

EQT Mortgage Income Fund

ARSN 101 748 109

Annual report

For the year ended 30 June 2023

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Independent auditor's report to the unit holders of EQT Mortgage Income Fund

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

The Responsible Entity of EQT Mortgage Income Fund is Equity Trustees Wealth Services Limited (ABN 33 006 132 332) (AFSL 234 528).

The Responsible Entity's registered office is:

Level 1, 575 Bourke Street
Melbourne, VIC 3000.

Directors' report

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

Principal activities

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

The Fund's investment objective is to outperform the Reserve Bank of Australia ("RBA") Cash Rate over rolling 3 year periods. The Fund is suitable for investors seeking income returns higher than short-term money market rates.

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 Wealth Services Limited
Investment Manager	Equity Trustees Limited
Custodian and Administrator	State Street Australia Limited
Unit Registry	OneVue Fund Services Pty Ltd
Statutory Auditor	Deloitte Touche Tohmatsu

Directors

The following persons held office as directors of Equity Trustees Wealth Services 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	
Ian C Westley	
Jodi A Kennedy	(appointed 23 August 2022)

Review and results of operations

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

The Fund's performance was 3.66% for Wholesale class of units and 3.41% for Retail Class of units. The Fund's benchmark for both classes of units, the RBA Cash Rate returned 2.71% for the same period.

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

Directors' report (continued)

Review and results of operations (continued)

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

	Year ended	
	30 June 2023	30 June 2022
Profit/(loss) before finance costs attributable to unit holders for the year (\$'000)	8,990	7,450
Distributions - Wholesale		
Distributions paid and payable (\$'000)	6,292	5,186
Distributions (cents per unit)	3.65	3.18
Distributions - Retail		
Distributions paid and payable (\$'000)	2,698	2,264
Distributions (cents per unit)	3.28	2.97

Significant changes in the state of affairs

Jodi A Kennedy was appointed as a director of Equity Trustees Wealth Services Limited on the 23 August 2022.

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

Matters subsequent to the end of the financial year

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

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

Likely developments and expected results of operations

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

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

Indemnification and insurance of officers

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to the officers of Equity Trustees Wealth Services Limited. So long as the officers of Equity Trustees Wealth Services 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.

Directors' report (continued)

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

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

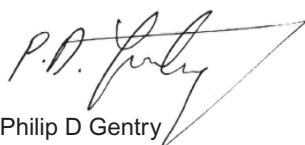
Rounding of amounts to the nearest thousand dollars

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 5.

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



Philip D Gentry
Chairman

Melbourne
21 September 2023

21 September 2023

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

Dear Board Members,

Independence Declaration – EQT Mortgage Income Fund

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

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

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

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Lani Cockrem
Partner
Chartered Accountants

Statement of comprehensive income

		Year ended	
		30 June 2023	30 June 2022
	Note	\$'000	\$'000
Investment income			
Interest income from financial assets at amortised cost		11,231	9,511
Other income		<u>64</u>	<u>89</u>
Total investment income/(loss)		<u>11,295</u>	<u>9,600</u>
Expenses			
Management fees and costs		2,160	2,015
Other expenses		<u>145</u>	<u>135</u>
Total expenses		<u>2,305</u>	<u>2,150</u>
Profit/(loss) before finance costs attributable to unit holders for the year		<u>8,990</u>	<u>7,450</u>
Finance costs attributable to unit holders			
Distributions to unit holders	8	(8,990)	(7,450)
(Increase)/decrease in net assets attributable to unit holders	7	<u>-</u>	<u>-</u>
Profit/(loss) for the year		<u>-</u>	<u>-</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>-</u>	<u>-</u>

