

# **Smallco Broadcap Fund**

ARSN 163 030 626

## **Annual Report**

**For the year ended 30 June 2015**

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ARSN 163 030 626

## Annual Report

For the year ended 30 June 2015

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These financial statements cover Smallco Broadcap Fund as an individual entity.

The Responsible Entity of Smallco Broadcap Fund is Smallco Investment Manager Limited (ABN 89 092 626 090) (AFSL 224108). The Responsible Entity's registered office is:

Suite 1805, Level 18  
109 Pitt St  
Sydney NSW 2000

## **Directors' Report**

The Directors of Smallco Investment Manager Limited, the Responsible Entity of Smallco Broadcap Fund, present their report together with the financial statements of Smallco Broadcap Fund ('the Fund') for the year ended 30 June 2015.

### **Principal activities**

The principal activity of the Fund during the financial year was conducting securities investment activities in Australia, investing in a combination of large and small Australian listed companies in accordance with 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.

### **Directors**

The following persons held office as Directors of Smallco Investment Manager Limited during the year or since the end of the year and up to the date of this report:

Rob Hopkins  
 Bill Ryan  
 Michael Walsh

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

### **Review and results of operations**

During the year, the Fund continued to invest in accordance with target asset allocations as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

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

|   | <b>Year ended</b>       |                         |
|---|-------------------------|-------------------------|
|   | <b>30 June<br/>2015</b> | <b>30 June<br/>2014</b> |
|   | <b>\$</b>               | <b>\$</b>               |
| Operating profit before finance costs attributable to unitholders | <b>12,766,891</b>       | 9,601,753               |
| <i>Distributions</i>  |                         |                         |
| Distributions paid or payable                                     | <b>12,275,399</b>       | 6,397,459               |
| Distributions (cents per unit)                                    | <b>21.97</b>            | 19.21                   |

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

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

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

No matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect:

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

**Likely developments and expected results of operations**

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

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

**Indemnification and insurance of officers**

Other than detailed below, no indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer or auditor of the Fund, or the Responsible Entity.

The Responsible Entity has paid premiums totaling \$25,032 plus GST (2014: \$24,140) to insure each of the following directors of the Responsible Entity against liabilities for the costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the Fund other than conduct involving a willful breach of duty in relation to the Fund:

Rob Hopkins  
Bill Ryan  
Michael Walsh

**Indemnification of auditor**

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

**Proceedings on behalf of the Fund**

No person has applied for leave of Court to bring proceedings on behalf of the Fund or intervene in any proceedings to which the Fund is a party for the purpose of taking responsibility on behalf of the Fund for all or any part of those proceedings.

The Fund was not a party to any such proceedings during the year.

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

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

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

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

**Interests in the Fund**

The movement in units on issue in the Fund during the year is disclosed in Note 7 to the financial statements.

The value of the Fund's assets and liabilities is disclosed in the Statement of Financial Position and derived using the basis set out in Note 2 to the financial statements.

**Environmental regulation**

The operations of the Fund are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory law.

**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 Smallco Investment Manager Limited.



Rob Hopkins  
Director



Bill Ryan  
Director

Sydney  
16 September 2015



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The Board of Directors  
Smallco Investment Manager Limited  
Suite 1805, Level 18  
109 Pitt Street  
Sydney NSW 2000

Dear Board Members

**SMALLCO BROADCAST 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 Smallco Investment Manager Limited, as the Responsible Entity of Smallco Broadcast Fund.

As lead audit partner for the audit of the financial report of Smallco Broadcast Fund for the financial year ended 30 June 2015, I declare that to the best of my knowledge and belief, that 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 sincerely

*Crowe Horwath Sydney*

**CROWE HORWATH SYDNEY**

**SUWARTI ASMONO**  
Partner

Date this 16<sup>th</sup> day of September 2015

**Smallco Broadcap Fund**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2015**

**Statement of Comprehensive Income**

|   |       | <b>Year ended</b> |                   |
|---|-------|-------------------|-------------------|
|   |       | <b>30 June</b>    | <b>30 June</b>    |
|   |       | <b>2015</b>       | <b>2014</b>       |
|   | Notes | \$                | \$                |
| <b>Investment income</b>  |       |                   |                   |
| Interest income   |       | 370,817           | 184,556           |
| Dividend income   |       | 1,908,461         | 1,136,288         |
| Unit trust distributions  |       | 167,042           | 105,452           |
| Net gains/(losses) on financial instruments held at fair value through profit or loss | 5     | 12,852,854        | 9,758,682         |
| Underwriting income   |       | 3,523             | -                 |
| Net foreign exchange gain/(loss)  |       | (178)             | -                 |
| <b>Total net investment income</b>  |       | <b>15,302,519</b> | <b>11,184,978</b> |
| <b>Expenses</b>   |       |                   |                   |
| Management fees   | 14    | 1,058,790         | 596,087           |
| Performance fees  | 14    | 1,255,082         | 858,270           |
| Transaction costs   |       | 221,069           | 128,044           |
| Other operating expenses  |       | 687               | 824               |
| <b>Total operating expenses</b>   |       | <b>2,535,628</b>  | <b>1,583,225</b>  |
| <b>Operating profit</b>   |       | <b>12,766,891</b> | <b>9,601,753</b>  |
| <b>Finance costs attributable to unitholders</b>                                      |       |                   |                   |
| Distributions to unitholders  | 8     | (12,275,399)      | (6,397,459)       |
| Increase in net assets attributable to unitholders                                    | 7     | (491,492)         | (3,204,294)       |
| <b>Profit/(loss) for the year</b>   |       | <b>-</b>          | <b>-</b>          |
| <b>Other comprehensive income</b>   |       | <b>-</b>          | <b>-</b>          |
| <b>Total comprehensive income for the year</b>  |       | <b>-</b>          | <b>-</b>          |

