

Mortgage Income Fund
(registered as Common Fund No.1)
ARSN 092 615 506
Annual report
For the year ended 30 June 2018

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Contents

Directors' report
Auditor's independence declaration
Statement of comprehensive income
Statement of financial position
Statement of changes in equity
Statement of cash flows
Notes to the financial statements
Directors' declaration
Independent auditor's report to the unit holders of Mortgage Income Fund

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

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

The Responsible Entity's registered office is:
Level 1, 575 Bourke Street
Melbourne, VIC 3000.

Directors' report

The directors of Equity Trustees Limited, the Responsible Entity of Mortgage Income Fund (registered as Common Fund No.1) (the "Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2018.

Principal activities

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

The Fund did not have any employees during the year.

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

The various service providers for the Fund are detailed below:

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

* On 13 November 2017, the Unit Registry changed from Equity Trustees Limited to OneVue Fund Services Pty Ltd.

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	
Ian C Westley	
Michael J O'Brien	(appointed 11 July 2018)

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 2.99% (net of fees) for the year ended 30 June 2018. The Fund's benchmark, the RBA Cash Rate returned 1.50% for the same period.

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 2018	30 June 2017
Operating profit/(loss) for the year (\$'000)	2,887	2,357
Distributions paid and payable (\$'000)	2,884	2,357
Distributions (cents per unit)	2.99	2.74

Significant changes in the state of affairs

The Fund has amended its Constitution to change the obligation to distribute trust income to unit holders effective 1 July 2017 as part of a process to become eligible to elect into the new Attribution Managed Investment Trusts ("AMIT") tax regime.

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

Michael J O'Brien was appointed as a director of Equity Trustees Limited on 11 July 2018.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may have a significant effect on:

- (i) the operations of the Fund in future financial years;
- (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 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.

Directors' report (continued)

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 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 on 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.



Philip D Gentry
Chairman

Melbourne
30 August 2018

30 August 2018

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

Dear Board Members,

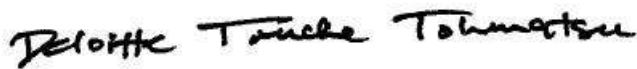
Independence Declaration – Mortgage Income Fund (registered as Common Fund No 1)

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the Directors of Equity Trustees Limited, the Responsible Entity, regarding the financial report of Mortgage Income Fund (registered as Common Fund No 1) (the "Fund").


As lead audit partner for the audit of the financial statements of the Fund for the financial year ended 30 June 2018, 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



Chester Hii
Partner
Chartered Accountants

Mortgage Income Fund
Statement of comprehensive income
For the year ended 30 June 2018

Statement of comprehensive income

	Note	Year ended	
		30 June 2018 \$'000	30 June 2017 \$'000
Investment income			
Interest income		11	40
Distribution income		3,434	2,787
Other income		29	41
Total investment income/(loss)		<u>3,474</u>	<u>2,868</u>
Expenses			
Management fees	14	530	445
Other expenses	14	57	66
Total expenses		<u>587</u>	<u>511</u>
Operating profit/(loss) for the year		<u>2,887</u>	<u>2,357</u>
Finance costs attributable to unit holders			
Distributions to unit holders*	8	-	(2,357)
(Increase)/decrease in net assets attributable to unit holders	7	-	-
Profit/(loss) for the year		<u>2,887</u>	-
Other comprehensive income		-	-
Total comprehensive income for the year		<u>2,887</u>	<u>-</u>

* Net assets attributable to unit holders are reclassified from liabilities to equity from 1 July 2017. As a result, the Fund's distributions are no longer classified as finance costs in the statement of comprehensive income, but rather as distributions paid and payable in the statement of changes in equity. Refer to Note 1 and Note 7 for further details.

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

Mortgage Income Fund
Statement of financial position
As at 30 June 2018

Statement of financial position

		As at	
	Note	30 June 2018 \$'000	30 June 2017 \$'000
Assets			
Cash and cash equivalents	9	286	1,228
Receivables	11	928	767
Financial assets held at fair value through profit or loss	5	97,431	90,631
Total assets		98,645	92,626
Liabilities			
Distributions payable	8	764	629
Payables	12	140	509
Total liabilities (30 June 2017: excluding net assets attributable to unit holders)		904	1,138
Net assets attributable to unit holders - liability*	7	-	91,488
Net assets attributable to unit holders - equity*	7	97,741	-

* Net assets attributable to unit holders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017. Refer to Note 1 for further details.

