

Advance Defensive Yield Multi-Blend Fund

ARSN 166 771 875

Annual report - for the year ended

30 June 2022

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These financial statements cover Advance Defensive Yield Multi-Blend Fund as an individual entity.

The Responsible Entity of Advance Defensive Yield Multi-Blend Fund is Advance Asset Management Limited (ABN 98 002 538 329). The Responsible Entity's registered office is Level 18, 275 Kent Street, Sydney, NSW 2000.

Directors' report

The directors of Advance Asset Management Limited, the Responsible Entity of the Advance Defensive Yield Multi-Blend Fund ("the Fund"), present their report together with the Fund's financial statements for the year ended 30 June 2022.

Principal activities

During the year, the Fund continued to invest in fixed interest securities, money market securities and derivatives in accordance with the provisions of the governing documents. Through these investments, the Fund was exposed to Australian and international fixed interest securities.

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 Advance Asset Management Limited during the year or since the end of the year and up to the date of this report:

Vicki Allen
 Andrew Rutherford
 Jonathan Sweeney
 Katherine Vincent (resigned 4 October 2021)

Review and results of operations

The Fund is currently closed to investment by new investors, however, existing investors can continue to invest in the Fund.

There have been no significant changes to the Fund's operations since the previous financial year. The Fund continued to invest in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and the provisions of the Fund's Constitution.

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

| | Year ended | |
|---|-------------------|---------------|
| | 30 June | 30 June |
| | 2022 | 2021 |
| Operating profit/(loss) (\$'000) | <u>(62,705)</u> | <u>27,871</u> |
| <i>Distributions</i> | | |
| Distributions paid and payable (\$'000) | <u>1,632</u> | <u>41,973</u> |
| Distributions (cents per unit) | <u>0.1295</u> | <u>3.6015</u> |

Directors' report (continued)

The key differences, if any, between net assets for unit pricing purposes and net assets as reported in the financial statements prepared under Australian Accounting Standards have been outlined below:

| | As at | |
|--|---------------------------|---------------------------|
| | 30 June 2022 \$'000 | 30 June 2021 \$'000 |
| Redemption value of outstanding units | 1,185,917 | 1,156,849 |
| Adjustment for differences in valuation inputs | <u>-</u> | <u>111</u> |
| Net assets attributable to unitholders | <u>1,185,917</u> | <u>1,156,960</u> |

Significant changes in the state of affairs

Other than as noted in this report, in the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2022 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 governing documents of the Fund and in accordance with 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.

On 26 May 2022, Westpac Banking Corporation announced the sale of Advance Asset Management Limited to Mercer (Australia) Pty Ltd. The sale is expected to be completed by 30 June 2023.

Indemnity and insurance of officers

No insurance premiums are paid for out of the assets of the Fund for insurance cover provided to the officers of the Responsible Entity.

Indemnity of auditors

The auditors of the Fund are in no way indemnified out of the assets of the Fund.

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

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in note 16 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 16 to the financial statements.

Directors' report (continued)

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in note 8 to the financial statements.

The value of the Fund's assets and liabilities is disclosed in the balance sheet 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 a Commonwealth, State or Territory law.

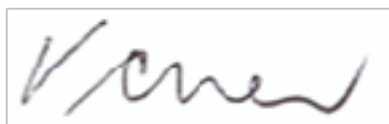
Rounding of amounts to the nearest thousand dollars

Amounts in the Directors' report have been rounded to the nearest thousand dollars in accordance with *Australian Securities & Investments Commission ("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.



Vicki Allen
Director



Jonathan Sweeney
Director

Sydney
23 September 2022



Auditor's Independence Declaration

As lead auditor for the audit of Advance Defensive Yield Multi-Blend Fund for the year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been:

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



Darren Ross
Partner
PricewaterhouseCoopers

Sydney
23 September 2022

Advance Defensive Yield Multi-Blend Fund
Statement of comprehensive income
For the year ended 30 June 2022

Statement of comprehensive income

| | Notes | Year ended | |
|---|-------|---------------------------|---------------------------|
| | | 30 June 2022 \$'000 | 30 June 2021 \$'000 |
| Income | | | |
| Interest income | 6 | 44,756 | 27,447 |
| Distribution income | | - | 219 |
| Net gains/(losses) on financial instruments held at fair value through profit or loss | | (102,834) | 11,364 |
| Performance fees | 16(d) | 2,189 | - |
| Other income | | <u>8</u> | <u>25</u> |
| Total income/(loss) | | <u>(55,881)</u> | <u>39,055</u> |
| Expenses | | | |
| Responsible Entity's fees | 16(d) | 6,749 | 6,355 |
| Performance fees | 16(d) | - | 4,766 |
| Withholding tax on foreign income | | 12 | 1 |
| Other operating expenses | | <u>63</u> | <u>62</u> |
| Total operating expenses | | <u>6,824</u> | <u>11,184</u> |
| Operating profit/(loss) | | <u>(62,705)</u> | <u>27,871</u> |
| Profit/(loss) for the year | | (62,705) | 27,871 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income for the year | | <u>(62,705)</u> | <u>27,871</u> |

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

Advance Defensive Yield Multi-Blend Fund
Balance sheet
As at 30 June 2022

Balance sheet

| | | As at | |
|---|-------|-------------------------|-------------------------|
| | | 30 June 2022 | 30 June 2021 |
| | Notes | \$'000 | \$'000 |
| Assets | | | |
| Cash and cash equivalents | 10 | 86,444 | 117,502 |
| Margin accounts | | 6,789 | 16,043 |
| Unsettled sales | 11 | 23,817 | 42,415 |
| Accrued income | | 8,677 | 7,874 |
| Receivables | | 39 | 40 |
| Financial assets held at fair value through profit or loss | 13 | <u>1,163,284</u> | <u>1,119,594</u> |
| Total assets | | <u>1,289,050</u> | <u>1,303,468</u> |
| Liabilities | | | |
| Margin accounts | | 7,807 | 1,711 |
| Unsettled purchases | 12 | 76,016 | 76,670 |
| Distribution payable | 9 | 1,632 | 39,563 |
| Payables | | 539 | 5,345 |
| Financial liabilities held at fair value through profit or loss | 14 | <u>17,139</u> | <u>23,219</u> |
| Total liabilities | | <u>103,133</u> | <u>146,508</u> |
| Net assets attributable to unitholders - equity | 8 | <u>1,185,917</u> | <u>1,156,960</u> |

The above balance sheet should be read in conjunction with the accompanying notes.