*The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

**Smallco Broadcap Fund**  
**Statement of Financial Position**  
**As at 30 June 2015**

**Statement of Financial Position**

|   |       | <b>As at</b>       |                   |
|---|-------|--------------------|-------------------|
|   |       | <b>30 June</b>     | <b>30 June</b>    |
|   |       | <b>2015</b>        | <b>2014</b>       |
|   | Notes | \$                 | \$                |
| <b>Assets</b>   |       |                    |                   |
| Cash and cash equivalents   | 9     | 23,663,432         | 12,750,257        |
| Receivables   | 11    | 732,196            | 416,008           |
| Due from brokers - receivable for securities sold                           |       | 335,743            | 1,460,852         |
| Financial assets held at fair value through profit or loss                  | 6     | 82,553,958         | 46,485,183        |
| <b>Total assets</b>   |       | <u>107,285,329</u> | <u>61,112,300</u> |
| <b>Liabilities</b>  |       |                    |                   |
| Distributions payable   | 8     | 12,275,399         | 6,397,459         |
| Payables  | 12    | 1,204,402          | 103,579           |
| Due to brokers - payable for securities purchased                           |       | 318,137            | 739,412           |
| <b>Total liabilities (excluding net assets attributable to unitholders)</b> |       | <u>13,797,938</u>  | <u>7,240,450</u>  |
| <b>Net assets attributable to unitholders - liability</b>                   | 7     | <u>93,487,391</u>  | <u>53,871,850</u> |

*The above Statement of Financial Position should be read in conjunction with the accompanying notes.*



**Smallco Broadcap Fund**  
**Statement of Changes in Equity**  
**For the year ended 30 June 2015**

**Statement of Changes in Equity**

|  | <b>Year ended</b> |                |
|--|-------------------|----------------|
|  | <b>30 June</b>    | <b>30 June</b> |
|  | <b>2015</b>       | <b>2014</b>    |
|  | <b>\$</b>         | <b>\$</b>      |
| <b>Total equity at the beginning of the year</b>     | -                 | -              |
| Profit/(loss) for the year                           | -                 | -              |
| Other comprehensive income                           | -                 | -              |
| <b>Total comprehensive income</b>                    | -                 | -              |
| Transactions with owners in their capacity as owners | -                 | -              |
| <b>Total equity at the end of the year</b>           | -                 | -              |

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

*The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

**Smallco Broadcap Fund**  
**Statement of Cash Flows**  
**For the year ended 30 June 2015**

**Statement of Cash Flows**

|   | <b>Year ended</b>         |                |
|---|---------------------------|----------------|
|   | <b>30 June</b>            | <b>30 June</b> |
|   | <b>2015</b>               | <b>2014</b>    |
| Notes   | <b>\$</b>                 | <b>\$</b>      |
| <b>Cash flows from operating activities</b>   |                           |                |
| Proceeds from sale of financial instruments held at fair value through profit or loss | <b>73,396,366</b>         | 43,265,181     |
| Purchase of financial instruments held at fair value through profit or loss           | <b>(95,908,454)</b>       | (56,337,248)   |
| Interest income received  | <b>353,869</b>            | 179,087        |
| Dividends and trust distributions received  | <b>1,824,656</b>          | 1,147,802      |
| Other income received   | <b>3,637</b>              | -              |
| Management fees   | <b>(1,036,940)</b>        | (595,399)      |
| Performance fees  | <b>(523,172)</b>          | (1,305,710)    |
| Transaction costs paid  | <b>(233,120)</b>          | (138,408)      |
| Payment of other operating expenses   | <b>(631)</b>              | (712)          |
| <b>Net cash outflow from operating activities</b>                                     | 10(a) <b>(22,123,789)</b> | (13,785,407)   |
| <b>Cash flows from financing activities</b>   |                           |                |
| Proceeds from applications by unitholders   | <b>39,864,615</b>         | 27,846,708     |
| Payments for redemptions by unitholders   | <b>(5,952,362)</b>        | (6,678,625)    |
| Distributions paid from operating activities  | <b>(875,111)</b>          | (590,827)      |
| <b>Net cash inflow from financing activities</b>                                      | <b>33,037,142</b>         | 20,577,256     |
| <b>Net increase in cash and cash equivalents</b>                                      | <b>10,913,353</b>         | 6,791,849      |
| Cash and cash equivalents at the beginning of the period                              | <b>12,750,257</b>         | 5,958,408      |
| Effects of foreign currency exchange rate changes on cash and cash equivalents        | <b>(178)</b>              | -              |
| <b>Cash and cash equivalents at the end of the year</b>                               | 9 <b>23,663,432</b>       | 12,750,257     |
| Non-cash financing activities   | 10(b) <b>5,522,403</b>    | 321,547        |

*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 Smallco Broadcap Fund ('the Fund') as an individual entity. The Fund was constituted and commenced operations on 31 July 2008 as a wholesale fund, and subsequently registered with the Australian Securities and Investments Commission on 9 April 2013. The Fund will be terminated on the 80th anniversary of the day before the Fund commenced.

