

BNP Paribas Absolute Return Fixed Income Trust

ARSN 120 566 547

Annual report For the year ended 30 June 2020

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This annual report covers BNP Paribas Absolute Return Fixed Income Trust as an individual entity.

The Responsible Entity of BNP Paribas Absolute Return Fixed Income Trust is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975).

The Responsible Entity's registered office is:

Level 1, 575 Bourke Street,
Melbourne, VIC 3000.

Directors' report

The directors of Equity Trustees Limited, the Responsible Entity of BNP Paribas Absolute Return Fixed Income Trust (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 interest bearing securities and derivatives 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	BNP Paribas Asset Management Australia Limited
Delegated Investment Manager	BNP Paribas Asset Management USA, Inc
Custodian and Administrator	BNP Paribas Fund Services Australasia Pty Limited
Statutory Auditor	PricewaterhouseCoopers

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 the provisions of the Fund's Constitution.

The Fund's performance was -5.25% (net of fees) for the year ended 30 June 2020. The Fund's benchmark, the Bloomberg Ausbond Bank Bill Index returned 0.85% 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
Operating profit/(loss) for the year (\$'000)	(18,259)	1,179
Distributions paid and payable (\$'000)	-	728
Distributions (cents per unit)	-	0.19

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.

Directors' report (continued)

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.

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 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.

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, with the approach outlined further within Note 3 of these Financial Statements and the Net Asset Values of the Fund continue to be valued in accordance with the frequency set out in the Fund's Offer Documents, applying valuation policies reflective of the prevailing market conditions.

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 17 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 17 to the financial statements.

Directors' report (continued)

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 10 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 Limited through a delegated authority given by Equity Trustees Limited's Board.



Philip D Gentry
Chairman

Melbourne
23 September 2020



Auditor's Independence Declaration

As lead auditor for the audit of BNP Paribas Absolute Return Fixed Income Trust for the year ended 30 June 2020, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink, appearing to read 'G. Sagonas', is written over a light blue horizontal line.

George Sagonas
Partner
PricewaterhouseCoopers

Melbourne
23 September 2020

Statement of comprehensive income

		Year ended	
	Note	30 June 2020 \$'000	30 June 2019 \$'000
Investment income			
Interest income from financial assets at amortised cost		257	390
Interest income from financial assets at fair value through profit or loss		7,659	14,513
Net foreign exchange gain/(loss)		462	4,165
Net gains/(losses) on financial instruments at fair value through profit or loss	6	(24,393)	(15,062)
Other income		17	175
Total investment income/(loss)		<u>(15,998)</u>	<u>4,181</u>
Expenses			
Interest expense		36	158
Management fees	17	1,621	2,132
Custody and administration fees		221	195
Transaction costs		383	517
Total expenses		<u>2,261</u>	<u>3,002</u>
Operating profit/(loss) for the year		<u>(18,259)</u>	<u>1,179</u>
Other comprehensive income		-	-
Total comprehensive income for the year		<u>(18,259)</u>	<u>1,179</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 2020 \$'000	30 June 2019 \$'000
Assets			
Cash and cash equivalents	12	12,694	10,354
Margin accounts		-	1,910
Due from brokers - receivable for securities sold		-	90
Receivables	14	127	171
Financial assets at fair value through profit or loss	7	<u>201,217</u>	<u>362,439</u>
Total assets		<u>214,038</u>	<u>374,964</u>
Liabilities			
Margin accounts		6,028	-
Distributions payable	11	-	8
Due to brokers - payable for securities purchased		-	5,380
Payables	15	191	308
Financial liabilities at fair value through profit or loss	8	<u>17,835</u>	<u>8,732</u>
Total liabilities		<u>24,054</u>	<u>14,428</u>
Net assets attributable to unit holders - equity	10	<u>189,984</u>	<u>360,536</u>

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

Statement of changes in equity

	Note	Year ended	
		30 June 2020 \$'000	30 June 2019 \$'000
Total equity at the beginning of the financial year		360,536	468,244
Comprehensive income for the financial year			
Profit/(loss) for the year		(18,259)	1,179
Other comprehensive income		-	-
Total comprehensive income		(18,259)	1,179
Transactions with unit holders			
Applications	10	520	1,628
Redemptions	10	(152,813)	(110,507)
Reinvestment of distributions	10	-	720
Distributions paid and payable	10	-	(728)
Total transactions with unit holders		(152,293)	(108,887)
Total equity at the end of the financial year		189,984	360,536