Advance Defensive Yield Multi-Blend Fund
Statement of changes in equity
For the year ended 30 June 2022

Statement of changes in equity

| | Notes | Year ended | |
|--|-------|-------------------------|-------------------------|
| | | 30 June | 30 June |
| | | 2022 | 2021 |
| | | \$'000 | \$'000 |
| Total equity at the beginning of the financial year | | 1,156,960 | 1,068,960 |
| Comprehensive income for the year | | | |
| Profit/(loss) for the year | | (62,705) | 27,871 |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income for the year | | <u>(62,705)</u> | <u>27,871</u> |
| Transactions with unitholders | | | |
| Applications | 8 | 67,288 | 175,157 |
| Redemptions | 8 | (11,291) | (88,778) |
| Units issued upon reinvestment of distributions | 8 | 37,297 | 15,723 |
| Distributions paid and payable | 9 | <u>(1,632)</u> | <u>(41,973)</u> |
| Total transactions with unitholders | | <u>91,662</u> | <u>60,129</u> |
| Total equity at the end of the financial year | | <u>1,185,917</u> | <u>1,156,960</u> |

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

Advance Defensive Yield Multi-Blend Fund
Statement of cash flows
For the year ended 30 June 2022

Statement of cash flows

| | | Year ended | |
|---|-------|------------------------|------------------------|
| | | 30 June | 30 June |
| | | 2022 | 2021 |
| | Notes | \$'000 | \$'000 |
| Cash flows from operating activities | | | |
| Proceeds from sale of financial instruments held at fair value through profit or loss | | 1,178,276 | 1,423,415 |
| Purchase of financial instruments held at fair value through profit or loss | | (1,295,505) | (1,478,172) |
| Interest received | | 43,982 | 27,373 |
| Distributions received | | - | 219 |
| Other income received | | 2,198 | 51 |
| Responsible Entity's fees received/(paid) | | (6,752) | (6,318) |
| Performance fees paid | | (4,803) | (290) |
| Payment of other expenses | | <u>(63)</u> | <u>(62)</u> |
| Net cash inflow/(outflow) from operating activities | 17(a) | <u>(82,667)</u> | <u>(33,784)</u> |
| Cash flows from financing activities | | | |
| Proceeds from applications by unitholders | | 67,288 | 136,759 |
| Payments for redemptions by unitholders | | (11,291) | (50,380) |
| Distributions paid | | <u>(2,266)</u> | <u>(621)</u> |
| Net cash inflow/(outflow) from financing activities | | <u>53,731</u> | <u>85,758</u> |
| Net increase/(decrease) in cash and cash equivalents | | (28,936) | 51,974 |
| Cash and cash equivalents at the beginning of the year | | 117,502 | 67,242 |
| Effects of foreign currency exchange rate changes on cash and cash equivalents | | <u>(2,122)</u> | <u>(1,714)</u> |
| Cash and cash equivalents at the end of the year | 10 | <u>86,444</u> | <u>117,502</u> |
| Non-cash transactions | 17(b) | | |

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

1 General information

These financial statements cover the Advance Defensive Yield Multi-Blend Fund ("the Fund") as an individual entity. The Fund was constituted on 19 September 2012.

The Responsible Entity of the Fund is Advance Asset Management Limited ("the Responsible Entity"). The Responsible Entity's registered office is Level 18, 275 Kent Street, Sydney, NSW 2000. The financial statements are presented in Australian currency.

During the year, the Fund continued to invest in fixed interest securities, money market securities and derivatives in accordance with the provisions of the governing documents. Through these investments, the Fund was exposed to Australian and international fixed interest securities.

The financial statements were authorised for issue by the directors of the Responsible Entity on 23 September 2022. 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.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Accounting Standards Board and the *Corporations Act 2001* in Australia. The Fund is a for-profit unit trust 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 balance sheet 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 financial assets at fair value through profit or loss.

The Fund manages financial assets and liabilities 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 cannot be reliably determined at the end of the reporting period.

In the case of net assets attributable to unitholders, the units are redeemed 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 at the end of the reporting period.

(i) Compliance with International Financial Reporting Standards

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

(ii) Comparatives

Certain comparative figures have been restated to conform with the financial statement presentation adopted for the current year.

(iii) New and amended standards adopted by the Fund

Other than as noted below, there are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2021 that have a material impact on the amounts recognised in the financial statements in the prior, current or future periods.

(b) Financial instruments

(i) Recognition/derecognition

The Fund recognises financial instruments ("investments") on the date it becomes party to the contractual agreement and recognises changes in the fair value of the financial instruments from this date.

Financial assets and liabilities are derecognised when the contractual right to cash flows from the investments has expired or has been transferred, and the Fund has transferred substantially all of the risks and rewards of ownership.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Classification

The Fund classifies its financial instruments based on its business model for managing its investments and their contractual cash flow characteristics. The Fund's investments are managed and performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about the investments on a fair value basis together with other related financial information.

For derivatives, the contractual cash flows held by the Fund are not solely principal and interest. Consequently, these investments are measured at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as financial liabilities at fair value through profit or loss.

For fixed interest and money market securities, the contractual cash flows are solely principal and interest, however they are neither held for collecting contractual cash flows nor held for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the objective of the Fund's business model. Consequently, fixed interest and money market securities are also measured at fair value through profit or loss.

(iii) Measurement

At initial recognition, a financial asset or liability is measured at fair value. Transaction costs associated with financial assets and 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 liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of financial assets or financial liabilities at fair value through profit or loss 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.

Refer to note 5 for further details on how the fair values of financial instruments are determined.

(iv) Offsetting financial instruments

Financial assets and liabilities may be offset, and the net amount reported, in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. Refer to note 4 for further details.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholder's option, however applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of all unitholders. The units are classified as equity as the Fund has only one class of units and no contractual obligation to pay distributions.

A unitholder can redeem units at any time for cash based on the redemption price, which is equal to a proportionate share of the Fund's net asset value.

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 it 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 its life are based substantially on the profit or loss of 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 at bank, deposits held at call with financial institutions and investments in cash management trusts where they hold short-term, highly liquid investments 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 financial assets and liabilities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

(e) Margin accounts and collateral

Margin accounts comprise cash held, or owed, as collateral for derivative transactions and short sales. The cash is held by or owed to the broker and is only available to meet margin calls.