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

Mortgage Income Fund
Statement of changes in equity
For the year ended 30 June 2018

Statement of changes in equity

	Note	Year ended	
		30 June	30 June
		2018	2017
		\$'000	\$'000
Total equity at the beginning of the financial year		-	-
Reclassification due to AMIT tax regime implementation*	7	<u>91,488</u>	-
		<u>91,488</u>	-
Comprehensive income for the year			
Profit/(loss) for the year		2,887	-
Other comprehensive income		-	-
Total comprehensive income		<u>2,887</u>	-
Transactions with unit holders			
Applications	7	12,263	-
Redemptions	7	(6,202)	-
Reinvestment of distributions	7	189	-
Distributions paid and payable	7	<u>(2,884)</u>	-
Total transactions with unit holders		<u>3,366</u>	-
Total equity at the end of the financial year*		<u>97,741</u>	-

* Effective from 1 July 2017, the Fund's units have been reclassified from financial liability to equity. Refer Note 1 and Note 7 for further details. As a result, equity transactions, including distributions have been disclosed in the above statement for the year ended 30 June 2018.

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

Mortgage Income Fund
Statement of cash flows
For the year ended 30 June 2018

Statement of cash flows

		Year ended	
		30 June	30 June
		2018	2017
	Note	\$'000	\$'000
Cash flows from operating activities			
Proceeds from sale of financial instruments held at fair value through profit or loss		750	-
Purchase of financial instruments held at fair value through profit or loss		(7,550)	(22,000)
Interest income received		12	41
Distributions received		3,285	2,669
Other income received		26	44
Management fees paid		(536)	(448)
Other expenses paid		(54)	(66)
Net cash inflow/(outflow) from operating activities	10(a)	<u>(4,067)</u>	<u>(19,760)</u>
Cash flows from financing activities			
Proceeds from applications by unit holders		12,253	24,869
Payments for redemptions by unit holders		(6,568)	(5,220)
Distributions paid to unit holders		(2,560)	(2,076)
Net cash inflow/(outflow) from financing activities		<u>3,125</u>	<u>17,573</u>
Net increase/(decrease) in cash and cash equivalents		(942)	(2,187)
Cash and cash equivalents at the beginning of the year		<u>1,228</u>	<u>3,415</u>
Cash and cash equivalents at the end of the year	9	<u>286</u>	<u>1,228</u>
Non-cash operating and financing activities	10(b)	189	199

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

Notes to the financial statements

Contents

- 1 General information
- 2 Summary of significant accounting policies
- 3 Financial risk management
- 4 Fair value measurement
- 5 Financial assets held at fair value through profit or loss
- 6 Structured entities
- 7 Net assets attributable to unit holders
- 8 Distributions to unit holders
- 9 Cash and cash equivalents
- 10 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities
- 11 Receivables
- 12 Payables
- 13 Remuneration of auditor
- 14 Related party transactions
- 15 Events occurring after the reporting period
- 16 Contingent assets and liabilities and commitments

1 General information

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

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

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

On 5 May 2016, a new tax regime applying to Managed Investment Trusts ("MITs") was established under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. The Attribution Managed Investment Trust ("AMIT") regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. In order to allow the Fund to elect into the AMIT tax regime, the Fund's Constitution has been amended and the other conditions to adopt the AMIT tax regime have been met effective 1 July 2017. The Responsible Entity is therefore no longer contractually obligated to pay distributions. Consequently the units in the Fund have been reclassified from a financial liability to equity on 1 July 2017, see Note 7 for further information.

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.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(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 2017 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*

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Fund. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

- *AASB 9 Financial Instruments* (and applicable amendments) (effective from 1 January 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The standard is not applicable until 1 January 2018 but is available for early adoption. The directors do not expect this to have a significant impact on the recognition, classification and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not changed from the previous requirements, and the Fund does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Fund's investments are all held at fair value through profit or loss, the change in impairment rules will not materially impact the Fund.