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

Statement of cash flows

	Note	Year ended	
		30 June 2020 \$'000	30 June 2019 \$'000
Cash flows from operating activities			
Proceeds from sale of financial instruments at fair value through profit or loss		698,977	582,959
Payments for purchase of financial instruments at fair value through profit or loss		(558,336)	(514,696)
Interest income received from financial assets at amortised cost		268	390
Interest income received from financial assets at fair value through profit or loss		7,680	14,565
Net movement in margin accounts		7,938	25,327
Interest expense paid		(36)	(158)
GST received/(paid)		12	(33)
Other income received		17	175
Management fees paid		(1,725)	(2,221)
Custody and administration fees paid		(210)	(205)
Transaction costs paid		(406)	(517)
Net cash inflow/(outflow) from operating activities	13(a)	154,179	105,586
Cash flows from financing activities			
Proceeds from applications by unit holders		520	1,628
Payments for redemptions by unit holders		(152,813)	(110,507)
Distributions paid to unit holders		(8)	(52)
Net cash inflow/(outflow) from financing activities		(152,301)	(108,931)
Net increase/(decrease) in cash and cash equivalents		1,878	(3,345)
Cash and cash equivalents at the beginning of the year		10,354	9,534
Effect of foreign currency exchange rate changes on cash and cash equivalents		462	4,165
Cash and cash equivalents at the end of the year	12	12,694	10,354
Non-cash operating and financing activities	13(b)	-	720

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 BNP Paribas Absolute Return Fixed Income Trust (the "Fund") as an individual entity. The Fund is an Australian registered managed investment scheme, which was constituted on 9 June 2006 and will terminate in accordance with the provisions of the Fund's Constitution or by Law.

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

The Fund invests in interest bearing securities and derivatives 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 year 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 2019 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 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 instruments

i. Classification

- Financial assets

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

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

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

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

For derivatives, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments are measured at fair value through profit or loss.

For interest bearing securities, the contractual cash flows are solely payments of principal and interest, however they are neither held for collecting contractual cash flows both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, the interest bearing securities are measured at fair value through profit or loss.

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

- Financial liabilities

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

For financial liabilities that are not classified and measured at fair value through profit or loss, these are classified as financial liabilities at amortised cost (distributions payable, due to brokers, investment management fees payable, Responsible Entity fees payable, redemption payable and transaction costs payable).

ii. Recognition and derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in 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 liabilities are discharged, cancelled or expired.

iii. Measurement

- Financial instruments at fair value through profit or loss

At initial recognition, the Fund measures a financial asset and a financial liability at its fair value. Transaction costs of financial assets carried at the 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 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 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.

For further details on how the fair value of financial instruments is determined please see Note 5 to the financial statements.

2. Summary of significant accounting policies (continued)

b. Financial instruments (continued)

iii. Measurement (continued)

- Financial instruments at amortised cost

For financial assets and financial liabilities at amortised cost, they are initially measured at fair value including directly attributable costs and are subsequently measured using the effective interest rate method less any allowance for expected credit losses.

Cash and cash equivalents, due from brokers, receivables and margin accounts are carried at amortised cost.

iv. Impairment

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

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.

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

c. Net assets attributable to unit holders

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

The units can be put back to the 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 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.

2. Summary of significant accounting policies (continued)

d. Cash and cash equivalents

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

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

e. Margin accounts

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

f. Investment income

i. Interest income

Interest income from financial assets at amortised cost is recognised using the effective interest method and includes interest from cash and cash equivalents. Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from interest bearing securities.

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.

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

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. Foreign currency translation

i. Functional and presentation currency

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

ii. Transactions and balances

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

2. Summary of significant accounting policies (continued)

j. Foreign currency translation (continued)

ii. Transactions and balances (continued)

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

k. Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. The due from brokers balance is held for collection and are recognised initially at fair value and subsequently measured at amortised cost.

l. Receivables

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

m. Payables

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

A separate 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 30 June of the same financial year.

n. Applications and redemptions

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

o. Goods and services tax (GST)

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

p. Use of estimates and judgements

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

For the majority of the Fund's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Investment Manager.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations, require management to make estimates and judgements. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

2. Summary of significant accounting policies (continued)

p. Use of estimates and judgements (continued)