Cash collateral provided by the Fund is disclosed in the balance sheet as margin accounts and is not included as a component of cash and cash equivalents.

Cash collateral paid and receivable comprises cash paid as collateral for over-the-counter derivative transactions. The cash is held by the broker and is receivable by the Fund.

Cash collateral received and payable comprises cash received as collateral for over-the-counter derivative transactions. The cash is held by the Fund and is payable to the broker.

(f) Accrued income

Accrued income may include amounts owed to the Fund for interest. Interest is accrued from the time of last payment. Amounts are generally received within 45 days of being recorded as receivables.

(g) Unsettled sales/purchases

Unsettled sales/purchases represent receivables for securities sold and/or payables for securities purchased that have been contracted for but not yet delivered by the end of the reporting period.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund measures the loss allowance on unsettled sales/purchases at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund measures the loss allowance at an amount equal to 12-month expected credit losses. The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses.

(h) Receivables

Receivables include such items as Reduced Input Tax Credits ("RITC") and application monies receivable from unitholders.

(i) Payables

Payables include liabilities, accrued expenses and redemption monies owing by the Fund which are unpaid as at the end of the reporting period.

Where the Responsible Entity has income that is distributable to unitholders, a separate distribution payable is recognised in the balance sheet as at the end of each reporting period where this amount remains unpaid as at the end of the reporting period.

(j) Investment income

Interest income is recognised in the statement of comprehensive income for all financial instruments that are not held at fair value through profit or loss as it accrues.

Interest income and expenses are recognised in the statement of comprehensive income for all debt instruments using the effective interest method.

2 Summary of significant accounting policies (continued)

(j) Investment income (continued)

Interest income is recognised in the statement of comprehensive income as it accrues, using the original effective interest rate of the instrument calculated at acquisition or origination date. The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. Interest income includes the amortisation of any discount or premium or other differences between initial carrying amount of an interest-bearing instrument and its amount calculated on an effective interest rate basis.

Trust distributions (including distributions from cash management trusts) are recognised on an entitlements basis.

(k) Expenses

All expenses, including Responsible Entity's fees, are recognised in the statement of comprehensive income on an accruals basis.

(l) Transaction costs

Transaction costs include fees and commissions paid to agents, advisers, brokers and dealers. Transaction costs, when incurred, are immediately recognised in the statement of comprehensive income as an expense.

(m) Income tax

Under current legislation, the Fund is not subject to income tax provided it attributes or distributes (as appropriate) the entirety of its taxable income to its unitholders.

(n) Distributions

In accordance with the Fund's Constitution, the Responsible Entity is entitled to determine the amounts to be distributed to unitholders. The distributions are recognised in the statement of changes in equity.

(o) Foreign currency translation

(i) Functional and presentation currency

Items 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 operates and is regulated. The Australian dollar is also the presentation currency.

(ii) Transactions and balances

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined. Translation differences on assets and liabilities carried at fair value are reported in the statement of comprehensive income on a net basis within net gains/(losses) on financial instruments held at fair value through profit or loss.

2 Summary of significant accounting policies (continued)

(p) Goods and Services Tax (“GST”)

The GST incurred on the costs of various services provided to the Fund, such as management fees, has been passed onto the Fund. The Fund qualifies for RITC, hence 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 balance sheet. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

(q) Use of estimates

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

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

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

For certain other financial instruments, including unsettled sales and purchases and payables, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

Refer to note 5 for further details on how fair value is calculated.

(r) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2022 reporting period. Management's assessment of the impact of these new standards and interpretations is set out below:

AASB 2020-8 Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform - Phase 2 (effective from 1 January 2021)

Interbank Offered Rates (“IBOR”) such as the London Interbank Offered Rate (“LIBOR”) are interest rate benchmarks that are used in a wide variety of financial instruments such as derivatives and lending arrangements. As a result of recommendations from financial market authorities, many IBOR around the world are undergoing reforms or being replaced with Alternative Reference Rates (“ARRs”). ARR are overnight rates with little or no credit risk. IBOR will cease to be published from the dates announced by their respective regulators and the final transition is expected to be on 30 June 2023. Accordingly, existing IBOR linked contracts for derivatives, bonds and other financial instruments that mature beyond their respective IBOR cessation dates are expected to transition to a ARR.

The IBOR transition is expected to be in line with the industry guidelines and is not expected to have a material impact on the Fund's financial statements. Further, the contracts referencing IBOR are held for trading and measured at fair value through profit or loss, and are also not designated in a hedge accounting relationship.

(s) Rounding of amounts

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

3 Financial risk management

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

The Fund's overall risk management program focuses on ensuring compliance with its governing documents and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Derivative financial instruments may also be used (or are used) to alter certain risk exposures. Financial risk management is carried out by the investment manager in accordance with board approved policies.

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, foreign exchange and price risks and ratings analysis for credit risk.

The investment manager mitigates these financial risks through diversification and a careful selection of securities and other financial instruments within specified limits.

The Fund's performance exceptions to its benchmark are reported to the board on a regular basis.

(a) Market risk

(i) Price risk

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices.

There is no significant direct price risk in this Fund.

(ii) Foreign exchange risk

The Fund holds monetary and non-monetary assets denominated in currencies other than the Australian dollar. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk and not foreign exchange risk. Foreign exchange risk arises as the value of monetary securities denominated in other currencies fluctuates due to changes in exchange rates.

Foreign currency contracts and other derivatives are used to manage foreign exchange risk. Alternatively these instruments are used to increase exposure to preferred foreign currencies. For accounting purposes, no derivatives are designated as hedges in a hedging relationship, and hence these derivative financial instruments are classified as at fair value through profit or loss.

Exceptions to compliance are reported to the board on a regular basis.