Smallco Broadcap Fund is a registered managed investment scheme under the *Corporations Act 2001*.

The principal activity of the Fund during the financial year was conducting securities investment activities in Australia, investing in a combination of large and small Australian listed companies in accordance with the provisions of the Fund's Constitution.

The Responsible Entity of the Fund is Smallco Investment Manager Limited (ABN 89 092 626 090) (AFSL 224108) (the 'Responsible Entity'). The Responsible Entity's registered office is Suite 1805, Level 18, 109 Pitt St, Sydney, NSW 2000. The Responsible Entity is incorporated and domiciled in Australia.

The financial statements of the Fund are for the year ended 30 June 2015. The financial statements are presented in the Australian currency.

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 twelve months, except for investments in financial assets and net assets attributable to unitholders.

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

### **(i) Compliance with International Financial Reporting Standards**

The financial statements of the Fund also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

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

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

The Fund has applied the following revised accounting standards which became effective for the annual reporting period commencing on 1 July 2014:

- AASB 2013-5 *Amendments to Australian Accounting Standards - Investment Entities*

The amendments made by AASB 2013-5 introduce an exception from the consolidation requirements for investment entities. The amendment provides relief from the requirement to consolidate any investment in subsidiaries. The Fund meets the definition of an investment entity under the standard. Therefore, any investment in subsidiaries (other than those subsidiaries that provide investment related services) must be measured as fair value through profit and loss. The adoption of the amendment has no impact as the Fund does not have investments in subsidiaries.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2014 that would be expected to have a material impact on the Fund.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 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 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting. 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 and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements, and the Fund does not apply hedge accounting. The Fund has not yet decided when to adopt AASB 9.

- AASB 15 *Revenue from Contracts with Customers* (effective from 1 January 2017)

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, dividends and distributions and gains on 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. The Fund has not yet decided when to adopt AASB 15.

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

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

#### *(i) Classification*

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

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

These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded equity instruments.

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

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

#### *(i) Classification (continued)*

Financial assets and liabilities designated at fair value through profit or loss at inception are those that are 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 the information about these financial instruments on a fair value basis together with other related financial information.

#### *(ii) Recognition/derecognition*

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

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all 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 financial assets and financial liabilities at fair value. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of Comprehensive Income within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise.

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

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

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position where the Fund currently 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 which could be offset in the Statement of Financial Position.

### **(c) Net assets attributable to unitholders**

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders. The units are classified as financial liabilities as the Fund is required to distribute its distributable income. The units can be put back to the Fund at any time for cash based on the redemption price. The value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if the unitholders exercised their right to redeem units in the Fund.

## **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, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition 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**

Interest income earned on cash and cash equivalents is recognised in the Statement of Comprehensive Income on an accruals basis.

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an offset to dividend income. The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded net of withholding tax in the Statement of Comprehensive Income.

Other changes in fair value for financial instruments held at fair value through profit or loss are recorded in accordance with the policies described in Note 2(b).

Trust distributions are recognised on an entitlement basis.

Other income is recognised on an accruals 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 as unitholders are presently entitled to the income of the Fund.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Fund is not subject to capital gains tax.

Realised losses are not distributed to unitholders but are retained in the Fund to be offset against any future realised capital gains. If realised capital gains exceed realised losses, the excess is distributed to the unitholders.

The benefits of any imputation credits and foreign tax paid are passed on to unitholders.

### **(h) Distributions**

In accordance with the Fund's Constitution, the Fund distributes income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the Statement of Comprehensive Income as finance costs attributable to unitholders.

### **(i) Increase/decrease in net assets attributable to unitholders**

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the Statement of Comprehensive Income as finance costs.

### **(j) Foreign currency translation**

#### *(i) Functional and presentation currency*

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

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

### **(j) Foreign currency translation (continued)**

#### *(ii) Transactions and balances*

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

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

### **(k) Due from/to brokers**

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and for equities normally settled within three business days. A provision for impairment of amounts due from brokers is recognised in the Statement of Comprehensive Income when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

### **(l) Receivables**

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

Receivables also include such items as Reduced Input Tax Credits (RITC).

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.

### **(m) Payables**

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

As the Fund has a contractual obligation to distribute its distributable income, a separate distribution payable is recognised in the Statement of Financial Position as at the end of each reporting period where this amount remains unpaid as at the end of the reporting period.

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

### **(n) Applications and redemptions**

Unit application and redemption prices are determined by reference to the net assets of the Fund divided by the number of units on issue, adjusted for buy/sell spreads at 0.45%.

### **(o) Goods and Services Tax (GST)**

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services and investment management fees, performance fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 55%; hence investment management fees, performance fees, custodial fees and other expenses have been recognised in the Statement of Comprehensive Income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts 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)**

### **(p) Use of estimates**

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

For more information on how fair value is calculated please refer to Note 4 to the financial statements.

## **3 Financial risk management**

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

The Fund's overall risk management program focuses on ensuring compliance with the Fund's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Financial risk management is carried out by the investment manager under policies approved by the Board of Directors of the Responsible Entity.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and price risks and ratings analysis for credit risk.

