

**EQT Wholesale Mortgage Income Fund**

ARSN 101 748 109

**Annual report**

**For the year ended 30 June 2018**

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ARSN 101 748 109

## **Annual report**

### **For the year ended 30 June 2018**

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

The Responsible Entity of EQT Wholesale 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 EQT Wholesale Mortgage Income Fund (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% in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

The Fund's investment objective is to outperform the Reserve Bank of Australia ("RBA") Cash Rate over rolling 3 year periods. The Fund is suitable for investors seeking income returns higher than the cash rate and also seeking increased security in their investment.

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:

<b>Service</b>	<b>Provider</b>
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 3.60% (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:

	<b>Year ended</b>	
	<b>30 June 2018</b>	30 June 2017
Operating profit/(loss) for the year (\$'000)	<b>8,452</b>	6,864
Distributions paid and payable (\$'000)	<b>8,454</b>	6,867
Distributions (cents per unit)	<b>3.60</b>	3.39

**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 13 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 13 to the financial statements.

**Interests in the Fund**

The movement in units on issue in the Fund during the year is disclosed in Note 6 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,

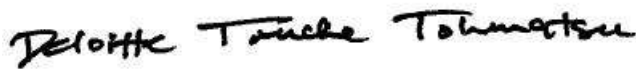
### **Independence Declaration – EQT Wholesale Mortgage Income Fund**

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

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

**EQT Wholesale 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
<b>Investment income</b>			
Interest income		<u>10,368</u>	8,489
<b>Total investment income/(loss)</b>		<u>10,368</u>	<u>8,489</u>
<b>Expenses</b>			
Management fees	13	1,472	1,320
Other expenses	13	<u>444</u>	<u>305</u>
<b>Total expenses</b>		<u>1,916</u>	<u>1,625</u>
<b>Operating profit/(loss) for the year</b>		<u>8,452</u>	<u>6,864</u>
<b>Finance costs attributable to unit holders</b>			
Distributions to unit holders*	7	-	(6,867)
(Increase)/decrease in net assets attributable to unit holders	6	<u>-</u>	<u>3</u>
<b>Profit/(loss) for the year</b>		<b>8,452</b>	-
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the year</b>		<u>8,452</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 6 for further details.

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

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

**Statement of financial position**

		<b>As at</b>	
	<b>Note</b>	<b>30 June 2018 \$'000</b>	<b>30 June 2017 \$'000</b>
<b>Assets</b>			
Cash and cash equivalents	8	10,539	43,776
Receivables	10	2,652	2,185
Financial assets held at amortised cost	4	224,841	186,334
<b>Total assets</b>		<b>238,032</b>	<b>232,295</b>
<b>Liabilities</b>			
Distributions payable	7	2,181	1,911
Payables	11	2,202	1,342
<b>Total liabilities (30 June 2017: excluding net assets attributable to unit holders)</b>		<b>4,383</b>	<b>3,253</b>
<b>Net assets attributable to unit holders - liability*</b>	6	-	229,042
<b>Net assets attributable to unit holders - equity*</b>	6	<b>233,649</b>	<b>-</b>

\* 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.*



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

**Statement of changes in equity**

		<b>Year ended</b>	
		<b>30 June</b>	<b>30 June</b>
		<b>2018</b>	<b>2017</b>
Note		<b>\$'000</b>	<b>\$'000</b>
<b>Total equity at the beginning of the financial year</b>		-	-
	Reclassification due to AMIT tax regime implementation*	229,042	-
6		<u>229,042</u>	<u>-</u>
<b>Comprehensive income for the year</b>			
	Profit/(loss) for the year	8,452	-
	Other comprehensive income	-	-
	<b>Total comprehensive income</b>	<u>8,452</u>	<u>-</u>
<b>Transactions with unit holders</b>			
	Applications	21,265	-
6			
	Redemptions	(19,130)	-
6			
	Reinvestment of distributions	2,474	-
6			
	Distributions paid and payable	(8,454)	-
6			
	<b>Total transactions with unit holders</b>	<u>(3,845)</u>	<u>-</u>
<b>Total equity at the end of the financial year*</b>		<u>233,649</u>	<u>-</u>