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

q. Rounding of amounts

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

r. Comparative revisions

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

3. Financial risk management

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

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

The investment of the Fund and associated risks are managed by a Specialist Investment Manager, BNP Paribas Asset Management Australia Limited and delegated Investment Manager, BNP Paribas Asset Management USA, Inc under an Investment Management Agreement (IMA) approved by the Responsible Entity and containing the investment strategy and guidelines of the Fund, consistent with those stated in the Product Disclosure Statement.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include Value at Risk ("VaR") analysis in the case of interest rate, inflation, credit spreads, foreign exchange and other price risks, and ratings analysis for credit risk. VaR analysis is explained in note 3(b).

a. Market risk

i. Price risk

The Fund is exposed to price risk on interest bearing securities and derivatives. Price risk arises from investments held by the Fund for which prices in the future are uncertain. Where non-monetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates which are considered a component of price risk.

Price risk is measured using Aladdin, which contains all portfolio holdings and then used to run the Fixed Income Risk Model. Aladdin aggregates investment exposures into a quantitative measure of portfolio risk, and aggregates the balance of risk across various types of exposures.

Aladdin's Risk Model methodology is based on representing each security in terms of a set of risk factors that in conjunction with one another, drive its price volatility. These include, among other factors, interest rates (key rate durations for nominal bonds/futures/ swaps, inflation exposure, credit and securitized spread exposures, volatility and currency exposures).

Value at risk ("VaR") VaR is a statistical technique that attempts to summarise the exposure of a given portfolio to market risk by making assumptions about the expected probability distribution of future portfolio returns. VaR represents the maximum reasonable loss that an investor could expect during a time period, with a given probability.

Although the use of derivatives (whether for hedging or investment purposes) may give rise to additional leveraged exposure, any such additional exposure will be covered and will be risk managed using the VaR methodology. BNPPAM US monitors portfolio risk using market factor exposures on a daily basis.

Potential price risk is calculated using the factor model approach. VaR is calculated and reported automatically each day using the closing prices and market information of the most recent business day. VaR analysis is explained in Note 3(b).

3. Financial risk management (continued)

a. Market risk (continued)

ii. Foreign exchange risk

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

Foreign exchange risk is managed by the use of derivatives (foreign currency exchange forwards), which aims to limit the effect of currency movements between the Australian dollar and other currencies.

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

	US Dollars A\$'000	Euro A\$'000	All other foreign currencies A\$'000
As at 30 June 2020			
Cash and cash equivalents	12,411	164	60
Margin accounts	(7,446)	900	518
Financial assets at fair value through profit or loss	144,827	21,578	13
Financial liabilities at fair value through profit or loss	<u>(2,032)</u>	<u>(761)</u>	<u>(3)</u>
Net exposure	147,760	21,881	588
Net increase/(decrease) in exposure from forward currency contracts	<u>(135,463)</u>	<u>(13,579)</u>	<u>(13,110)</u>
Net exposure including forward currency contracts	<u>12,297</u>	<u>8,302</u>	<u>(12,522)</u>
	US Dollars A\$'000	Euro A\$'000	All other foreign currencies A\$'000
As at 30 June 2019			
Cash and cash equivalents	10,060	173	37
Margin accounts	(2,116)	3,239	591
Due from brokers - receivable for securities sold	90	-	-
Receivables	35	-	-
Financial assets at fair value through profit or loss	228,962	68,056	57,179
Due to brokers - payable for securities purchased	(1,400)	-	(3,980)
Financial liabilities at fair value through profit or loss	<u>(5,602)</u>	<u>(927)</u>	<u>(947)</u>
Net exposure	230,029	70,541	52,880
Net increase/(decrease) in exposure from forward currency contracts	<u>(243,585)</u>	<u>(68,857)</u>	<u>(43,329)</u>
Net exposure including forward currency contracts	<u>(13,556)</u>	<u>1,684</u>	<u>9,551</u>

The table in Note 3(b) summarises the sensitivities of the Fund's monetary assets and liabilities to foreign exchange risk. The estimated impact has been calculated on the basis of a VaR model incorporating various factors: currency, interest rate, credit spread factors into an overall risk to portfolio value.

iii. 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 is measured using sensitivity analysis.

3. Financial risk management (continued)

a. Market risk (continued)

iii. Interest rate risk (continued)

Interest rate risk is managed by the delegated Investment Manager. Interest rate based strategies in the Fund can rise or fall, in line with yield curve fluctuations. In general, the fixed rate debt security valuations increase when interest rates fall, and decrease when interest rates rise. Given the Fund follows a long/short strategy, there is flexibility for the delegated Investment Manager to position the portfolio for both rises and falls in interest rates.