### **(a) Market risk**

Market risk is the risk that changes in market prices, such as interest rates and other market prices will affect the Fund's income or the carrying value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

#### *(i) Price risk*

The Fund is exposed to equity securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

As the majority of the Fund's investments are carried at fair value with fair value changes recognised in the Statement of Comprehensive Income, all changes in market conditions will directly affect net investment income.

The Responsible Entity mitigates this price risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the Board of the Responsible Entity. The majority of the net assets attributable to unitholders are invested in Australian equity securities. Majority of the Fund's equity investments are publicly traded and are listed. Compliance with the Fund's Product Disclosure Statement is reported to the Board of the Responsible Entity on a quarterly basis.

The Fund has built in procedures to ensure adherence to the Fund's investment guidelines at all times.

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (i) Price risk (continued)

The Fund also manages its exposure to price risk by analysing the investment portfolio by industrial sector. The table below is a summary of the significant sector concentrations within the equity portfolio, net of securities sold short.

|                             | 30 June 2015                  | 30 June 2014                  |
|-----------------------------|-------------------------------|-------------------------------|
|                             | Fund's<br>equity<br>portfolio | Fund's<br>equity<br>portfolio |
| Sector                      | (%)                           | (%)                           |
| Information technology      | 10.97                         | 19.56                         |
| Financial services          | 45.48                         | 45.42                         |
| Energy                      | -                             | 2.00                          |
| Health care                 | 5.46                          | 10.39                         |
| Industrials                 | 5.38                          | 5.98                          |
| Consumer discretionary      | 20.11                         | 12.96                         |
| Materials                   | 2.65                          | 3.69                          |
| Telecommunications services | 9.95                          | -                             |
| <b>Total</b>                | <b>100.00</b>                 | <b>100.00</b>                 |

The table in Note 3(b) summarises the sensitivities of the Fund's assets and liabilities to price risk. The analysis is based on the assumption that the markets in which the Fund invests moved by +/- 15%.

##### (ii) Foreign exchange risk

In the current year, the Fund held non-monetary asset denominated in currencies other than the Australian Dollars. Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk.

As at 30 June 2015, the non-monetary asset denominated in currency other than Australian Dollar held by the Fund amounted to \$2,242,740 (2014: nil). This is held in the US dollar.

##### (iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk.

Compliance with the Fund's Product Disclosure Statement is reported to the Board of the Responsible Entity on a quarterly basis.

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (iii) Cash flow and fair value interest rate risk (continued)

The table below summarises the Fund's exposure to interest rate risks. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

#### As at 30 June 2015

|  | Floating<br>interest<br>rate<br>\$ | Non-<br>interest<br>bearing<br>\$ | Total<br>\$         |
|--|------------------------------------|-----------------------------------|---------------------|
| <b>Financial assets</b>                                    |                                    |                                   |                     |
| Cash and cash equivalents                                  | 23,663,432                         | -                                 | 23,663,432          |
| Receivables  | -                                  | 732,196                           | 732,196             |
| Due from brokers - receivable for securities sold          | -                                  | 335,743                           | 335,743             |
| Financial assets held at fair value through profit or loss | -                                  | 82,553,958                        | 82,553,958          |
|  | <u>23,663,432</u>                  | <u>83,621,897</u>                 | <u>107,285,329</u>  |
| <b>Financial liabilities</b>                               |                                    |                                   |                     |
| Distributions payable                                      | -                                  | (12,275,399)                      | (12,275,399)        |
| Payables   | -                                  | (1,204,402)                       | (1,204,402)         |
| Due to brokers - payable for securities purchased          | -                                  | (318,137)                         | (318,137)           |
|  | -                                  | <u>(13,797,938)</u>               | <u>(13,797,938)</u> |
| <b>Net exposure</b>  | <u>23,663,432</u>                  | <u>69,823,959</u>                 | <u>93,487,391</u>   |

#### As at 30 June 2014

|  | Floating<br>interest<br>rate<br>\$ | Non-<br>interest<br>bearing<br>\$ | Total<br>\$        |
|--|------------------------------------|-----------------------------------|--------------------|
| <b>Financial assets</b>                                    |                                    |                                   |                    |
| Cash and cash equivalents                                  | 12,750,257                         | -                                 | 12,750,257         |
| Receivables  | -                                  | 416,008                           | 416,008            |
| Due from brokers - receivable for securities sold          | -                                  | 1,460,852                         | 1,460,852          |
| Financial assets held at fair value through profit or loss | -                                  | 46,485,183                        | 46,485,183         |
|  | <u>12,750,257</u>                  | <u>48,362,043</u>                 | <u>61,112,300</u>  |
| <b>Financial liabilities</b>                               |                                    |                                   |                    |
| Distributions payable                                      | -                                  | (6,397,459)                       | (6,397,459)        |
| Payables   | -                                  | (103,579)                         | (103,579)          |
| Due to brokers - payable for securities purchased          | -                                  | (739,412)                         | (739,412)          |
|  | -                                  | <u>(7,240,450)</u>                | <u>(7,240,450)</u> |
| <b>Net exposure</b>  | <u>12,750,257</u>                  | <u>41,121,593</u>                 | <u>53,871,850</u>  |

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (iii) Cash flow and fair value interest rate risk (continued)