\* Effective from 1 July 2017, the Fund's units have been reclassified from financial liability to equity. Refer Note 1 and Note 6 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.*

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

**Statement of cash flows**

		<b>Year ended</b>	
		<b>30 June</b>	30 June
		<b>2018</b>	2017
	Note	<b>\$'000</b>	\$'000
<b>Cash flows from operating activities</b>			
Proceeds from repayment of financial instruments held at amortised cost		<b>69,741</b>	20,961
Advances for financial instruments held at amortised cost		<b>(108,248)</b>	(96,356)
Interest income received		<b>10,802</b>	9,153
Management fees paid		<b>(1,467)</b>	(1,264)
Other expenses paid		<b>(464)</b>	(345)
<b>Net cash inflow/(outflow) from operating activities</b>	9(a)	<b>(29,636)</b>	(67,851)
<b>Cash flows from financing activities</b>			
Proceeds from applications by unit holders		<b>21,237</b>	99,198
Payments for redemptions by unit holders		<b>(19,128)</b>	(20,580)
Distributions paid to unit holders		<b>(5,710)</b>	(4,527)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(3,601)</b>	74,091
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(33,237)</b>	6,240
Cash and cash equivalents at the beginning of the year		<b>43,776</b>	37,536
<b>Cash and cash equivalents at the end of the year</b>	8	<b>10,539</b>	43,776
Non-cash operating and financing activities	9(b)	<b>2,474</b>	1,711

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

**Notes to the financial statements**

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## **1 General information**

These financial statements cover EQT Wholesale Mortgage Income Fund (the "Fund") as an individual entity. The Fund is an Australian registered managed investment scheme which was constituted on 18 July 2002 and will terminate in accordance with the 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% 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 6 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 amortised cost 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 expect this to have a significant impact on the recognition, classification and measurement of the Fund's financial instruments as they are held at amortised cost. The impact is still being assessed. Therefore, the full impact is not currently known. 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. The impact of the change in impairment rules for the Fund's investments held at amortised cost is still being assessed. Therefore, the full impact is not currently known. The directors intend to adopt AASB 9 in the 30 June 2019 financial year.

- **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 source of income is interest on financial instruments held at amortised cost. This is 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:

- Financial instruments held at amortised cost

Financial instruments held at amortised cost at inception are those with fixed or determinable payments and fixed maturity dates that the Fund has the positive intent and ability to hold to maturity. These are investments in originated mortgages and interest bearing securities such as term deposits. Term deposits are initially recognised at fair value and then carried at amortised cost using the effective interest method.

#### *(ii) Recognition and derecognition*

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade 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 assets held at amortised cost

Mortgage investments and term deposits are recorded at amortised cost using the effective interest method less impairment, with revenue recognised on an effective yield basis.

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.

The financial assets are assessed for indicators of impairment at the end of each reporting period. The financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

### **(b) Financial instruments (continued)**

#### *(iii) Measurement (continued)*

- Loans and receivables

Loan assets are measured initially at fair value plus transaction costs and subsequently amortised using the effective interest rate method, less impairment losses if any. Such assets are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment.

If evidence of impairment exists, an impairment loss is recognised in the statement of comprehensive income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss previously recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the statement of comprehensive income.

#### *(iv) Offsetting financial instruments*

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

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

### **(c) 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.

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.

**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.

**(e) Investment income**

Interest income on cash and cash equivalents is recognised in the statement of comprehensive income on an accruals basis. Interest income on financial assets held at amortised cost is recognised using the effective interest method.

**(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.

**(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. 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.



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

### **(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.

### **(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.

**3 Financial risk management (continued)**

Equity Trustees Limited, as Responsible Entity and Investment Manager is responsible for the overall financial risk management of the Fund. The Fund is designed for investors seeking income returns higher than short-term money market rates and who also seek a relatively lower risk investment.