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

Statement of financial position

		As at	
	Note	30 June 2023 \$'000	30 June 2022 \$'000
Assets			
Cash and cash equivalents	9	16,138	28,974
Receivables	11	3,058	2,194
Financial assets at amortised cost	5	<u>238,682</u>	<u>219,745</u>
Total assets		<u>257,878</u>	<u>250,913</u>
Liabilities			
Distributions payable	8	2,388	1,801
Payables	12	<u>1,671</u>	<u>1,058</u>
Total liabilities (excluding net assets attributable to unit holders)		<u>4,059</u>	<u>2,859</u>
Net assets attributable to unit holders - liability		<u>253,819</u>	<u>248,054</u>

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

Statement of changes in equity

	Year ended	
	30 June 2023 \$'000	30 June 2022 \$'000
Total equity at the beginning of the financial year	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
Total comprehensive income	-	-
Transactions with owners in their capacity as owners	-	-
Total equity at the end of the financial year*	-	-

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

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

Statement of cash flows

		Year ended	
		30 June 2023	30 June 2022
	Note	\$'000	\$'000
Cash flows from operating activities			
Proceeds from repayment of financial instruments at amortised cost		15,060	74,301
Payments for financial instruments at amortised cost		(33,997)	(86,793)
Interest income received from financial assets at amortised cost		10,407	9,783
Other income received		64	89
Management fees and costs paid		(2,269)	(1,941)
Other expenses paid		(73)	(65)
Net cash inflow/(outflow) from operating activities	10(a)	<u>(10,808)</u>	<u>(4,626)</u>
Cash flows from financing activities			
Proceeds from applications by unit holders		63,532	67,408
Payments for redemptions by unit holders		(60,164)	(49,299)
Distributions paid to unit holders		<u>(5,396)</u>	<u>(4,981)</u>
Net cash inflow/(outflow) from financing activities		<u>(2,028)</u>	<u>13,128</u>
Net increase/(decrease) in cash and cash equivalents		(12,836)	8,502
Cash and cash equivalents at the beginning of the year		<u>28,974</u>	<u>20,472</u>
Cash and cash equivalents at the end of the year	9	<u>16,138</u>	<u>28,974</u>
Non-cash operating and financing activities	10(b)	3,007	2,538

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 EQT Mortgage Income Fund (the "Fund") as an individual entity. The Fund is an Australian registered managed investment scheme which was constituted on 18 July 2002 and will terminate in accordance with the provisions of the Fund's Constitution or by Law.

The Responsible Entity of the Fund is Equity Trustees Wealth Services Limited (ABN 33 006 132 332) (AFSL 234 528) (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% in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

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

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

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

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

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

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

(ii) New and amended standards adopted by the Fund

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

(iii) New standards and interpretations not yet adopted

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

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

2 Summary of significant accounting policies (continued)

(b) Financial instruments

(i) Classification

- Financial assets

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

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

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

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

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

- Financial liabilities

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

(ii) Recognition and derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in the fair value of the financial assets or financial liabilities from this date.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

(iii) Measurement

- Financial instruments at 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 according to their classification using the effective interest rate method less any allowance for expected credit losses.

Mortgages, cash and cash equivalents, receivables, distributions payable and payables are carried at amortised cost.

(iv) Impairment

At each reporting date, the Fund shall estimate a loss allowance on each of the financial assets carried at amortised cost (cash and cash equivalents and receivables) at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses.

Significant financial difficulties of the 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

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(iv) Impairment (continued)

increases to the point that it is considered to be credit impaired, interest income will be calculated based on the net carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

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

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

(v) Offsetting financial instruments

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

As at the end of the reporting period, there are no financial assets or liabilities offset or with the right to offset in the statement of financial position.

(c) Net assets attributable to unit holders

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

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

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

(d) Cash and cash equivalents

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

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

(e) Investment income

(i) Interest income

Interest income from financial assets at amortised cost is recognised using the effective interest method and includes interest from cash and cash equivalents.