The table in Note 3(b) summarises the impact of an increase/decrease of interest rates on the Fund's operating profit and net assets attributable to unitholders through changes in fair value or changes in future cash flows. The analysis is based on the assumption that interest rates changed by +/- 75 basis points (2014: +/- 75 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 unitholders to interest rate risk and price risk. The reasonably possible movements in the risk variables have been determined based on the Investment Manager's and the Responsible Entity's best estimates. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

|                     | Impact on operating profit/<br>Net assets attributable to unitholders |                   |                    |                  |
|---------------------|---|-------------------|--------------------|------------------|
|                     | Price risk  |                   | Interest rate risk |                  |
|                     | -15%  | +15%              | +75bps             | -75bps           |
|                     | \$  | \$                | \$                 | \$               |
| <b>30 June 2015</b> | <b>(12,383,094)</b>   | <b>12,383,094</b> | <b>177,476</b>     | <b>(177,476)</b> |
| 30 June 2014        | (6,972,778)   | 6,972,778         | 95,627             | (95,627)         |

In determining the impact of an increase/decrease in net assets attributable to unitholders arising from market risk, the Responsible Entity has considered prior period and expected future movements of the portfolio information in order to determine a reasonably possible shift in assumptions.

#### (c) Credit risk

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

The main concentration of credit risk, to which the Fund is exposed, arises from the Fund's investment in cash and cash equivalents, amounts due from brokers and other receivables. None of these assets are impaired nor past due but not impaired.

The carrying amounts of financial assets best represent the maximum credit risk exposure at the reporting date.

The Investment Manager aims to reduce credit risk by following the investment objectives explicitly set out in its Product Disclosure Statement (PDS) in terms of the assets it can invest in.

##### (i) Settlement of securities transactions

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment. Payment is made once the securities purchased have been received by the broker. The trade will fail if either party fails to meet its obligations.

##### (ii) Cash and cash equivalents

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

### 3 Financial risk management (continued)

#### (c) Credit risk (continued)

##### (iii) Other

The Fund is not materially exposed to credit risk on other financial assets.

The clearing and depository operations for the Fund's security transactions are mainly concentrated with one counterparty, namely J.P. Morgan Chase Bank, N.A. (Sydney Branch). J.P. Morgan Chase Bank, N.A. (Sydney Branch) is a member of a major securities exchange, and at 30 June 2015 had a credit rating of A+ (2014: A+) .

#### (d) Liquidity risk

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

The Fund is exposed to daily cash redemptions of redeemable units. It therefore primarily holds investments that are traded in an active market and can be readily disposed.

The risk management guidelines adopted are designed to minimise liquidity and cash flow risk through:

- ensuring that there is no significant exposure to illiquid or thinly traded financial instruments, and
- applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

The Responsible Entity monitors the Fund's cash flow requirements daily in relation to the trading account taking into account upcoming distributions and trading activity.

The Fund's listed securities are considered readily realisable as they are listed on the Australian Stock Exchange.

##### (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 the end of the reporting period. The amounts in the table are the contractual undiscounted cash flows. The Fund does not hold derivatives.

#### As at 30 June 2015

|   | Less than<br>1 month<br>\$ | 1-6<br>months<br>\$ | 6-12<br>months<br>\$ | 1-2<br>years<br>\$ | On<br>call<br>\$ |
|---|----------------------------|---------------------|----------------------|--------------------|------------------|
| Distributions payable                             | 12,275,399                 | -                   | -                    | -                  | -                |
| Payables  | 1,204,402                  | -                   | -                    | -                  | -                |
| Due to brokers - payable for securities purchased | 318,137                    | -                   | -                    | -                  | -                |
| Net assets attributable to unitholders            | -                          | -                   | -                    | -                  | 93,487,391       |
| Contractual cash flows                            | 13,797,938                 | -                   | -                    | -                  | 93,487,391       |

#### As at 30 June 2014

|   | Less than<br>1 month<br>\$ | 1-6<br>months<br>\$ | 6-12<br>months<br>\$ | 1-2<br>years<br>\$ | On<br>call<br>\$ |
|---|----------------------------|---------------------|----------------------|--------------------|------------------|
| Distributions payable                             | 6,397,459                  | -                   | -                    | -                  | -                |
| Payables  | 103,579                    | -                   | -                    | -                  | -                |
| Due to brokers - payable for securities purchased | 739,412                    | -                   | -                    | -                  | -                |
| Net assets attributable to unitholders            | -                          | -                   | -                    | -                  | 53,871,850       |
| Contractual cash flows                            | 7,240,450                  | -                   | -                    | -                  | 53,871,850       |

#### 4 Fair value measurement

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets / liabilities at fair value through profit or loss (FVTPL) (see Note 6)

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

AASB 13 requires disclosure of fair value measurements by level of the following fair value 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).

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

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in Note 2 to the financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets and financial liabilities held by the Fund is the last sale price.