- *AASB 15 Revenue from Contracts with Customers* (effective from 1 January 2018)

AASB 15 will replace AASB 118 *Revenue* which covers contracts for goods and services and AASB 111 *Construction Contracts* which covers construction contracts. AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The Fund's main sources of income are interest and distributions from financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the directors do not expect the adoption of AASB 15 to have a significant impact on the Fund's accounting policies or the amounts recognised in the financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

2 Summary of significant accounting policies (continued)

(b) Financial instruments

(i) Classification

The Fund's investments are classified as held at fair value through profit or loss. They comprise of:

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets and liabilities that are not held for trading purposes and which may be sold. These are investments in unlisted managed investment schemes.

Financial assets and liabilities designated at fair value through profit or loss at inception are those managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy as outlined in the Product Disclosure Statement. The Fund's policy is for the Investment Manager to evaluate information about these financial instruments on a fair value basis together with other related financial information.

(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 liabilities are discharged.

(iii) Measurement

- Financial instruments held at fair value through profit or loss

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income.

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

For further details on how the fair value of financial instruments is determined please see Note 4 to the financial statements.

(iv) Offsetting financial instruments

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

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

2 Summary of significant accounting policies (continued)

(c) Net assets attributable to unit holders

Units are redeemable at the unit holders' option; however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unit holders. The units are classified as financial liabilities as the Fund is required to distribute its distributable income in accordance with the Fund's Constitution.

The units can be put back to the Fund at any time for cash based on the redemption price.

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.

Units are classified as equity when 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.

As at 30 June 2017, net assets attributable to unit holders are classified as a financial liability. Effective from 1 July 2017, the Fund's units have been reclassified from financial liability to equity as they satisfied all the above criteria.

(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) Investment income

(i) Interest income

Interest income on cash and cash equivalents is recognised in the statement of comprehensive income on an accruals basis.

(ii) Distributions

Trust distributions are recognised on an entitlement basis.

(f) Expenses

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

(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.

2 Summary of significant accounting policies (continued)

(h) Distributions

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

(i) Increase/decrease in net assets attributable to unit holders

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

(j) Functional and presentation currency

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

(k) Receivables

Receivables may include amounts for interest 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.

Collectability of receivables is reviewed on an ongoing basis. Receivables which are known to be uncollectable are written off by reducing the carrying amount directly. The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(l) Payables

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

A separate distributions payable is recognised in the statement of financial position.

Distributions declared effective 30 June in relation to unit holders who have previously elected to reinvest distributions are recognised as reinvested effective 1 July of the following financial year.

(m) Applications and redemptions

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

(n) Goods and services tax (GST)

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

2 Summary of significant accounting policies (continued)

(o) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the current and next financial year. Estimates 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.

(p) 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.

(q) 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 the Fund's Product Disclosure Statement and the investment guidelines of the Fund. It also seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Funds' financial performance.

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

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

(a) Market risk

Interest rate risk

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

(b) Credit risk

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

Credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions. None of these assets are impaired.

3 Financial risk management (continued)

(c) Liquidity risk

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

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

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

In order to manage the Fund's overall liquidity, the Responsible Entity has the discretion to reject an application for units and to defer or adjust redemption of units if the exercise of such discretion is in the best interests of unit holders. The Fund did not reject or withhold any redemptions during 2018 and 2017.

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. Units are redeemed on demand at the unit holder's option. However, the Responsible Entity does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

	Less than 1 month \$'000	1 to 6 months \$'000	6 to 12 months \$'000	Over 12 months \$'000	Total \$'000
As at 30 June 2018					
Distributions payable	764	-	-	-	764
Payables	140	-	-	-	140
Net assets attributable to unit holders - equity	<u>97,741</u>	-	-	-	<u>97,741</u>
Contractual cash flows	<u>98,645</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>98,645</u>
As at 30 June 2017					
Distributions payable	629	-	-	-	629
Payables	509	-	-	-	509
Net assets attributable to unit holders - liability	<u>91,488</u>	-	-	-	<u>91,488</u>
Contractual cash flows	<u>92,626</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>92,626</u>

4 Fair value measurement

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

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

The Fund values its investments in accordance with the accounting policies set out in Note 2 to the financial statements.