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

	Floating interest rate \$'000	3 months or less \$'000	Fixed interest rate		Over 5 years \$'000	Non interest bearing \$'000	Total \$'000
			4 to 12 months \$'000	1 to 5 years \$'000			
As at 30 June 2020							
Financial assets							
Cash and cash equivalents	12,694	-	-	-	-	-	12,694
Receivables	-	-	-	-	-	127	127
Financial assets at fair value through profit or loss	11,908	7,855	39,623	16,311	90,380	35,140	201,217
Total financial assets	24,602	7,855	39,623	16,311	90,380	35,267	214,038
Financial liabilities							
Margin accounts	-	-	-	-	-	6,028	6,028
Payables	-	-	-	-	-	191	191
Financial liabilities at fair value through profit or loss	-	-	-	-	-	17,835	17,835
Total financial liabilities	-	-	-	-	-	24,054	24,054
Net exposure	24,602	7,855	39,623	16,311	90,380	11,213	189,984
As at 30 June 2019							
Financial assets							
Cash and cash equivalents	10,354	-	-	-	-	-	10,354
Margin accounts	-	-	-	-	-	1,910	1,910
Due from brokers - receivable for securities sold	-	-	-	-	-	90	90
Receivables	-	-	-	-	-	171	171
Financial assets at fair value through profit or loss	37,388	66,934	48,815	47,813	140,565	20,924	362,439
Total financial assets	47,742	66,934	48,815	47,813	140,565	23,095	374,964
Financial liabilities							
Distributions payable	-	-	-	-	-	8	8
Due to brokers - payable for securities purchased	-	-	-	-	-	5,380	5,380
Payables	-	-	-	-	-	308	308
Financial liabilities at fair value through profit or loss	-	-	-	-	-	8,732	8,732
Total financial liabilities	-	-	-	-	-	14,428	14,428
Net exposure	47,742	66,934	48,815	47,813	140,565	8,667	360,536

3. Financial risk management (continued)

a. Market risk (continued)

The table at Note 3(b) summarises the impact of an increase/decrease of interest rates on the Fund's operating profit and net assets attributable to unit holders through changes in fair value of changes in future cash flows. The estimated impact has been calculated on the basis of a VaR model incorporating various factors: currency, interest rate, credit spread factors into an overall risk to portfolio value.

b. Summarised VaR analysis

Value at risk ("VaR") VaR is a statistical technique that attempts to summarise the exposure of a given portfolio to market risk by making assumptions about the expected probability distribution of future portfolio returns. VaR represents the maximum reasonable loss that an investor could expect during a time period, with a given probability.

To calculate VaR, the Delegated Investment Manager utilizes a factor model using historical volatility and correlations of current portfolio holdings to calculate VaR figures. The model can capture distributions with larger than normal tails (Distributions with large kurtosis exhibit tail returns exceeding the tail returns of the normal distribution), which can occur in particular via use of securities with optionality or otherwise, non-normal distributions). The VaR calculation presented here for the Fund use a 95% confidence interval and assumes a 1 month holding period, which is our standard calibration.

Assumptions and limitations of VaR

The calculation process involves assumptions involving historical price volatility and correlations of the current portfolio holdings to arrive at an estimate of predicted future volatility and expected risk of loss. These limitations and the nature of the VaR measures mean that the Fund can neither guarantee that losses will not exceed the VaR amounts indicated nor that losses in excess of the VaR amounts will not occur more frequently than is stipulated by the model. VaR represents the probable expected loss that could be experienced during a given period - not the maximum loss that an investor could experience. It must be noted however that while the VaR model is an important and valuable risk management tool, it cannot and does not take account of all possible market conditions and extremities that may impact market price risk. For further information regarding market price risk and other risk factors please refer to the Fund's Product Disclosure Statement.

The following table summarises the estimated risk of the Fund as measured by VaR. The estimated impact has been calculated on the basis of a VaR model incorporating various factors: currency, interest rate, credit spread factors into an overall risk to portfolio value.