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

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

*(b) Recognised fair value measurements*

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

| <b>At 30 June 2015</b>  | <b>Level 1</b>    | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b>      |
|---|-------------------|----------------|----------------|-------------------|
|   | <b>\$</b>         | <b>\$</b>      | <b>\$</b>      | <b>\$</b>         |
| <b>Financial assets</b>   |                   |                |                |                   |
| Financial assets designated at fair value through profit or loss: |                   |                |                |                   |
| Equity securities and trusts                                      | <b>82,486,058</b> | <b>67,900</b>  | -              | <b>82,553,958</b> |
| <b>Total financial assets</b>                                     | <b>82,486,058</b> | <b>67,900</b>  | -              | <b>82,553,958</b> |
| <br>At 30 June 2014   | <br>Level 1       | <br>Level 2    | <br>Level 3    | <br>Total         |
|   | <b>\$</b>         | <b>\$</b>      | <b>\$</b>      | <b>\$</b>         |
| <b>Financial assets</b>   |                   |                |                |                   |
| Financial assets designated at fair value through profit or loss: |                   |                |                |                   |
| Equity securities and trusts                                      | 46,485,183        | -              | -              | 46,485,183        |
| <b>Total financial assets</b>                                     | <b>46,485,183</b> | -              | -              | <b>46,485,183</b> |

#### 4 Fair value measurement (continued)

##### (c) Transfers between levels

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

There have been no transfers between levels in the fair value hierarchy as at 30 June 2015 and 30 June 2014.

##### (a) Fair value of financial instruments not carried at fair value

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

Net assets attributable to unitholders' carrying value does not differ from its fair value (deemed to be redemption price for individual units) due to no differences in valuation inputs.

#### 5 Net gains/(losses) on financial instruments held at fair value through profit or loss

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

|  | Year ended        |                 |
|--|-------------------|-----------------|
|  | 30 June<br>2015   | 30 June<br>2014 |
|  | \$                | \$              |
| <b>Financial assets</b>  |                   |                 |
| Net gain/(loss) on financial assets designated as at fair value through profit or loss             | <b>12,852,854</b> | 9,758,682       |
| Net gains/(losses) on financial assets held at fair value through profit or loss                   | <b>12,852,854</b> | 9,758,682       |
| Net realised gain/(loss) on financial assets at fair value through profit or loss                  | <b>8,872,844</b>  | 7,618,909       |
| Net unrealised gain/(loss) on financial assets held at fair value through profit or loss           | <b>3,980,010</b>  | 2,139,773       |
| Net gains/(losses) on financial assets held at fair value through profit or loss                   | <b>12,852,854</b> | 9,758,682       |
| <b>Total net gains/(losses) on financial instruments held at fair value through profit or loss</b> | <b>12,852,854</b> | 9,758,682       |

## 6 Financial assets held at fair value through profit or loss

|   | As at             |                 |
|---|-------------------|-----------------|
|   | 30 June<br>2015   | 30 June<br>2014 |
|   | \$                | \$              |
| <b>Designated at fair value through profit or loss</b>                  |                   |                 |
| Equity securities and trusts  | <b>82,553,958</b> | 46,485,183      |
| <b>Total financial assets held at fair value through profit or loss</b> | <b>82,553,958</b> | 46,485,183      |

### Comprising:

#### Equity securities and trusts

|   |                   |            |
|---|-------------------|------------|
| Australian listed equity securities       | <b>78,536,121</b> | 45,729,101 |
| Australian listed property trusts         | <b>1,707,197</b>  | 756,082    |
| Australian unlisted equity securities     | <b>67,900</b>     | -          |
| International equity securities           | <b>2,242,740</b>  | -          |
| <b>Total equity securities and trusts</b> | <b>82,553,958</b> | 46,485,183 |

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in Note 3 and 4 to the financial statements.

## 7 Net assets attributable to unitholders

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

|  | Year ended         |                    |                 |                 |
|--|--------------------|--------------------|-----------------|-----------------|
|  | 30 June<br>2015    | 30 June<br>2015    | 30 June<br>2014 | 30 June<br>2014 |
|  | Units              | \$                 | Units           | \$              |
| Opening balance                                    | <b>33,311,390</b>  | <b>53,871,850</b>  | 20,575,788      | 29,217,926      |
| Applications                                       | <b>22,657,787</b>  | <b>39,859,615</b>  | 16,470,674      | 27,806,708      |
| Redemptions  | <b>(3,505,996)</b> | <b>(6,257,969)</b> | (3,961,170)     | (6,678,625)     |
| Reinvestment of distributions                      | <b>3,414,688</b>   | <b>5,522,403</b>   | 226,098         | 321,547         |
| Increase in net assets attributable to unitholders | -                  | <b>491,492</b>     | -               | 3,204,294       |
| <b>Closing balance</b>                             | <b>55,877,869</b>  | <b>93,487,391</b>  | 33,311,390      | 53,871,850      |

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

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



## 7 Net assets attributable to unitholders (continued)

### Capital risk management

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

The Fund monitors the level of daily applications and redemptions relative to the cash levels of the Fund to manage this risk and aims to ensure there is adequate liquidity to meet the needs of unitholders.

## 8 Distributions to unitholders

The distributions declared during the year were as follows:

|                               | Year ended            |                        |                       |                        |
|-------------------------------|-----------------------|------------------------|-----------------------|------------------------|
|                               | 30 June<br>2015<br>\$ | 30 June<br>2015<br>CPU | 30 June<br>2014<br>\$ | 30 June<br>2014<br>CPU |
| Distributions paid or payable | 12,275,399            | 21.97                  | 6,397,459             | 19.21                  |
|                               | <u>12,275,399</u>     | <u>21.97</u>           | <u>6,397,459</u>      | <u>19.21</u>           |

## 9 Cash and cash equivalents

|  | As at                    |                          |
|--|--------------------------|--------------------------|
|  | 30 June<br>2015<br>\$    | 30 June<br>2014<br>\$    |
| Cash at bank                           | 23,663,432               | 12,750,257               |
| <b>Total cash and cash equivalents</b> | <u><b>23,663,432</b></u> | <u><b>12,750,257</b></u> |

These accounts are earning a floating interest rate of between 0.35% and 2.40% as at 30 June 2015 (2014: 0.35% and 2.85%).