2 Summary of significant accounting policies (continued)

(e) Investment income (continued)

(i) Interest income (continued)

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

(f) Expenses

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

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

(g) Income tax

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

(h) Distributions

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

(i) Functional and presentation currency

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

(j) Receivables

Receivables may include amounts for trust distributions. Trust distributions are accrued when the right to receive payment is established. Amounts are generally received within 30 days of being recorded as receivables.

(k) Payables

Payables include liabilities and accrued expenses owed by the Fund 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.

(l) 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)

(m) 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.

(n) Use of estimates and judgements

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

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

(o) Rounding of amounts

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

(p) Comparative revisions

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

3 Financial risk management

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

The Fund's overall risk management programme focuses on ensuring compliance with 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 Wealth Services Limited, as Responsible Entity and Investment Manager is responsible for the overall financial risk management of the Fund. The Fund is designed for investors seeking income returns higher than short-term money market rates and who also seek a relatively lower risk investment.

The Fund seeks to produce income by providing loans to selected borrowers which are secured by registered first mortgages. Loans are only offered in respect of selected improved commercial, industrial and rental real estate within Australia. Loans are for a maximum term of five years. It is the policy of the Fund to not provide loans in respect of development properties, construction projects, vacant land or for the purchase of shares in companies.

3 Financial risk management (continued)

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

(a) Market risk

(i) Interest rate risk

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

The majority of the Fund's financial assets and liabilities are fixed interest bearing. As a result, the Fund is not subject to significant risk due to fluctuations in the prevailing levels of market interest rates. Any excess cash and cash equivalents are invested at short term market interest rate products.

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

	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
As at 30 June 2023				
Financial assets				
Cash and cash equivalents	16,138	-	-	16,138
Receivables	-	-	3,058	3,058
Financial assets at amortised cost	18,002	220,680	-	238,682
Total financial assets	34,140	220,680	3,058	257,878
Financial liabilities				
Distributions payable	-	-	2,388	2,388
Payables	-	-	1,671	1,671
Total financial liabilities (excluding net assets attributable to unit holders)	-	-	4,059	4,059
Net exposure	34,140	220,680	(1,001)	253,819
	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	28,974	-	-	28,974
Receivables	-	-	2,194	2,194
Financial assets at amortised cost	37,170	182,575	-	219,745
Total financial assets	66,144	182,575	2,194	250,913
Financial liabilities				
Distributions payable	-	-	1,801	1,801
Payables	-	-	1,058	1,058
Total financial liabilities (excluding net assets attributable to unit holders)	-	-	2,859	2,859
Net exposure	66,144	182,575	(665)	248,054

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Interest rate risk (continued)

The table at Note 3(b) summarises the impact of an increase/decrease in interest rates on the Fund's operating profit and net assets attributable to unit holders through changes in fair value or changes in future cash flows. The analysis is based on the reasonably possible shift that the interest rates changed by +/- 100 basis points (2022: +/- 100 basis points) from the year end rates with all other variables held constant.

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unit holders to market risks. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in foreign exchange rates, interest rates and the historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market movements resulting from changes in the performance of and/or correlation between the performances of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variances in the risk variables.

	Impact on operating profit/net assets attributable to unit holders	
	Interest rate risk	
	+100bps \$'000	-100bps \$'000
As at 30 June 2023	341	(341)
As at 30 June 2022	661	(661)

(c) Credit risk

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

The main concentration of credit risk, to which the Fund is exposed, arises from the Fund's investment in Mortgages.

Credit risk for mortgage loans is mitigated by the Fund establishing mortgage procedures included in their Credit & Lending Guidelines. This document is designed to capture the credit risk management principles that are universally applicable to all of the underlying loans made by the Fund.

Where formal applications for mortgage loans are made to the Fund, a credit submission is prepared to determine the suitability of a prospective mortgage loan for the Fund for either approval by Asset Management (for certain transactions that meet conservative criteria) or to be referred to the Management Investment Committee, which includes, but is not limited to, the purpose of the loan, credit worthiness of the applicant, and capacity to service the mortgage loan.