	VaR Factor %	Net assets attributable to unit holders \$'000	Estimated impact of net assets attributable to unit holders \$'000
As at 30 June 2020	2.05 %	189,984	3,895
As at 30 June 2019	0.74 %	360,536	2,668

Not all risks to which the portfolio may be exposed are intended to be captured by the VaR and, in particular, the framework does not seek to capture liquidity risk, counterparty credit risk, or extreme credit events such as an issuer default. In practice, the actual trading results will differ from the VaR and may not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored to test the validity of the assumptions and parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Fund would withstand an extreme market event.

3. Financial risk management (continued)

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 interest bearing securities. The Fund is also exposed to counterparty credit risk on derivative financial instruments, cash and cash equivalents, amounts due to from brokers and other receivables.

The Fund determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 30 June 2020 and 30 June 2019, all receivables, amounts due from brokers, 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.

i. Interest bearing securities

The Fund invests in interest bearing securities subject to its limits as set out in the Product Disclosure Statement. The overall credit risk of the interest bearing securities held is actively monitored by the Delegated Investment Manager. At the time of issuance or purchase the securities' rating as determined by the primary ratings agencies (Standard & Poor's Rating Services, Moody's Investors Service and Fitch), if available, are populated into the portfolio management system (Aladdin) directly. Security level ratings are then automatically checked/updated on a nightly basis for any ratings changes. Commercial paper/Money market securities use the Short term ratings and bonds use Long Term ratings. In specific cases, the rating will descend from the issuer if the individual security is not rated (this is the case of US pass through MBS agency securities; rating agencies' govt rating for the US Government are passed to the Government sponsored agencies, since each mortgage pool is not rated specifically but uses the assumption of the US govt backing). The front office and other teams liaise with the Security master team on any matters related to a security's ratings.

An analysis of interest bearing securities by rating is set out in the table below.

	30 June 2020 \$'000	As at 30 June 2019 \$'000
International interest bearing securities rating		
AAA to AA-	70,283	173,049
A+ to A-	14,600	31,303
BBB+ to B-	55,025	110,781
CCC+ to C-	-	1,986
Not rated	<u>26,169</u>	<u>24,396</u>
Total	<u>166,077</u>	<u>341,515</u>

ii. Derivative financial instruments

The Fund also restricts its exposure to credit losses on the trading of derivative instruments it holds by entering into master netting arrangements with counterparties (approved brokers) with whom it undertakes a significant volume of transactions. Credit risk associated with favourable contracts is reduced by master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are closed and settled on a net basis. The Fund's overall exposure to credit risk on derivative instruments subject to a master netting arrangement can change substantially within a short period, as it is affected by each transaction subject to the arrangements. Refer to Note 4 to the financial statements for further analysis of the Fund's master netting arrangements.

iii. Cash and cash equivalents

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

3. Financial risk management (continued)

d. Liquidity risk

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

Exposure to liquidity risk for the Fund may arise from the requirement to meet daily unit holder redemption requests or to fund foreign exchange related cash flows requirements.

Liquidity risk is managed by maintaining a predominantly liquid portfolio through investing the majority of its assets in listed securities which are traded in an active market, and can be readily disposed of.

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

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
As at 30 June 2020					
Payables	191	-	-	-	191
Contractual cash flows (excluding derivatives)	191	-	-	-	191
As at 30 June 2019					
Distributions payable	8	-	-	-	8
Due to brokers - payable for securities purchased	5,380	-	-	-	5,380
Payables	308	-	-	-	308
Contractual cash flows (excluding derivatives)	5,696	-	-	-	5,696

ii. Maturities of net settled derivative financial instruments

The table below analyses the Fund's net settled derivative financial instruments based on their contractual maturity. The Fund may, at its discretion, settle financial instruments prior to their original contractual settlement date, in accordance with its investment strategy, where permitted by the terms and conditions of the relevant instruments.

	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
As at 30 June 2020					
Net settled derivatives					
Forward currency contracts	19,880	(136)	-	-	19,744
Swaps	-	268	125	2,101	2,494
Options	-	2	-	-	2
Futures	17	(310)	-	-	(293)
Total net settled derivatives	19,897	(176)	125	2,101	21,947

3. Financial risk management (continued)

d. Liquidity risk (continued)

ii. Maturities of net settled derivative financial instruments (continued)

As at 30 June 2019

Net settled derivatives

Forward currency contracts	5	6,861	-	-	6,866
Swaps	104	2,215	1,523	12,855	16,697
Futures	153	(442)	-	-	(289)
Bond forwards	-	-	-	(654)	(654)
Total net settled derivatives	<u>262</u>	<u>8,634</u>	<u>1,523</u>	<u>12,201</u>	<u>22,620</u>

4. Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the statement of financial position are disclosed in the first three columns of the tables below.

