  
Partner  
Chartered Accountants

## Independent Auditor's Report to the Unit Holders of Mortgage Income Fund (registered as Common Fund No 1)

### *Opinion*

We have audited the financial report of Mortgage Income Fund (registered as Common Fund No 1) (the "Fund") which comprises the statement of financial position as at 30 June 2020, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, 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 2020 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 & 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 the 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 2020, but does not include the financial report and our auditor's report thereon.

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

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

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

The Directors are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 2 to the financial report which includes the non-going concern basis of accounting, is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the Unit holders. The Directors' responsibility also includes 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. As disclosed in Note 2, the financial report has been prepared on a non-going concern basis because the Directors have resolved to wind up the Fund and return capital to unit holders.

## *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 non-going concern basis of accounting. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report.
- 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



Chester Hii  
Partner  
Chartered Accountants

Melbourne, 28 October 2020