The table below summarises the assets and liabilities, monetary and non-monetary, which are denominated in a currency other than the Australian dollar.

| As at 30 June 2022 | US Dollars A\$'000 | Euro A\$'000 | New Zealand Dollars A\$'000 | British Pounds A\$'000 | Other currencies A\$'000 | Total A\$'000 |
|---|--------------------------|-----------------|-----------------------------------|------------------------------|--------------------------------|------------------|
| Cash and cash equivalents | 52,946 | 759 | - | 10,712 | 3,506 | 67,923 |
| Margin accounts | 3,639 | - | - | - | - | 3,639 |
| Unsettled sales | 23,817 | - | - | - | - | 23,817 |
| Accrued income | 2,751 | 528 | 3 | 4,450 | 21 | 7,753 |
| Financial assets held at fair value through profit or loss | 443,182 | 35,429 | 4,034 | 286,931 | 226 | 769,802 |
| Margin accounts | (2,739) | (297) | - | - | - | (3,036) |
| Unsettled purchases | (76,016) | - | - | - | - | (76,016) |
| Financial liabilities held at fair value through profit or loss | (10,962) | (891) | (217) | (4,516) | - | (16,586) |
| Net increase/(decrease) in exposure from forward currency contracts | | | | | | |
| - sell foreign currency | (467,148) | (39,509) | (9,474) | (306,600) | - | (822,731) |
| - buy foreign currency | 19,909 | 3,253 | 5,674 | 5,128 | 10 | 33,974 |
| Total exposure | (10,621) | (728) | 20 | (3,895) | 3,763 | (11,461) |
| Total monetary assets/(liabilities) exposure | <u>(2,356)</u> | <u>145</u> | <u>140</u> | <u>579</u> | <u>3,763</u> | <u>2,271</u> |

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

| As at 30 June 2021 | US Dollars A\$'000 | Euro A\$'000 | New Zealand Dollars A\$'000 | British Pounds A\$'000 | Other currencies A\$'000 | Total A\$'000 |
|--|--------------------------|-----------------|-----------------------------------|------------------------------|--------------------------------|------------------|
| Cash and cash equivalents | 84,650 | 17 | 29 | 93 | 7 | 84,796 |
| Margin accounts | 11,131 | - | - | - | - | 11,131 |
| Unsettled sales | 42,415 | - | - | - | - | 42,415 |
| Accrued income | 2,165 | 550 | 11 | 4,063 | 42 | 6,831 |
| Financial assets held at fair value through profit or loss | 412,728 | 44,251 | 5,899 | 314,098 | 896 | 777,872 |
| Margin accounts | (1,500) | (71) | - | - | - | (1,571) |
| Unsettled purchases | (72,100) | - | - | (1,271) | - | (73,371) |
| Financial liabilities held at fair value through profit or loss | (19,646) | (285) | (18) | (2,408) | - | (22,357) |
| Net increase/(decrease) in exposure from forward currency contracts | | | | | | |
| - sell foreign currency | (838,478) | (44,652) | (5,864) | (317,753) | - | (1,206,747) |
| - buy foreign currency | 368,234 | - | - | 829 | - | 369,063 |
| Total exposure | <u>(10,401)</u> | <u>(190)</u> | <u>57</u> | <u>(2,349)</u> | <u>945</u> | <u>(11,938)</u> |
| Total monetary assets/(liabilities) exposure | <u>(27,862)</u> | <u>95</u> | <u>75</u> | <u>60</u> | <u>945</u> | <u>(26,687)</u> |

(iii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Changes in interest rates can have a direct or indirect impact on the investment value and/or returns of all types of assets.

The Fund's interest bearing financial assets expose it to interest rate risk. Interest rate risk from these investments is reported as a component of interest rate risk for the purposes of the sensitivity analysis.

Interest rate risk is mitigated through ensuring activities are transacted in accordance with the investment mandate, overall investment strategy and within approved limits.

Exceptions to compliance are reported to the board on a regular basis.

The table presented in note 3(b) summarises sensitivity analysis to interest rate risk.

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the operating profit and net assets attributable to unitholders to interest rate risk and foreign exchange risk. The analysis is based on reasonably possible movements in the risk variables applied to the Fund's net assets. The reasonably possible movements in the risk variables have been determined based on management estimates, having regard to a number of factors including historical levels of changes in market indices, security prices and/or benchmark returns, interest rates and foreign exchange rates. However actual movements in the risk variables may be greater or less than anticipated due to a number of factors. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

3 Financial risk management (continued)

(b) Summarised sensitivity analysis (continued)

The reasonably possible movements in the risk variables are based on long term averages consistent with the investing profile of the Fund.

| | Impact on operating profit/(loss)/ Net assets attributable to unitholders | |
|---------------------|--|---------------------------------|
| As at | Interest rate risk | |
| | - 0.10% (2021: -0.10%) | +2.00% (2021: +0.50%) |
| | \$'000 | \$'000 |
| 30 June 2022 | 343 | (6,857) |
| 30 June 2021 | 638 | (3,192) |

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 based on market information.

(c) Credit risk

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

Credit risk primarily arises from investments in debt securities and from trading in derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers.

The Fund determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. Management considers the probability of default to be close to zero as these financial assets have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be insignificant to the Fund.

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

Concentrations of direct credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limits, are approved, and
- ensuring that transactions are undertaken with a number of counterparties.

Exceptions to compliance are reported to the board on a regular basis.

3 Financial risk management (continued)

(c) Credit risk (continued)

Fixed interest securities and money market securities

The Fund invests in fixed interest securities and money market securities which have an investment grade as rated by an independent rating agency.

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. An analysis by rating is set out in the table below:

| | As at | |
|---|------------------|------------------|
| | 30 June 2022 | 30 June 2021 |
| | \$'000 | \$'000 |
| Fixed interest and money market securities | | |
| Rating | | |
| AAA | 193,890 | 120,144 |
| AA | 58,122 | 61,370 |
| A | 171,229 | 162,494 |
| BBB | 553,315 | 589,482 |
| BB | 59,456 | 73,297 |
| B | 5,503 | 9,597 |
| CCC | 13,374 | 16,431 |
| CC | 13,888 | 16,098 |
| C | 2,898 | 1,251 |
| D | 1,001 | 1,884 |
| Not rated | <u>33,025</u> | <u>29,637</u> |
| Total | <u>1,105,701</u> | <u>1,081,685</u> |

(d) Liquidity risk

Liquidity risk is the risk that sufficient cash resources may not be able to be generated to settle 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 and daily margin calls on derivatives. The liquidity risk associated with the need to meet redemption requests is mitigated by maintaining adequate liquidity to fulfil usual redemption volumes. The Fund therefore primarily holds investments that are traded in an active market and can be disposed of readily.

The risk management guidelines adopted are designed to minimise liquidity 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.