The Fund seeks to produce income by providing loans to selected borrowers which are secured by registered first mortgages. Loans are only offered in respect of selected improved commercial, industrial and rental real estate within Australia. Loans are for a maximum term of five years. No loan exceeds two thirds of the value of the security property which it is intended that the mortgage be granted. It is the policy of the Fund to not provide loans in respect of development properties, construction projects, vacant land or for the purchase of shares in companies.

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*

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 risk is measured using sensitivity analysis.

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

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

	<b>Floating interest rate \$'000</b>	<b>Fixed interest rate \$'000</b>	<b>Non-interest bearing \$'000</b>	<b>Total \$'000</b>
<b>As at 30 June 2018</b>				
<b>Assets</b>				
Cash and cash equivalents	7,539	3,000	-	10,539
Receivables	-	-	2,652	2,652
Financial assets held at amortised cost	21,981	202,860	-	224,841
<b>Total assets</b>	<b>29,520</b>	<b>205,860</b>	<b>2,652</b>	<b>238,032</b>
<b>Liabilities</b>				
Distributions payable	-	-	2,181	2,181
Payables	-	-	2,202	2,202
<b>Total equity (excluding net assets attributable to unit holders)</b>	<b>-</b>	<b>-</b>	<b>4,383</b>	<b>4,383</b>
<b>Net exposure</b>	<b>29,520</b>	<b>205,860</b>	<b>(1,731)</b>	<b>233,649</b>

**3 Financial risk management (continued)**

**(a) Market risk (continued)**

*Interest rate risk (continued)*

	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
As at 30 June 2017				
<b>Assets</b>				
Cash and cash equivalents	3,776	40,000	-	43,776
Receivables	-	-	2,185	2,185
Financial assets held at amortised cost	17,650	168,684	-	186,334
<b>Total assets</b>	<b>21,426</b>	<b>208,684</b>	<b>2,185</b>	<b>232,295</b>
<b>Liabilities</b>				
Distributions payable	-	-	1,911	1,911
Payables	-	-	1,342	1,342
<b>Total liabilities (excluding net assets attributable to unit holders)</b>	<b>-</b>	<b>-</b>	<b>3,253</b>	<b>3,253</b>
<b>Net exposure</b>	<b>21,426</b>	<b>208,684</b>	<b>(1,068)</b>	<b>229,042</b>

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 analysis is based on the assumption that the interest rates changed by +/- 100 basis points (2017: +/- 100 basis points) from the year end rates with all other variables held constant.

**(b) Summarised sensitivity analysis**

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

	<b>Impact on operating profit/net assets attributable to unit holders to interest rate risk</b>	
	<b>-100bps</b>	<b>+100bps</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>As at 30 June 2018</b>	<b>(295)</b>	<b>295</b>
As at 30 June 2017	(214)	214

### **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 Fund is exposed to credit risk in the form of borrower default risk. This risk is mitigated by the lending guidelines of the Fund, including a maximum loan to valuation ratio of two thirds of the security property, a maximum loan size of not more than 5% of the total Fund size on any new loan, and the requirement that a loan is for improved commercial and industrial real estate within Australia only and not for development properties, construction projects, vacant land or for the purchase of shares in companies.

As all loans within the Fund's investment portfolio are secured by first mortgage over the respective underlying properties, the amount of this risk is limited to the difference between the amount provided to the borrower and the amount received upon sale of the underlying property in the case of default.

The Fund has adopted the policy of only dealing with creditworthy counterparties. The Fund measures credit risk on a fair value basis. The Fund's exposure and the credit ratings of its counterparties are continuously monitored by the Responsible Entity.

Receivables are mainly comprised of mortgages originated and interest receivable. Other receivables balances are largely immaterial.

The credit risk associated with interest receivable is considered to be minimal since none of these assets are impaired nor past due but not impaired. Investment income receivable has historically been received within 15 days of year end.