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

### (a) Reconciliation of profit/(loss) to net cash outflow from operating activities

|   | Year ended          |                     |
|---|---------------------|---------------------|
|   | 30 June<br>2015     | 30 June<br>2014     |
|   | \$                  | \$                  |
| Profit/(loss) for the year  | -                   | -                   |
| Increase in net assets attributable to unitholders                                    | 491,492             | 3,204,294           |
| Distributions to unitholders  | 12,275,399          | 6,397,459           |
| Proceeds from sale of financial instruments held at fair value through profit or loss | 73,396,366          | 43,265,181          |
| Purchase of financial instruments held at fair value through profit or loss           | (95,908,454)        | (56,337,248)        |
| Net (gains)/losses on financial instruments held at fair value through profit or loss | (12,852,854)        | (9,758,682)         |
| Effects of foreign currency exchange rate changes on cash and cash equivalents        | 178                 | -                   |
| Net change in receivables and other assets  | (316,188)           | (177,398)           |
| Net change in payables and other liabilities  | 790,272             | (379,013)           |
| <b>Net cash outflow from operating activities</b>                                     | <b>(22,123,789)</b> | <b>(13,785,407)</b> |

### (b) Non-cash financing activities

The following distribution payments to unitholders were satisfied by the issue of units under the distribution reinvestment plan

|  |                  |                |
|--|------------------|----------------|
|  | 5,522,403        | 321,547        |
| <b>Total non-cash financing activities</b> | <b>5,522,403</b> | <b>321,547</b> |

As described in Note 2(i), income not distributed is included in net assets attributable to unitholders. The change in this amount each 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.

## 11 Receivables

|  | As at           |                 |
|--|-----------------|-----------------|
|  | 30 June<br>2015 | 30 June<br>2014 |
|  | \$              | \$              |
| Dividends and distributions receivable | 492,821         | 242,088         |
| Interest receivable                    | 33,846          | 16,898          |
| GST receivable                         | 202,946         | 153,854         |
| Due from manager                       | 2,583           | 3,168           |
|  | <b>732,196</b>  | <b>416,008</b>  |

## 12 Payables

|                               | <b>As at</b>            |                         |
|-------------------------------|-------------------------|-------------------------|
|                               | <b>30 June<br/>2015</b> | <b>30 June<br/>2014</b> |
|                               | <b>\$</b>               | <b>\$</b>               |
| Management fees payable       | <b>120,858</b>          | 63,579                  |
| Performance fees payable      | <b>732,937</b>          | -                       |
| Redemptions payable           | <b>305,607</b>          | -                       |
| Monies not allocated to units | <b>45,000</b>           | 40,000                  |
|                               | <b>1,204,402</b>        | 103,579                 |

## 13 Remuneration of auditors

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

|   | <b>Year ended</b>       |                         |
|---|-------------------------|-------------------------|
|   | <b>30 June<br/>2015</b> | <b>30 June<br/>2014</b> |
|   | <b>\$</b>               | <b>\$</b>               |
| <b>Grant Thornton (former) and Crowe Horwath Sydney (current)</b> |                         |                         |
| <i>Audit and other assurance services</i>                         |                         |                         |
| Audit of financial statements                                     | <b>8,000</b>            | 13,500                  |
| Audit of compliance plan  | <b>1,500</b>            | 3,750                   |
| Total remuneration of audit and other assurance services          | <b>9,500</b>            | 17,250                  |

The remuneration to auditors is paid directly by the Investment Manager according to the Fund's Constitution.

## 14 Related party transactions

The Responsible Entity of Smallco Broadcap Fund is Smallco Investment Manager Limited (ABN 89 092 626 090) (AFSL 224108). Accordingly, transactions with entities related to Smallco Investment Manager Limited are disclosed below.

The Responsible Entity has contracted services to Smallco Investment Manager Limited to act as Investment Manager, White Outsourcing Pty Limited to act as Administrator and J.P. Morgan Chase Bank, N.A. (Sydney Branch) to act as Custodian for the Fund.

### (a) Directors

Key management personnel include persons who were Directors of Smallco Investment Manager Limited at any time during or since the end of the financial year and up to the date of this report.