Exceptions to the above are reported to the board on a regular basis.

From time to time, investments may be held in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. These investments may not be able to be quickly liquidated at an amount close to their fair value to meet liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer or counterparty. Any such investments held at the end of each reporting period are disclosed in the note on derivative financial instruments below.

3 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Maturities of non-derivative financial liabilities

The non-derivative financial liabilities of the Fund comprise distribution payable, margin accounts, unsettled purchases, payables and net assets attributable to unitholders. These have no contractual maturities but are typically settled within 30 days.

Unsettled purchases relating to bond and fixed income forwards securities are closed by notification typically within 60 to 90 days.

(ii) Maturities of derivative financial instruments liabilities

The table below details the contractual maturities of the derivative financial instruments liabilities which are measured at fair value and considered important to understanding the timing of cash flows.

| | Less than 1 month \$'000 | 1 - 3 months \$'000 | Greater than 3 months \$'000 |
|--------------------------------------|---|------------------------------------|---|
| As at 30 June 2022 | | | |
| Net settled derivatives | | | |
| Forward currency contracts | (13,916) | (16) | (10) |
| International money market futures | - | - | (40) |
| Australian fixed interest futures | - | (87) | - |
| International fixed interest futures | - | (781) | - |
| Interest rate swaps | - | - | (2,175) |
| Credit default swaps | - | - | (114) |
| | | | |
| | Less than 1 month \$'000 | 1 - 3 months \$'000 | Greater than 3 months \$'000 |
| As at 30 June 2021 | | | |
| Net settled derivatives | | | |
| Forward currency contracts | (15,868) | (4,567) | - |
| Australian fixed interest futures | - | (203) | - |
| International fixed interest futures | - | (1,671) | - |
| Interest rate swaps | - | - | (659) |
| Credit default swaps | - | - | (251) |

4 Offsetting financial assets and financial liabilities

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

| Financial assets | Effects of offsetting on the balance sheet | | | Related amounts not offset | | |
|------------------------------|---|--|---|---|---------------------------|----------------------|
| | Gross amounts of financial assets \$'000 | Gross amounts set off in the balance sheet \$'000 | Net amount of financial assets presented in the balance sheet \$'000 | Amounts subject to enforceable netting arrangements \$'000 | Cash collateral \$'000 | Net amount \$'000 |
| As at 30 June | | | | | | |
| 2022 | | | | | | |
| Margin accounts | 6,789 | - | 6,789 | - | - | 6,789 |
| Derivatives | <u>57,583</u> | - | <u>57,583</u> | <u>(1,681)</u> | - | <u>55,902</u> |
| Total | <u>64,372</u> | - | <u>64,372</u> | <u>(1,681)</u> | - | <u>62,691</u> |
| 2021 | | | | | | |
| Margin accounts | 16,043 | - | 16,043 | - | - | 16,043 |
| Derivatives | <u>37,909</u> | - | <u>37,909</u> | <u>(4,174)</u> | - | <u>33,735</u> |
| Total | <u>53,952</u> | - | <u>53,952</u> | <u>(4,174)</u> | - | <u>49,778</u> |
| Financial liabilities | | | | | | |
| As at 30 June | | | | | | |
| 2022 | | | | | | |
| Margin accounts | (7,807) | - | (7,807) | - | - | (7,807) |
| Derivatives | <u>(17,139)</u> | - | <u>(17,139)</u> | <u>1,681</u> | - | <u>(15,458)</u> |
| Total | <u>(24,946)</u> | - | <u>(24,946)</u> | <u>1,681</u> | - | <u>(23,265)</u> |
| 2021 | | | | | | |
| Margin accounts | (1,711) | - | (1,711) | - | - | (1,711) |
| Derivatives | <u>(23,219)</u> | - | <u>(23,219)</u> | <u>4,174</u> | - | <u>(19,045)</u> |
| Total | <u>(24,930)</u> | - | <u>(24,930)</u> | <u>4,174</u> | - | <u>(20,756)</u> |

(i) Enforceable netting arrangement – not currently enforceable

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

5 Fair value measurement

AASB 13 *Fair Value Measurement* 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),
or
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

Investments are valued in accordance with the accounting policies set out in note 2 to the financial statements.

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

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.

Interest bearing financial assets are valued at quoted market prices at the end of the reporting period as provided by independent pricing services.

Exchange traded futures are valued at the market closing price.

(b) Fair value in an inactive or unquoted market (level 2 and level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined by using quoted market prices, dealer quotes and/or valuation techniques.

Fixed interest securities, such as mortgage backed securities, corporate bonds and floating rate notes, are valued using quoted market prices or dealer quotes at the end of the reporting period for similar instruments.

Bond and fixed income forwards are valued using quoted market prices or dealer quotes at the end of the reporting period.

Forward currency contracts are valued using quoted exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts as at the valuation date.

Over-the-counter options are valued by applying the Black-Scholes option valuation model.

Management uses a variety of valuation methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Valuation techniques used for swaps and over-the-counter options include the use of discounted cash flow techniques, option pricing models or any other valuation technique that is commonly used by market participants.

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

Where option pricing models are used, inputs are based on market data at the end of the reporting period. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with a high degree of certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions held.

5 Fair value measurement (continued)

(i) Recognised fair value measurements

The following table presents the financial assets and liabilities measured and recognised at fair value by fair value hierarchy levels:

| As at 30 June 2022 | Level 1 | Level 2 | Level 3 | Total |
|--|----------------|------------------|----------------|------------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Financial assets | | | | |
| Financial assets held at fair value through profit or loss: | | | | |
| Money market securities | 95,240 | - | - | 95,240 |
| Fixed interest securities | 3,306 | 1,007,155 | - | 1,010,461 |
| Derivatives | <u>1,545</u> | <u>56,038</u> | - | <u>57,583</u> |
| Total | <u>100,091</u> | <u>1,063,193</u> | - | <u>1,163,284</u> |
| Financial liabilities | | | | |
| Financial liabilities held at fair value through profit or loss: | | | | |
| Derivatives | <u>(908)</u> | <u>(16,231)</u> | - | <u>(17,139)</u> |
| Total | <u>(908)</u> | <u>(16,231)</u> | - | <u>(17,139)</u> |
| | | | | |
| As at 30 June 2021 | Level 1 | Level 2 | Level 3 | Total |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Financial assets | | | | |
| Financial assets held at fair value through profit or loss: | | | | |
| Money market securities | 14,077 | - | - | 14,077 |
| Fixed interest securities | 5,464 | 1,062,144 | - | 1,067,608 |
| Derivatives | <u>268</u> | <u>37,641</u> | - | <u>37,909</u> |
| Total | <u>19,809</u> | <u>1,099,785</u> | - | <u>1,119,594</u> |
| Financial liabilities | | | | |
| Financial liabilities held at fair value through profit or loss: | | | | |
| Derivatives | <u>(1,874)</u> | <u>(21,345)</u> | - | <u>(23,219)</u> |
| Total | <u>(1,874)</u> | <u>(21,345)</u> | - | <u>(23,219)</u> |

Transfers into and transfers out of the fair value hierarchy levels are recognised at the end of the reporting period.