	Effects of offsetting on the statement of financial position			Related amounts not offset		
	Gross amounts of financial instrument	Gross amounts set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Amounts subject to master netting arrangements	Collateral received/pledged	Net amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2020						
Financial assets						
Forward currency contracts	34,803	-	34,803	(11,828)	-	22,975
Interest rate swaps	13	-	13	(13)	-	-
Credit default swaps	182	-	182	(182)	-	-
Interest rate futures	140	-	140	-	-	140
Margin accounts	1,418	(1,418)	-	-	-	-
Over the counter currency options	2	-	2	-	-	2
Total	36,558	(1,418)	35,140	(12,023)	-	23,117
Financial liabilities						
Forward currency contracts	15,039	-	15,039	(11,828)	-	3,211
Interest rate swaps	349	-	349	(13)	-	336
Credit default swaps	841	-	841	(182)	-	659
Interest rate futures	432	-	432	-	-	432
Swaptions	143	-	143	-	-	143
Bond forwards	1,031	-	1,031	-	-	1,031
Margin accounts	7,446	(1,418)	6,028	-	-	6,028
Total	25,281	(1,418)	23,863	(12,023)	-	11,840

4. Offsetting financial assets and financial liabilities (continued)

	Effects of offsetting on the statement of financial position			Related amounts not offset		
	Gross amounts of financial instrument	Gross amounts set off in the statement of financial position	Net amount of financial assets presented in the statement of financial position	Amounts subject to master netting arrangements	Collateral received/pledged	Net amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2019						
Financial assets						
Forward currency contracts	8,229	-	8,229	(547)	-	7,682
Interest rate swaps	4,338	-	4,338	(3,328)	-	1,010
Credit default swaps	5,305	-	5,305	(143)	-	5,162
Interest rate futures	2,088	-	2,088	-	-	2,088
Swaptions	964	-	964	-	-	964
Margin accounts	9,436	(7,526)	1,910	-	-	1,910
Total	30,360	(7,526)	22,834	(4,018)	-	18,816
Financial liabilities						
Forward currency contracts	1,253	-	1,253	(547)	-	706
Interest rate swaps	3,944	-	3,944	(3,328)	-	616
Credit default swaps	143	-	143	(143)	-	-
Interest rate futures	2,376	-	2,376	-	-	2,376
Swaptions	362	-	362	-	-	362
Bond forwards	654	-	654	-	-	654
Margin accounts	7,526	(7,526)	-	-	-	-
Total	16,258	(7,526)	8,732	(4,018)	-	4,714

a. Master netting arrangement – not currently enforceable

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

The Fund's financial assets act as collateral over its derivatives. The Fund settles negative derivative positions through a combination of existing cash and cash equivalents and financial assets at fair value through profit or loss.

5. Fair value measurement

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

- Financial assets/liabilities at fair value through profit or loss (see Note 7 and Note 8)
- Derivative financial instruments (see Note 9)

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.

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

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

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

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

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

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

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

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

For other pricing models, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

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

5. Fair value measurement (continued)

c. Recognised fair value measurements

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

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
As at 30 June 2020				
Financial assets				
Interest rate futures	140	-	-	140
Interest rate swaps	-	13	-	13
Forward foreign exchange contracts	-	34,803	-	34,803
Over the counter currency options	-	2	-	2
Credit default swaps	-	182	-	182
Interest bearing securities	-	166,077	-	166,077
Total financial assets	140	201,077	-	201,217
Financial liabilities				
Interest rate futures	432	-	-	432
Interest rate swaps	-	349	-	349
Forward foreign exchange contracts	-	15,039	-	15,039
Swaptions	-	143	-	143
Credit default swaps	-	841	-	841
Bond forwards	-	1,031	-	1,031
Total financial liabilities	432	17,403	-	17,835
As at 30 June 2019				
Financial assets				
Interest rate futures	2,088	-	-	2,088
Interest rate swaps	-	4,338	-	4,338
Forward foreign exchange contracts	-	8,229	-	8,229
Swaptions	-	964	-	964
Credit default swaps	-	5,305	-	5,305
Interest bearing securities	-	341,515	-	341,515
Total financial assets	2,088	360,351	-	362,439
Financial liabilities				
Interest rate futures	2,376	-	-	2,376
Interest rate swaps	-	3,944	-	3,944
Forward foreign exchange contracts	-	1,253	-	1,253
Swaptions	-	362	-	362
Credit default swaps	-	143	-	143
Bond forwards	-	654	-	654
Total financial liabilities	2,376	6,356	-	8,732

5. Fair value measurement (continued)

d. Transfer between levels

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

There were no transfers between levels in the fair value hierarchy at the end of the reporting period (30 June 2019: Nil).

e. 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.