The Management Investment Committee consists of 4 key people, chaired by the Executive General Manager Private Clients TWS, and comprises the Managing Director, Chief Financial Officer/Chief Operating Officer and Head of Asset Management. The exposure to credit risk is monitored by the committee on an ongoing basis.

The Fund's mortgage investments are secured by first registered mortgage assets only secured by selected improved retail, commercial office, industrial and residential real estate within Australia at a maximum loan to valuation ratio of 66.67%.

The Fund is also exposed to counterparty credit risk on cash and cash equivalents and other receivables.

3 Financial risk management (continued)

(c) Credit risk (continued)

The Fund determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss (ECL) and applies a two stage approach to measuring ECLs. The two stages are as follows:

- Stage 1: 12 month ECL, if the credit risk of the asset at the reporting date has not increased significantly since initial recognition;
- Stage 2: lifetime ECL of assets which are considered to have experienced a significant increase in credit risk. Interest is accrued on the gross carrying value.

At each reporting date, the Fund makes an assessment as to whether there has been a significant increase in credit risk for financial assets since initial recognition will be made by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

In assessing the forward looking information the Fund has considered the potential impacts of the Covid-19 pandemic and the mitigation measurements put in place by governments, regulators and the Reserve Bank of Australia. The funds expectations of future events have been based on a range of plausible scenarios and are believed to be reasonable and supportable. Under the circumstances, however, it is recognised that uncertainty still exists and actual results may differ from these estimates.

At 30 June 2023 and 30 June 2022, all receivables, cash and short-term deposits are held with counterparties with a credit rating of AA/Aa or higher 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 Fund.

Credit risk arises from cash and cash equivalents, financial assets measured at amortised cost, deposits with banks and other financial institutions. None of these assets are impaired. The fund assesses expected credit losses on financial assets measured at amortised cost by considering the likelihood of default through the review of future cash flows, prospects of the underlying assets and other relevant ratios.

(d) Liquidity risk

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

The Fund's liquidity risk is managed in accordance with the Fund's investment strategy. The Fund manages liquidity risk by maintaining adequate banking facilities and through the continuous monitoring of forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The Fund's overall strategy to liquidity risk management has been developed in accordance with the Benchmark 1 - Liquidity developed by ASIC; cash flow estimates are prepared on a quarterly basis, and steps are taken to ensure the Fund has enough cash or cash equivalents to meet projected cash needs for the following twelve months. The EQT Management Investment Committee meets regularly to monitor the liquidity requirements 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 2023 and 2022.

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

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

4 Fair value measurement

Financial instruments not carried at fair value

The carrying values of receivables and payables approximate their fair values due to their short-term nature.

5 Financial assets at amortised cost

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Mortgages	<u>238,682</u>	<u>219,745</u>
Total financial assets at amortised cost	<u>238,682</u>	<u>219,745</u>

An overview of the risk exposures relating to financial assets at amortised cost is included in Note 3 to the financial statements.

6 Structured entities

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

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

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

7 Net assets attributable to unit holders - liability

The Fund's units are classified as a liability as they do not 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
Wholesale				
Opening balance	170,041	170,041	139,345	139,345
Applications	34,347	34,347	37,396	37,396
Redemptions	(41,407)	(41,407)	(9,068)	(9,068)
Reinvestment of distributions	<u>2,662</u>	<u>2,662</u>	<u>2,368</u>	<u>2,368</u>
Closing balance	<u>165,643</u>	<u>165,643</u>	<u>170,041</u>	<u>170,041</u>

7 Net assets attributable to unit holders - liability (continued)

	Year ended			
	30 June 2023 Units '000	30 June 2023 \$'000	30 June 2022 Units '000	30 June 2022 \$'000
Retail				
Opening balance	78,013	78,013	87,732	87,732
Applications	28,978	28,978	30,025	30,025
Redemptions	(19,160)	(19,160)	(39,914)	(39,914)
Reinvestment of distributions	345	345	170	170
Closing balance	88,176	88,176	78,013	78,013
Closing balance		253,819		248,054

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

There are two separate classes of units. Each unit within the same class has the same rights as all other units within that class. Each unit class has a different management fee rate.