(ii) Transfers between levels

There were no transfers between levels as at 30 June 2022 and 30 June 2021.

5 Fair value measurement (continued)

(iii) Valuation processes

Management undertakes regular portfolio reviews to identify securities that may not be actively traded or have stale security pricing and could be regarded as level 2 or level 3 securities. Further analysis, should it be required, is undertaken to determine the accounting significance of the identified securities. In the event that the security is not actively traded, an assessment is performed by management to determine the appropriate valuation price to use that is most representative of fair value.

(c) Fair values of non-financial instruments

Due to their short-term nature, the carrying value of receivables and payables are assumed to approximate their fair values.

6 Interest income

| | Year ended | |
|--|---------------------------|---------------------------|
| | 30 June 2022 \$'000 | 30 June 2021 \$'000 |
| Interest income from debt securities designated at fair value through profit or loss | 44,749 | 27,435 |
| Interest income from financial assets that are not at fair value through profit or loss: | | |
| Cash and cash equivalents | <u>7</u> | <u>12</u> |
| Total interest income | <u>44,756</u> | <u>27,447</u> |

7 Remuneration of auditors

| | Year ended | |
|--|-----------------------|-----------------------|
| | 30 June 2022 \$ | 30 June 2021 \$ |
| <i>Audit and other assurance services</i> | | |
| Audit of financial statements | 26,128 | 25,123 |
| Other services* | <u>2,806</u> | <u>1,898</u> |
| Total remuneration for audit and other assurance services inclusive of GST | <u>28,934</u> | <u>27,021</u> |

* Other services include compliance plan audit.

Audit fees were paid by the Responsible Entity for the years ended 30 June 2022 and 30 June 2021.

8 Net assets attributable to unitholders

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

| | 30 June 2022 | 30 June 2021 | 30 June 2022 | 30 June 2021 |
|---|-------------------------|------------------|-------------------------|------------------|
| | No. '000 | No. '000 | \$'000 | \$'000 |
| Opening balance | 1,166,549 | 1,065,944 | 1,156,960 | 1,068,960 |
| Profit/(loss) for the year | - | - | (62,705) | 27,871 |
| Applications | 67,834 | 172,550 | 67,288 | 175,157 |
| Redemptions | (11,404) | (87,608) | (11,291) | (88,778) |
| Units issued upon reinvestment of distributions | 37,609 | 15,663 | 37,297 | 15,723 |
| Distributions paid and payable | <u>-</u> | <u>-</u> | <u>(1,632)</u> | <u>(41,973)</u> |
| Closing balance | <u>1,260,588</u> | <u>1,166,549</u> | <u>1,185,917</u> | <u>1,156,960</u> |

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 attached to it as all other units of the Fund.

(a) Capital risk management

Management manages the Fund's net assets attributable to unitholders as capital. 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.

Management monitors the level of daily applications and redemptions relative to the liquid assets in the Fund. In the event of a significant redemption, as permitted under the governing documents, management may decide to pay a special distribution and/or may delay payment of the redemption amount.

9 Distributions to unitholders

| | Year ended | | | |
|----------------------|-------------------------|-------------------------|-----------------|-----------------|
| | 30 June 2022 | 30 June 2022 | 30 June 2021 | 30 June 2021 |
| | \$'000 | CPU | \$'000 | CPU |
| Distributions paid | | | | |
| - 30 September | - | - | 2,410 | 0.2100 |
| Distribution payable | | | | |
| - 30 June | <u>1,632</u> | <u>0.1295</u> | <u>39,563</u> | <u>3.3915</u> |
| Total | <u>1,632</u> | <u>0.1295</u> | <u>41,973</u> | <u>3.6015</u> |

10 Cash and cash equivalents

| | As at | |
|---------------------------------|-------------------------|-----------------|
| | 30 June 2022 | 30 June 2021 |
| | \$'000 | \$'000 |
| Cash at bank | 18,521 | 32,706 |
| Foreign currency holdings | <u>67,923</u> | <u>84,796</u> |
| Total cash and cash equivalents | <u>86,444</u> | <u>117,502</u> |

11 Unsettled sales

| | As at | |
|-------------------------------------|---------------------------|---------------------------|
| | 30 June 2022 \$'000 | 30 June 2021 \$'000 |
| Unsettled fixed interest securities | 23,817 | 42,415 |
| Total unsettled sales | 23,817 | 42,415 |

12 Unsettled purchases

| | As at | |
|--|---------------------------|---------------------------|
| | 30 June 2022 \$'000 | 30 June 2021 \$'000 |
| Unsettled bond and fixed interest forwards | 76,016 | 72,100 |
| Unsettled fixed interest securities | - | 4,570 |
| Total unsettled purchases | 76,016 | 76,670 |

During July 2022 and August 2022, the unsettled bonds and fixed interest forwards have been closed by notification either by being paired off to any corresponding unsettled sales or by allocating the Fund underlying fixed income securities. Any corresponding unsettled sales are set out in note 11.