Rob Hopkins  
Bill Ryan  
Michael Walsh

### (b) Other key management personnel

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

## 14 Related party transactions (continued)

### (c) Transactions with key management personnel

The following transactions occurred with key management personnel during the reporting period:

|                       | Year ended      |                  |
|-----------------------|-----------------|------------------|
|                       | 30 June<br>2015 | 30 June<br>2014  |
|                       | \$              | \$               |
| Application for units | 757,068         | 16,038           |
| Redemption of units   | -               | (150,000)        |
| <b>Total</b>          | <b>757,068</b>  | <b>(133,962)</b> |

### (d) Key management personnel unitholdings

The key management personnel of Smallco Investment Manager Limited held units in the Fund as follows:

#### 2015

| Unitholder  | No. of<br>units held<br>opening<br>(Units) | No. of<br>units held<br>closing<br>(Units) | Interest<br>held<br>(%) | No. of<br>units<br>acquired<br>(Units) | No. of<br>units<br>disposed<br>(Units) | Distributions<br>paid/payable<br>by the Fund<br>(\$) |
|-------------|--|--|-------------------------|--|--|--|
| Bill Ryan   | 2,355,246                                  | 2,784,375                                  | 4.98                    | 429,129                                | -                                      | 611,680  |
| Rob Hopkins | 285,042                                    | 318,891                                    | 0.57                    | 33,849                                 | -                                      | 70,055   |
|             | <b>2,640,288</b>                           | <b>3,103,266</b>                           | <b>5.55</b>             | <b>462,978</b>                         | <b>-</b>                               | <b>681,735</b>                                       |

#### 2014

| Unitholder  | No. of<br>units held<br>opening<br>(Units) | No. of<br>units held<br>closing<br>(Units) | Interest<br>held<br>(%) | No. of<br>units<br>acquired<br>(Units) | No. of<br>units<br>disposed<br>(Units) | Distributions<br>paid/payable<br>by the Fund<br>(\$) |
|-------------|--|--|-------------------------|--|--|--|
| Bill Ryan   | 2,355,246                                  | 2,355,246                                  | 7.07                    | -                                      | -                                      | 452,326  |
| Rob Hopkins | 361,721                                    | 285,042                                    | 0.86                    | 11,277                                 | (87,956)                               | 54,742   |
|             | <b>2,716,967</b>                           | <b>2,640,288</b>                           | <b>7.93</b>             | <b>11,277</b>                          | <b>(87,956)</b>                        | <b>507,068</b>                                       |

### (e) Key management personnel compensation

Key management personnel are paid by Smallco Investment Manager Limited. Payments made from the Fund to Smallco Investment Manager Limited do not include any amounts directly attributable to the compensation of key management personnel.

### (f) Key management personnel loans

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

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

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

From time to time, Smallco Investment Manager Limited or its director-related entities may invest in or withdraw from the Fund. These investments or withdrawals are on the same terms and conditions as those entered into by other Fund investors.

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

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

Under the terms of the Fund's Constitution/Product Disclosure Statement, the Responsible Entity is entitled to receive management fees of up to 1.20% per annum (including GST less RITC), calculated by reference to the average daily net assets of the Fund and payable monthly by the Fund.

Under the terms of the Fund's Constitution, the Investment Manager is also entitled to receive a performance fee of 15% (including GST less RITC) of the outperformance above the S&P ASX 300 Accumulation Index provided specific hurdles are met. Payable quarterly in arrears.

Transactions with related parties have taken place in the ordinary course of business. The transactions during the year and amounts payable at year end between the Fund and the Responsible Entity and the Investment Manager were as follows:

|  | <b>Year ended</b>       |                         |
|--|-------------------------|-------------------------|
|  | <b>30 June<br/>2015</b> | <b>30 June<br/>2014</b> |
|  | <b>\$</b>               | <b>\$</b>               |
| Management fees for the year paid by the Fund to the Investment Manager                | <b>1,058,790</b>        | 596,087                 |
| Performance fees for the year paid by the Fund to the Investment Manager               | <b>1,255,082</b>        | 858,270                 |
| Aggregate amounts payable to the Responsible Entity at the end of the reporting period | <b>853,795</b>          | 63,579                  |

Smallco Investment Manager Limited is the Responsible Entity of Smallco Broadcap Fund and provides accounting, treasury and investment services to the Fund in accordance with the Fund's Constitution. Key management personnel are paid by Smallco Investment Manager Limited. Payments made from the Fund to Smallco Investment Manager Limited do not include any amounts directly attributable to the compensation of key management personnel (2014: \$11,364).

### **(i) Related party unitholdings**

No parties related to the Fund (including Smallco Investment Manager Limited, its related parties and other schemes managed by Smallco Investment Manager Limited), held units in the Fund at the end of the year.

### **(j) Investments**

The Fund did not hold any investments in Smallco Investment Manager Limited or its related parties during the year.

## **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 2015 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 contingent assets, liabilities or commitments as at 30 June 2015 and 30 June 2014.

## Directors' declaration

In the opinion of the Directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 28 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with 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 2015 and of its performance for the financial year ended on that date,
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable, and
- (c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors of Smallco Investment Manager Limited.



Rob Hopkins  
Director



Bill Ryan  
Director

Sydney  
16 September 2015

**SMALLCO BROADCAST FUND****Independent Auditor's Report to the Unitholders of Smallco Broadcast Fund****Report on the Financial Report**

We have audited the accompanying financial report of Smallco Broadcast Fund (the Fund), which comprises the statement of financial position as at 30 June 2015, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of Smallco Investment Manager Limited, as the Responsible Entity of the Fund.

*Directors' Responsibility for the Financial Report*

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors 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 Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statement*, that the financial statement comply with *International Financial Reporting Standards*.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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



#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Smallco Investment Manager Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

#### *Auditor's Opinion*

In our opinion:

- a. the financial report of Smallco Broadcap 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 2015 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

*Crowe Horwath Sydney*

**CROWE HORWATH SYDNEY**

**SUWARTI ASMONO**

Partner

Dated this 16<sup>th</sup> day of September 2015