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

6. Net gains/(losses) on financial instruments at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and liabilities at fair value through profit or loss:

	Year ended	
	30 June 2020 \$'000	30 June 2019 \$'000
Financial assets		
Net realised gain/(loss) on financial assets at fair value through profit or loss	(20,953)	(47,308)
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	<u>(3,440)</u>	<u>32,246</u>
Net gains/(losses) on financial assets at fair value through profit or loss	<u>(24,393)</u>	<u>(15,062)</u>
Total net gains/(losses) on financial instruments at fair value through profit or loss	<u>(24,393)</u>	<u>(15,062)</u>

7. Financial assets at fair value through profit or loss

	As at	
	30 June 2020 \$'000	30 June 2019 \$'000
Interest rate futures	140	2,088
Interest rate swaps	13	4,338
Forward foreign exchange contracts	34,803	8,229
Over the counter currency options	2	-
Swaptions	-	964
Credit default swaps	182	5,305
Interest bearing securities	<u>166,077</u>	<u>341,515</u>
Total financial assets at fair value through profit or loss	<u>201,217</u>	<u>362,439</u>

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in Note 3 and Note 5 to the financial statements.

8. Financial liabilities at fair value through profit or loss

	30 June 2020 \$'000	As at	30 June 2019 \$'000
Interest rate futures	432		2,376
Interest rate swaps	349		3,944
Forward foreign exchange contracts	15,039		1,253
Swaptions	143		362
Credit default swaps	841		143
Bond forwards	1,031		654
Total financial liabilities at fair value through profit or loss	17,835		8,732

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in Note 3 and Note 5 to the financial statements.

9. Derivative financial instruments

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

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

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

- hedging to protect an asset or liability of the Fund against a fluctuation in market values, foreign exchange risk or to reduce volatility;
- a substitution for trading of physical securities; and
- adjusting asset exposures within the parameters set in the investment strategy and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Fund.

The Fund holds the following derivatives:

a. Futures

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

b. Options

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

A swaption is an agreement that grants an option to the owner to the right but not the obligation to enter into a swap.

9. Derivative financial instruments (continued)

c. Forward currency contracts

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

d. Swaps

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

A credit default swap is an agreement whereby one counterparty pays a regular fee, usually expressed as a percentage of the notional principal, to another counterparty in return for security against default by the underlying loan or asset.

The fair value of interest rate swaps is the estimated amount that the Fund would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counterparties.

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

	Contractual/notional \$'000	Fair value	
		Assets \$'000	Liabilities \$'000
As at 30 June 2020			
Interest rate futures	(16,229)	140	432
Interest rate swaps	(72,884)	13	349
Forward currency contracts	19,744	34,803	15,039
Over the counter currency options	2	2	-
Swaptions	(35,439)	-	143
Credit default swaps	(34,820)	182	841
Bond forwards	-	-	1,031
Total derivatives	(139,626)	35,140	17,835
As at 30 June 2019			
Interest rate futures	(41,035)	2,088	2,376
Interest rate swaps	(110,498)	4,338	3,944
Forward currency contracts	6,865	8,229	1,253
Swaptions	129,533	964	362
Credit default swaps	76,452	5,305	143
Bond forwards	(34,714)	-	654
Total derivatives	26,603	20,924	8,732

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

10. 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	382,994	360,536	497,127	468,244
Applications	558	520	1,722	1,628
Redemptions	(172,063)	(152,813)	(116,619)	(110,507)
Units issued upon reinvestment of distributions	-	-	764	720
Distributions paid and payable	-	-	-	(728)
Profit/(loss) for the year	-	(18,259)	-	1,179
Closing balance	211,489	189,984	382,994	360,536

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

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

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

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 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.