#### **(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.

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

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

**3 Financial risk management (continued)**

**(d) Liquidity risk (continued)**

*(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. 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
<b>As at 30 June 2018</b>					
Distributions payable	2,181	-	-	-	2,181
Payables	2,202	-	-	-	2,202
Net assets attributable to unit holders - equity	<u>233,649</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>233,649</u>
<b>Contractual cash flows</b>	<u>238,032</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>238,032</u>
<b>As at 30 June 2017</b>					
Distributions payable	1,911	-	-	-	1,911
Payables	1,342	-	-	-	1,342
Net assets attributable to unit holders - liability	<u>229,042</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>229,042</u>
<b>Contractual cash flows</b>	<u>232,295</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>232,295</u>

**4 Financial assets held at amortised cost**

	As at	
	30 June 2018 \$'000	30 June 2017 \$'000
Interest bearing securities with original maturities of more than 3 months	29,000	7,000
Originated mortgage investments	<u>195,841</u>	<u>179,334</u>
<b>Total financial assets held at amortised cost</b>	<u>224,841</u>	<u>186,334</u>

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

Investment in interest bearing securities with original maturities of more than 3 months is earning a fixed interest rate of between 2.11% and 2.49% as at 30 June 2018 (2017: 2.22% and 2.30%).

## 5 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 13(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.

## 6 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*	229,040	229,042	148,711	148,716
Applications	21,265	21,265	99,198	99,198
Redemptions	(19,130)	(19,130)	(20,580)	(20,580)
Reinvestment of distributions	2,474	2,474	1,711	1,711
Increase/(decrease) in net assets attributable to unit holders	-	-	-	(3)
Distributions paid and payable	-	(8,454)		
Profit/(loss) for the year	-	8,452		
<b>Closing balance</b>	<b>233,649</b>	<b>233,649</b>	<b>229,040</b>	<b>229,042</b>

\* 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.

**6 Net assets attributable to unit holders (continued)**

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.

**7 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
<b>Distributions</b>				
September	2,092	0.91	1,477	0.83
December	2,002	0.85	1,684	0.87
March	2,172	0.91	1,736	0.84
June (payable)	2,181	0.93	1,911	0.85
Income paid on redemption	7	-	59	-
<b>Total distributions</b>	<b>8,454</b>	<b>3.60</b>	<b>6,867</b>	<b>3.39</b>

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

**8 Cash and cash equivalents**

	As at	
	30 June	30 June
	2018	2017
	\$'000	\$'000
Cash at bank	13	191
Investment in Cash Management Fund	7,526	3,585
Interest bearing securities with original maturities of 3 months or less	3,000	40,000
<b>Total cash and cash equivalents</b>	<b>10,539</b>	<b>43,776</b>

Cash at bank is non-interest bearing.

Investment in Cash Management Fund is earning a floating interest rate of between 0.90% and 1.10% as at 30 June 2018 (2017: 1.10% and 1.25%).

Investment in interest bearing securities with original maturities of 3 months or less is earning a fixed interest rate of between 2.10% and 2.45% as at 30 June 2018 (2017: 2.10% and 2.64%).

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

	Year ended	
	30 June	30 June
	2018	2017
	\$'000	\$'000
<b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Profit/(loss) for the year	8,452	-
Increase/(decrease) in net assets attributable to unit holders	-	(3)
Distributions to unit holders	-	6,867
Proceeds from repayment of financial instruments held at amortised cost	69,741	20,961
Advances for financial instruments held at amortised cost	(108,248)	(96,356)
Net change in receivables	(439)	(543)
Net change in payables	858	1,223
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(29,636)</b>	<b>(67,851)</b>
<b>(b) Non-cash operating and financing activities</b>		
The following distribution payments to unit holders were satisfied by the issue of units under the distribution reinvestment plan	2,474	1,711
<b>Total non-cash operating and financing activities</b>	<b>2,474</b>	<b>1,711</b>

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.