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

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

Investments in unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such funds. The Fund may make adjustments to the value based on considerations such as: liquidity of the Investee Fund or its underlying investments, the value date of the net asset value provided, or any restrictions on redemptions and the basis of accounting.

(b) Recognised fair value measurements

The table below presents the Fund's financial assets and liabilities measured and recognised at fair value as at 30 June 2018.

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
As at 30 June 2018				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Unlisted managed investment schemes	-	97,431	-	97,431
Total financial assets	-	97,431	-	97,431
As at 30 June 2017				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Unlisted managed investment schemes	-	90,631	-	90,631
Total financial assets	-	90,631	-	90,631

4 Fair value measurement (continued)

(c) Transfer between levels

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

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

(d) Financial instruments not carried at fair value

The carrying value of receivables and payables are assumed to approximate their fair values.

5 Financial assets held at fair value through profit or loss

	As at	
	30 June	30 June
	2018	2017
	\$'000	\$'000
Designated at fair value through profit or loss		
Unlisted managed investment schemes	97,431	90,631
Total designated at fair value through profit or loss	97,431	90,631
Total financial assets held at fair value through profit or loss	97,431	90,631

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

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

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

7 Net assets attributable to unit holders

Under AASB 132 *Financial Instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. 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.

Prior to 1 July 2017, the Fund classified its net assets attributable to unit holders as liabilities in accordance with AASB 132. On 1 July 2017, the Fund has elected into the AMIT tax regime. The Fund's Constitution has been amended on the same date and it no longer has a contractual obligation to pay distributions to unit holders. Therefore the net assets attributable to unit holders of the Fund meet the criteria set out under AASB 132 and are classified as equity from 1 July 2017 onwards.

As a result of the reclassification of net assets attributable to unit holders from liabilities to equity, the Fund's distributions are no longer classified as finance costs in the statement of comprehensive income, but rather as distributions paid in the statement of changes in equity.

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 2018	30 June 2018	30 June 2017	30 June 2017
	Units '000	\$'000	Units '000	\$'000
Opening balance*	91,488	91,488	72,096	72,096
Applications	12,263	12,263	24,869	24,869
Redemptions	(6,202)	(6,202)	(5,676)	(5,676)
Reinvestment of distributions	189	189	199	199
Increase/(decrease) in net assets attributable to unit holders	-	-	-	-
Distributions paid and payable	-	(2,884)	-	-
Profit/(loss) for the year	-	2,887	-	-
Closing balance	97,738	97,741	91,488	91,488

* Net assets attributable to unit holders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017. Refer to Note 1 for further details.

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, notwithstanding that net assets attributable to unit holders are classified as a liability until 30 June 2017. 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		Year ended	
	30 June 2018 \$'000	30 June 2018 CPU	30 June 2017 \$'000	30 June 2017 CPU
Distributions				
September	692	0.75	526	0.67
December	672	0.69	585	0.69
March	754	0.77	603	0.68
June (payable)	764	0.78	629	0.70
Income paid on redemption	2	-	14	-
Total distributions	2,884	2.99	2,357	2.74

9 Cash and cash equivalents

	As at	
	30 June 2018 \$'000	30 June 2017 \$'000
Investment in Cash Management Fund	286	1,228
Total cash and cash equivalents	286	1,228

This account is earning a floating interest rate of between 0.90% and 1.10% as at 30 June 2018 (2017: 1.10% and 1.25%).

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

	Year ended	
	30 June 2018 \$'000	30 June 2017 \$'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Profit/(loss) for the year	2,887	-
Increase/(decrease) in net assets attributable to unit holders	-	-
Distributions to unit holders	-	2,357
Proceeds from sale of financial instruments held at fair value through profit or loss	750	-
Purchase of financial instruments held at fair value through profit or loss	(7,550)	(22,000)
Net change in receivables	(151)	(114)
Net change in payables	(3)	(3)
Net cash inflow/(outflow) from operating activities	(4,067)	(19,760)
(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	189	199
Total non-cash operating and financing activities	189	199

As described in Note 2(i), income not distributed is included in net assets attributable to unit holders. The change in this amount for the year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

Mortgage Income Fund
Notes to the financial statements
For the year ended 30 June 2018
(continued)