11. 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
June	-	-	728	0.19
Total distributions	-	-	728	0.19

12. Cash and cash equivalents

	As at	
	30 June 2020 \$'000	30 June 2019 \$'000
Cash at bank	12,694	10,354
Total cash and cash equivalents	12,694	10,354

13. 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	(18,259)	1,179
Proceeds from sale of financial instruments at fair value through profit or loss	698,977	582,959
Payments for purchase of financial instruments at fair value through profit or loss	(558,336)	(514,696)
Net (gains)/losses on financial instruments at fair value through profit or loss	24,393	15,062
Net foreign exchange (gain)/loss	(462)	(4,165)
Net change in margin accounts	7,938	25,327
Net change in receivables	44	19
Net change in payables	(116)	(99)
Net cash inflow/(outflow) from operating activities	154,179	105,586

b. Non-cash operating and financing activities

During the year, the following distribution payments to unit holders were satisfied by the issue of units under the distribution reinvestment plan

	-	720
Total non-cash operating and financing activities	-	720

14. Receivables

	As at	
	30 June 2020 \$'000	30 June 2019 \$'000
Interest receivable from financial assets at amortised cost	-	11
Interest receivable from financial assets at fair value	3	24
GST receivable	124	136
Total receivables	127	171

15. Payables

	30 June 2020 \$'000	As at	30 June 2019 \$'000
Investment management fees payable	135		241
Responsible Entity fees payable	16		14
Custody and administration fees payable	40		29
Transaction costs payable	-		24
Total payables	191		308

16. Remuneration of auditor

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

	30 June 2020 \$	Year ended	30 June 2019 \$
PricewaterhouseCoopers			
<i>Audit services</i>			
Audit of financial statements	27,540		27,000
Audit of compliance plan	4,000		3,711
Total remuneration for audit services	31,540		30,711
<i>Taxation services</i>			
Tax compliance services	16,509		16,029
Total remuneration for taxation services	16,509		16,029
Total remuneration of PricewaterhouseCoopers	48,049		46,740

The auditor's remuneration is borne by the Investment Manager, BNP Paribas Asset Management Australia Limited. Fees are stated exclusive of GST.

17. Related party transactions

The Responsible Entity of BNP Paribas Absolute Return Fixed Income Trust is Equity Trustees Limited (ABN 46 004 004 298) (AFSL 240975). Accordingly, transactions with entities related to the Responsible Entity are disclosed below.

The Responsible Entity has contracted services to BNP Paribas Asset Management Australia Limited, to act as Investment Manager and BNP Paribas Fund Services Australasia Pty Limited to act as Custodian and Administrator for the Fund. The contracts are on normal commercial terms and conditions.

a. Key management personnel

i. Directors

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

Philip D Gentry	(Chairman)
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)

17. Related party transactions (continued)

a. Key management personnel (continued)

ii. 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.

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 2020 (30 June 2019: nil).

d. Key management personnel compensation

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

e. Key management personnel loans

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

f. Other transactions within the Fund

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

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

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

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

	Year ended	
	30 June 2020	30 June 2019
	\$	\$
Management fees for the year	1,466,709	1,936,969
Responsible Entity fees for the year	154,214	194,794
Management fees payable at year end	135,561	241,437
Responsible Entity fees payable at year end	15,719	13,898

The investment management fees and the Responsible Entity fees are paid directly by the Fund.

h. Related party unit holdings

Parties related to the Fund (including Equity Trustees Limited, its related parties and other schemes managed by Equity Trustees Limited and the Investment Manager) held no units in the Fund as at 30 June 2020 (30 June 2019: nil).

i. Investments

The Fund did not hold any investments in Equity Trustees Limited or its related parties during the year (2019: nil).

18. 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 2020 or on the results and cash flows of the Fund for the year ended on that date.

19. 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 6 to 34 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 also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Philip D Gentry
Chairman

Melbourne
23 September 2020



Independent auditor's report

To the unitholders of BNP Paribas Absolute Return Fixed Income Trust

Our opinion

In our opinion:

The accompanying financial report of BNP Paribas Absolute Return Fixed Income Trust (the Fund) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2020
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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

Independence

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.

Other information

The directors of Equity Trustees Limited (the Responsible Entity) are responsible for the other information. The other information comprises the information included in the annual 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 accordingly we do not express any form of assurance conclusion thereon.



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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, 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 of the Responsible Entity for the financial report

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

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the 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 of the Responsible Entity either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.


PricewaterhouseCoopers


George Sagonas
Partner

Melbourne
23 September 2020