13 Financial assets held at fair value through profit or loss

| | As at | |
|---|-------------------------|-------------------------|
| | 30 June 2022 | 30 June 2021 |
| | Fair value \$'000 | Fair value \$'000 |
| Financial assets held at fair value through profit or loss | | |
| Money market securities | 95,240 | 14,077 |
| Fixed interest securities | 1,010,461 | 1,067,608 |
| Derivatives (note 15) | <u>57,583</u> | <u>37,909</u> |
| Total financial assets held at fair value through profit or loss | <u>1,163,284</u> | <u>1,119,594</u> |
| Comprising: | | |
| Money market securities | | |
| Negotiable certificates of deposits | <u>95,240</u> | <u>14,077</u> |
| Total money market securities | <u>95,240</u> | <u>14,077</u> |
| Fixed interest securities | | |
| Commonwealth government securities | 3,306 | 5,464 |
| Other public sector securities | 7,011 | 3,141 |
| International fixed interest securities | 21,946 | 20,993 |
| Other bonds* | <u>978,198</u> | <u>1,038,010</u> |
| Total fixed interest securities | <u>1,010,461</u> | <u>1,067,608</u> |
| Derivatives | | |
| Bond and fixed income forwards | 48,700 | 33,358 |
| Forward currency contracts | 619 | 3,584 |
| Australian fixed interest futures | 213 | 237 |
| International fixed interest futures | 1,332 | 31 |
| Interest rate swaps | <u>6,719</u> | <u>699</u> |
| Total derivatives | <u>57,583</u> | <u>37,909</u> |
| Total financial assets held at fair value through profit or loss | <u>1,163,284</u> | <u>1,119,594</u> |

* Other bonds include mortgage backed securities, corporate bonds and floating rate notes.

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

14 Financial liabilities held at fair value through profit or loss

| | As at | |
|--|-------------------------|-----------------|
| | 30 June 2022 | 30 June 2021 |
| | Fair value | Fair value |
| | \$'000 | \$'000 |
| Financial liabilities held at fair value through profit or loss | | |
| Derivatives (note 15) | 17,139 | 23,219 |
| Total financial liabilities held at fair value through profit or loss | 17,139 | 23,219 |
| | | |
| Derivatives | | |
| Forward currency contracts | 13,942 | 20,435 |
| International money market futures | 40 | - |
| Australian fixed interest futures | 87 | 203 |
| International fixed interest futures | 781 | 1,671 |
| Interest rate swaps | 2,175 | 659 |
| Credit default swaps | 114 | 251 |
| Total derivatives | 17,139 | 23,219 |
| | | |
| Total financial liabilities held at fair value through profit or loss | 17,139 | 23,219 |

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

15 Derivative financial instruments

A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating, credit index or other variable.

Derivative transactions are entered into in the normal course of business.

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

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

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

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

The following derivative financial instruments were held during the year:

(a) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price, established in an organised market. Futures contracts are collateralised by cash or marketable securities. Changes in the values of futures contracts are usually settled net daily with the exchange or broker.

15 Derivative financial instruments (continued)

(b) Options

Options are arrangements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future price risk. Options held are exchange-traded and over the counter.

(c) Forward currency contracts

Forward currency contracts are agreements to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are primarily used to hedge against foreign currency exchange rate risks on non-Australian dollar denominated securities.

(d) Interest rate swaps

Interest rate swaps are agreements between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

(e) Credit default swaps

Credit default swaps ("CDS") are a form of insurance which protects the buyer of the CDS in the case of a loan default. If the loan defaults, the buyer of the CDS can exchange or "swap" the defaulted loan (or in some CDSs the reduced cash value of the defaulted loan) for the face value of the loan. One difference between a traditional insurance policy and a CDS is that anyone can purchase a CDS, even those who have no direct "insurable interest" in the lender. The buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if the loan or any credit instrument named in the contract (typically a bond or loan) defaults, creating a credit event.

(f) Bond and fixed income forwards

Bond and fixed income forwards are agreements between two counterparties to exchange fixed interest securities at an agreed price and time in the future.

The derivative financial instruments held at the end of each reporting period are detailed below:

| | As at | |
|---|---------------------------------|---------------------------------|
| | 30 June 2022 | 30 June 2021 |
| | Contract/ notional \$'000 | Contract/ notional \$'000 |
| Buy | | |
| Bond and fixed income forwards | 48,700 | 33,358 |
| Forward currency contracts | 33,974 | 369,063 |
| Australian fixed interest futures | 10,610 | 11,000 |
| International fixed interest futures | 130,886 | 102,902 |
| Options in respect of fixed interest securities | - | 8,161 |
| Credit default swaps | 246,361 | 180,274 |
| Sell | | |
| Forward currency contracts | 822,731 | 1,206,747 |
| Australian money market futures | 55,433 | - |
| International money market futures | 13,388 | - |
| Australian fixed interest futures | 33,726 | 122,097 |
| International fixed interest futures | 74,034 | 64,897 |
| Credit default swaps | 246,361 | 180,274 |

15 Derivative financial instruments (continued)

Risk exposures and fair value measurements

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

16 Related party transactions

(a) Responsible Entity

The Responsible Entity of the Fund is Advance Asset Management Limited (ABN 98 002 538 329), a wholly owned subsidiary of Westpac Financial Services Group Ltd (ABN 50 000 326 312). The ultimate parent entity is Westpac Banking Corporation (ABN 33 007 457 141). The registered office of the Responsible Entity and the Fund is Level 18, 275 Kent Street, Sydney, NSW 2000.

On 26 May 2022, Westpac Banking Corporation announced the sale of Advance Asset Management Limited to Mercer (Australia) Pty Ltd. The sale is expected to be completed by 30 June 2023.

(b) Directors

The directors of Advance Asset Management Limited during the financial year or since the end of the year and up to the date of this report were as follows:

Vicki Allen
 Andrew Rutherford
 Jonathan Sweeney
 Katherine Vincent (resigned 4 October 2021)

(c) Other key management personnel

| Name | Position | Employer |
|----------------------------------|--|-----------------------------|
| Jason Yetton | Chief Executive, Specialist Businesses | Westpac Banking Corporation |
| Matthew Rady ⁽¹⁾ | Chief Executive Officer, BT Financial Group | Westpac Banking Corporation |
| Katherine Vincent ⁽²⁾ | Chief Strategy & Product Officer, BT Financial Group | Westpac Banking Corporation |
| Melinda Howes ⁽³⁾ | Managing Director, BT Superannuation, BT Financial Group | Westpac Banking Corporation |
| Andrew Wallace ⁽⁴⁾ | Managing Director, Personal & Corporate Superannuation, BT Financial Group | Westpac Banking Corporation |

⁽¹⁾ Matthew Rady was classified as key management personnel effective 5 October 2021 following his appointment as Chief Executive Officer of BT Financial Group.

⁽²⁾ Katherine Vincent was classified as key management personnel effective 4 October 2021 following her resignation from the Advance Asset Management Limited board.