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

**10 Receivables**

	As at	
	30 June 2018 \$'000	30 June 2017 \$'000
Interest receivable	2,535	2,127
Applications receivable	28	-
GST receivable	89	58
<b>Total receivables</b>	<b>2,652</b>	<b>2,185</b>

**11 Payables**

	As at	
	30 June 2018 \$'000	30 June 2017 \$'000
Management fees payable	154	149
Other expenses reimbursable to the Investment Manager	15	4
Prepayment of interest	2,031	1,189
Redemptions payable	2	-
<b>Total payables</b>	<b>2,202</b>	<b>1,342</b>

**12 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 2018 \$	30 June 2017 \$
<b>Deloitte Touche Tohmatsu</b>		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	12,550	12,550
Audit of compliance plan	4,280	4,280
Total remuneration for audit and other assurance services	<b>16,830</b>	<b>16,830</b>
<i>Taxation services</i>		
Tax compliance services	5,780	7,780
Total remuneration for taxation services	<b>5,780</b>	<b>7,780</b>
<b>Total remuneration of Deloitte Touche Tohmatsu</b>	<b>22,610</b>	<b>24,610</b>

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

### **13 Related party transactions**

The Responsible Entity of EQT Wholesale Mortgage Income Fund 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.

**13 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:

	<b>Year ended</b>	
	<b>30 June 2018</b>	<b>30 June 2017</b>
	<b>\$</b>	<b>\$</b>
Responsible Entity, Custodian, Administration and Investment Management fees earned by Equity Trustees Limited for the year	<b>1,471,927</b>	1,319,616
Amounts payable to Equity Trustees Limited for fees at the end of the year	<b>153,492</b>	149,379
Other expenses reimbursed to Equity Trustees Limited for costs incurred on behalf of the Fund during the year	<b>444,179</b>	305,044
Other expenses reimbursable to Equity Trustees Limited at the end of the year	<b>14,907</b>	4,014

**(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:

<b>Unit holder</b>	<b>Number of units held opening</b>	<b>Number of units held closing</b>	<b>Fair value of investment \$</b>	<b>Interest held %</b>	<b>Number of units acquired</b>	<b>Number of units disposed</b>	<b>Distributions paid/payable by the Fund \$</b>
<b>As at 30 June 2018</b>							
<b>Mortgage Income Fund</b>	90,631,441	97,431,441	97,431,441	41.70%	7,550,000	(750,000)	3,434,415
<b>Freedom of Choice</b>	11,246,721	11,991,953	11,991,953	5.13%	1,647,775	(902,543)	422,289
<b>EQT ACF The Executive SF</b>	39,006,854	40,513,833	40,513,833	17.34%	1,506,979	-	1,435,264
<b>EQT ATF Gulf Communities Interim Support Fund</b>	-	3,222,678	3,222,678	1.38%	8,294,713	(5,072,035)	230,263
<b>As at 30 June 2017</b>							
Mortgage Income Fund	68,631,441	90,631,441	90,631,441	39.57%	22,000,000	-	2,786,437
Freedom of Choice	8,078,672	11,246,721	11,246,721	4.91%	4,421,122	(1,253,073)	311,813
EQT ACF The Executive SF	5,000,000	39,006,854	39,006,854	17.03%	34,006,854	-	1,272,942

**13 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:

	<b>Fair value of investment \$</b>	<b>Interest held %</b>	<b>Distributions earned \$</b>	<b>Distributions receivable \$</b>	<b>Units acquired during the year</b>	<b>Units disposed during the year</b>
<b>As at 30 June 2018</b>						
<b>Cash Management Fund</b>	7,526,529	2.17%	74,966	5,347	129,694,150	(125,752,195)
<b>As at 30 June 2017</b>						
Cash Management Fund	3,584,574	1.06%	155,546	9,576	167,458,302	(167,401,308)

**14 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.

**15 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 27 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Fund's financial position as at 30 June 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 EQT Wholesale Mortgage Income Fund

### *Opinion*

We have audited the financial report of EQT Wholesale Mortgage Income Fund (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