11 Receivables

	As at	
	30 June	30 June
	2018	2017
	\$'000	\$'000
Interest receivable	1	2
Distributions receivable	907	758
Applications receivable	10	-
GST receivable	10	7
Total receivables	928	767

12 Payables

	As at	
	30 June	30 June
	2018	2017
	\$'000	\$'000
Management fees payable	46	52
Other expenses reimbursable to the Investment Manager	4	1
Redemptions payable	90	456
Total payables	140	509

13 Remuneration of auditor

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

	Year ended	
	30 June	30 June
	2018	2017
	\$	\$
Deloitte Touche Tohmatsu		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	16,730	16,730
Audit of compliance plan	3,770	3,770
Total remuneration for audit and other assurance services	<u>20,500</u>	<u>20,500</u>
<i>Taxation services</i>		
Tax compliance services	5,740	7,740
Total remuneration for taxation services	<u>5,740</u>	<u>7,740</u>
Total remuneration of Deloitte Touche Tohmatsu	<u>26,240</u>	<u>28,240</u>

The auditor's remuneration is borne by the Responsible Entity. These fees are subsequently recovered from the Fund. Fees are stated exclusive of GST.

14 Related party transactions

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

Equity Trustees Limited is also the Custodian, Administrator and Investment Manager of 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	
Ian C Westley	
Michael J O'Brien	(appointed 11 July 2018)

(ii) 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.

(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 2018 (30 June 2017: 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.

14 Related party transactions (continued)

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

Under the terms of the Fund's Constitution and its Product Disclosure Statement, Equity Trustees Limited as the Responsible Entity and the Investment Manager of the Fund is entitled to receive management fees.

The transactions during the year and amounts payable as at year end between the Fund and Equity Trustees Limited were as follows:

	Year ended	
	30 June	30 June
	2018	2017
	\$	\$
Responsible Entity, Custodian, Administration and Investment Management fees earned by Equity Trustees Limited for the year	529,864	444,531
Amounts payable to Equity Trustees Limited for fees at the end of the year	45,907	52,446
Other expenses reimbursed to Equity Trustees Limited for costs incurred on behalf of the Fund during the year	57,296	65,955
Other expenses reimbursable to Equity Trustees Limited at the end of the year	3,486	755

(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) hold units in the Fund, as follows:

Unit holder	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
			\$	%			\$
As at 30 June 2018							
EQT Growth Fund	34,997,351	35,997,351	35,997,351	36.83%	1,000,000	-	1,052,623
Equity Trustees Foundation	60,384	200,922	200,922	0.21%	140,538	-	4,096
As at 30 June 2017							
EQT Growth Fund	30,997,351	34,997,351	34,997,351	38.25%	4,000,000	-	914,902
Equity Trustees Foundation	91,384	60,384	60,384	0.07%	-	(31,000)	2,217

14 Related party transactions (continued)

(i) Investments

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

	Fair value of investment \$	Interest held %	Distributions earned \$	Distributions receivable \$	Units acquired during the year	Units disposed during the year
As at 30 June 2018						
Cash Management Fund	285,411	0.08%	10,039	439	16,453,118	(17,395,280)
EQT Wholesale Mortgage Income Fund	97,431,441	41.70%	2,527,666	906,749	7,550,000	(750,000)
As at 30 June 2017						
Cash Management Fund	1,227,573	0.36%	38,361	1,984	27,042,185	(29,229,769)
EQT Wholesale Mortgage Income Fund	90,631,441	39.57%	2,028,068	758,369	22,000,000	-

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 2018 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 are no outstanding contingent assets, liabilities or commitments as at 30 June 2018 and 30 June 2017.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 6 to 25 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 2018 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.
- (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.



Philip D Gentry
Chairman

Melbourne
30 August 2018

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

Opinion

We have audited the financial report of Mortgage Income Fund (registered as Common Fund No 1) (the "Fund") which comprises the statement of financial position as at 30 June 2018, 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 2018 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* (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 2018, but does not include the financial report and our auditor's report thereon.

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink, appearing to read 'Chester Hii', with a long horizontal stroke and a vertical line extending downwards from the end.

Chester Hii
Partner
Chartered Accountants
Melbourne, 30 August 2018