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

Capital risk management

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

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

8 Distributions to unit holders

The distributions declared during the year were as follows:

	Year ended			
	30 June 2023 \$'000	30 June 2023 CPU	30 June 2022 \$'000	30 June 2022 CPU
Distributions - Wholesale				
July	448	0.25	398	0.28
September	995	0.57	842	0.53
December	1,573	0.90	1,367	0.84
March	1,650	0.95	1,298	0.78
June (Payable)	1,626	0.98	1,281	0.75
Total distributions	6,292	3.65	5,186	3.18
Distributions - Retail				
July	186	0.24	233	0.26
September	407	0.52	396	0.55
December	654	0.83	591	0.77
March	689	0.83	524	0.72
June (Payable)	762	0.86	520	0.67
Total distributions	2,698	3.28	2,264	2.97
Total distributions	8,990		7,450	

9 Cash and cash equivalents

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
Cash at bank	-	7
Investment in Cash Management Fund	16,138	28,967
Total cash and cash equivalents	16,138	28,974

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

	Year ended	
	30 June 2023	30 June 2022
	\$'000	\$'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Profit/(loss) for the year	-	-
Distributions to unit holders	8,990	7,450
Proceeds from sale of financial instruments at amortised cost	15,060	74,301
Payments for purchase of financial instruments at amortised cost	(33,997)	(86,793)
Net change in receivables	(1,071)	628
Net change in payables	210	(212)
Net cash inflow/(outflow) from operating activities	(10,808)	(4,626)
(b) Non-cash operating and financing activities		
The following distribution payments to unit holders were satisfied by the issue of units under the distribution reinvestment plan	3,007	2,538
Total non-cash operating and financing activities	3,007	2,538

11 Receivables

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Interest receivable	2,810	1,739
Applications receivable	206	413
GST receivable	42	42
Total receivables	3,058	2,194

12 Payables

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Prepayment of interest	711	464
Management fees and costs payable	352	461
Redemptions payable	425	22
Other payables	183	111
Total payables	1,671	1,058

13 Remuneration of auditors

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

	Year ended	
	30 June 2023	30 June 2022
	\$	\$
Deloitte Touche Tohmatsu		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	26,930	20,380
Total auditor remuneration and other assurance services	26,930	20,380
<i>Taxation services</i>		
Tax compliance services	8,346	6,588
Total remuneration for taxation services	8,346	6,588
Total remuneration of Deloitte Touche Tohmatsu	35,276	26,968
PricewaterhouseCoopers		
<i>Audit and other assurance services</i>		
Audit of compliance plan	2,346	2,346
Total auditor remuneration and other assurance services	2,346	2,346
Total remuneration of PricewaterhouseCoopers	2,346	2,346

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

14 Related party transactions

The Responsible Entity of EQT Wholesale Mortgage Income Fund is Equity Trustees Wealth Services Limited (ABN 46 004 031 298) (AFSL 234 528). Accordingly, transactions with entities related to Equity Trustees Wealth Services Limited are disclosed below.

The Responsible Entity has contracted services to Equity Trustees Limited to act as Investment Manager for the Fund and State Street Australia Limited to act as Custodian and Administrator for the Fund. The contracts are on normal commercial terms and conditions.

(a) Key management personnel

(i) Directors

Key management personnel include persons who were directors of Equity Trustees Wealth Services 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	
Ian C Westley	
Jodi A Kennedy	(appointed 23 August 2022)

(ii) Responsible Entity

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

(iii) Other key management personnel

There were no other key management personnel with responsibility for planning, directing and controlling activities of the Fund, directly or indirectly during the financial year.