⁽³⁾ Melinda Howes was no longer classified as key management personnel effective 3 December 2021 following her resignation from BT Financial Group.

⁽⁴⁾ Andrew Wallace was classified as key management personnel effective 21 February 2022 following his appointment to the role of Managing Director, Personal & Corporate Superannuation.

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

(d) Responsible Entity's/manager's fees and other transactions

For the year ended 30 June 2022, in accordance with the Fund's governing documents, the Fund incurred a total management fee of 0.55% (inclusive of GST, net of RITC available to the Fund) per annum (2021: 0.55%).

This fee is partially paid out of the Fund and partially out of the assets of the underlying funds into which the Fund invests. The latter is reflected in the daily unit prices for the underlying funds.

16 Related party transactions (continued)

(d) Responsible Entity's/manager's fees and other transactions (continued)

In addition to the above fee, a performance fee is payable to certain underlying investment managers when they exceed specific investment performance targets. This fee is paid out of the assets of the Fund. This fee does not accrue to the Responsible Entity.

All expenses in connection with the preparation of accounting records and the maintenance of the unit register are fully borne by the Responsible Entity.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable/(receivable) at the end of each reporting period between the Fund and the Responsible Entity were as follows:

| | 30 June 2022 | 30 June 2021 |
|--|-------------------------|-----------------|
| | \$ | \$ |
| Management fees incurred by the Fund# | 6,749,246 | 6,355,350 |
| Performance fees incurred by the Fund* | (2,188,796) | 4,766,170 |
| Aggregate amounts payable/(receivable) to/(from) the Responsible Entity at the end of the reporting period | 539,488 | 5,343,727 |

This represents the amount paid out of the Fund to the Responsible Entity. In addition to this amount, the total fees charged also include the fees charged in the underlying funds.

* At 30 June 2021, there was an excess performance fee payable to the underlying investment managers which was above the annual cap. This excess above the annual cap was carried forward as an accrual and payable in the ensuing financial year, if certain hurdles were met. As at 30 June 2022, these hurdles were not met by the investment managers and the accrual was reduced to nil as a result.

(e) Related party unitholdings

Parties related to the Fund (including the Responsible Entity, its related parties and other funds managed by the Responsible Entity) held units in the Fund as follows:

30 June 2022

| Unitholder | Number of units held opening Units | Number of units held closing Units | Interest held % | Number of units acquired Units | Number of units disposed Units | Distributions paid/payable by the Fund \$ |
|---------------------------------|---|---|-----------------------|---|---|--|
| BT Multi-manager Protector Fund | 451,501,596 | 501,657,764 | 39.80 | 51,173,152 | (1,016,984) | 649,577 |

30 June 2021

| Unitholder | Number of units held opening Units | Number of units held closing Units | Interest held % | Number of units acquired Units | Number of units disposed Units | Distributions paid/payable by the Fund \$ |
|---------------------------------|---|---|-----------------------|---|---|--|
| BT Multi-manager Protector Fund | 464,341,455 | 451,501,596 | 38.70 | 29,610,632 | (42,450,491) | 16,320,989 |

Other funds related to the Responsible Entity hold units in the Fund but these funds do not meet the definition of related parties under the Australian Accounting Standards and as such unitholdings are not required to be disclosed.

(f) Transactions with key management personnel

Key management personnel services are provided by Advance Asset Management Limited and included in the management fees disclosed in (d) above. There is no separate charge for these services. There was no compensation paid directly by the Fund to any of the key management personnel.

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.

16 Related party transactions (continued)

(f) Transactions with key management personnel (continued)

Key management personnel unitholdings

At 30 June 2022, no key management personnel held units in the Fund (2021: Nil).

(g) Investments

The Fund held the following investments including funds which are also managed by the Trustee or its related parties (30 June 2022: Nil).

| 30 June 2021 | Fair value of investment | Interest held | Distributions received/receivable | Units acquired during the year | Units disposed during the year |
|-------------------------------|-----------------------------|---------------|--------------------------------------|-----------------------------------|-----------------------------------|
| | \$ | % | \$ | Units | Units |
| Advance Cash Multi-Blend Fund | - | - | 219,175 | 3,925,032 | (111,736,460) |

(h) 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 the end of the reporting period.

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

| | Year ended | |
|---|-----------------|-----------------|
| | 30 June 2022 | 30 June 2021 |
| | \$'000 | \$'000 |
| (a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities | | |
| Operating profit/(loss) for the year | (62,705) | 27,871 |
| Proceeds from sale of financial instruments held at fair value through profit or loss | 1,178,276 | 1,423,415 |
| Purchase of financial instruments held at fair value through profit or loss | (1,295,505) | (1,478,172) |
| Net (gains)/losses on financial instruments held at fair value through profit or loss | 102,834 | (11,364) |
| Net change in accrued income and receivables | (761) | (47) |
| Net change in payables | (4,806) | 4,513 |
| Net cash inflow/(outflow) from operating activities | (82,667) | (33,784) |
| (b) Non-cash transactions | | |
| Distribution payments satisfied by the issue of units under the distribution reinvestment plan | 37,297 | 15,723 |
| Applications received as non-cash contributions | - | 38,398 |
| Redemptions settled as non-cash withdrawals | - | (38,398) |

18 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the balance sheet as at 30 June 2022 or on the results and cash flows of the Fund for the year ended on that date.

19 Contingent assets and liabilities and commitments

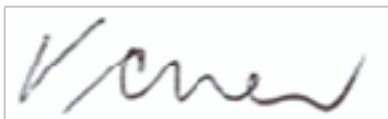
There are no outstanding contingent assets, liabilities or commitments as at 30 June 2022 and 30 June 2021.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 32 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 2022 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.



Vicki Allen
Director



Jonathan Sweeney
Director

Sydney

23 September 2022



Independent auditor's report

To the unitholders of Advance Defensive Yield Multi-Blend Fund

Our opinion

In our opinion:

The accompanying financial report of Advance Defensive Yield Multi-Blend Fund (the Fund) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 30 June 2022 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the balance sheet as at 30 June 2022
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

Independence

We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

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

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

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors of the Responsible Entity for the financial report

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity 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 of the Responsible Entity are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

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

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

A stylized, handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Darren Ross'.

Darren Ross
Partner

Sydney
23 September 2022