14 Related party transactions (continued)

(b) Transactions with key management personnel

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

(c) Key management personnel unit holdings

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

(d) Key management personnel compensation

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

(e) Key management personnel loans

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

(f) Other transactions within the Fund

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

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

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

	Year ended	
	30 June 2023	30 June 2022
	\$	\$
Management fees for the year	1,880,563	1,518,023
Responsible Entity fees for the year	76,316	71,073
Management fees payable at year end	312,750	418,669
Responsible Entity fees payable at year end	25,594	35,946

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

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.

14 Related party transactions (continued)

(h) Related party unit holdings

Parties related to the Fund (including Equity Trustees Wealth Services Limited, its related parties and other schemes managed by Equity Trustees Wealth Services Limited and the Investment Manager) hold units in the Fund, 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 Fund \$
State Street Australia Limited ACF Eqt Ltd A T F Common Fund No. 5	13,647,351	20,647,351	20,647,351	8.13%	7,000,000	-	669,538
Equity Trustees Limited Corporate Portfolio	7,500,000	7,500,000	7,500,000	2.95%	-	-	309,989
Equity Trustees Superannuation Limited < AMG Super >	-	7,187,569	7,187,569	2.83%	9,441,545	(2,253,976)	38,905
Equity Trustees Wealth Services Limited Corporate Portfolio	2,500,000	2,500,000	2,500,000	0.98%	-	-	103,330
EQT Ltd ACF Freedom of Choice Portfolio Service	9,594,869	-	-	-	362,995	(9,957,864)	277,941

A substantial percentage of the units of the fund are held by clients, for which Equity Trustees Wealth Services Limited or its affiliates act as trustee.

14 Related party transactions (continued)

(h) Related party unit holdings (continued)

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 Fund \$
SSAL ACF EQT ATF EQT Foundation	180,922	-	-	-	-	(180,922)	3,530
State Street Australia Limited ACF Eqt Ltd A T F Common Fund No. 5	45,147,351	13,647,351	13,647,351	5.50%	-	(31,500,000)	941,239
EQT Ltd ACF Freedom of Choice Portfolio Service	8,938,357	9,594,869	9,594,869	3.82%	2,100,671	(1,444,159)	304,034
Equity Trustees Limited Corporate Portfolio	2,500,000	7,500,000	7,500,000	3.02%	5,000,000	-	180,450
Equity Trustees Wealth Services Limited Corporate Portfolio	2,500,000	2,500,000	2,500,000	1.01%	-	-	82,869

(i) Investments

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

	Fair value of investment \$	Interest held %	Distributions received \$	Distributions receivable \$	Units acquired during the year	Units disposed during the year
30 June 2023						
Cash Management Fund	16,138,668	2.46	529,906	-	90,770,397	(103,598,949)
	Fair value of investment \$	Interest held %	Distributions received \$	Distributions receivable \$	Units acquired during the year	Units disposed during the year
30 June 2022						
Cash Management Fund	28,967,220	6.31	17,419	-	159,238,550	(150,735,392)

15 Events occurring after the reporting period

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

16 Contingent assets and liabilities and commitments

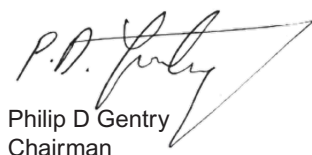
There were no outstanding contingent assets, liabilities or commitments as at 30 June 2023 and 30 June 2022.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 6 to 27 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its performance for the financial year ended on that date.
- (b) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (c) Note 2(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Philip D Gentry
Chairman

Melbourne
21 September 2023

Independent Auditor's Report to the Unit Holders of EQT Mortgage Income Fund

Opinion

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

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

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

Basis for Opinion

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

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

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

Other Information

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

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

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

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



Lani Cockrem
Partner
Chartered Accountants

Melbourne, 21 September 2023