

# **K2 Australian Small Cap Fund**

ARSN 166 480 584

## **Financial report**

**For the year ended 30 June 2021**

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ARSN 166 480 584

## Financial report

### For the year ended 30 June 2021

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## Directors' report

The Directors of K2 Asset Management Ltd (ABN 95 085 445 094), the Responsible Entity of K2 Australian Small Cap Fund, present their report together with the financial statements of K2 Australian Small Cap Fund (the "Fund") for the year ended 30 June 2021 and the auditor's report thereon.

### Principal activities

The Fund continues to invest in accordance with target asset allocations as set out in the current Product Disclosure Statement and 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.

The Fund is a registered managed investment scheme domiciled in Australia.

### Directors

The following persons held office as Directors of K2 Asset Management Ltd during the year or since the end of the year and up to the date of this report:

Campbell W Neal

Mark S Newman (Retired 29 March 2021)

Hollie A Wight

George Boubouras (Appointed 29 March 2021)

### Service providers

The Responsible Entity and Investment Manager of the Fund is K2 Asset Management Ltd.

The Custodians of the Fund are Morgan Stanley & Co International Plc and State Street Australia Limited.

The Administrator of the Fund is State Street Australia Limited.

The Unit Registry service provider of the Fund is Boardroom Pty Limited.

The registered office and principal place of business of the Responsible Entity and the Fund is Level 32, 101 Collins Street, Melbourne, Victoria, 3000.

### Review and results of operations

The Fund maintains its long/short investment strategy in Small Cap listed equities and other investment instruments in Australia and New Zealand as permitted by the Fund's Constitution.

The investment policy of the Fund continues to be that detailed in the current Product Disclosure Statement and in accordance with the provisions of the Fund's Constitution.

### Results

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

	Year ended	
	30 June 2021	30 June 2020
Operating profit/(loss) (\$'000)	4,355	(1,313)
<b>Distributions</b>		
Distributions paid and payable (\$'000)	-	37
Distribution (dollars per unit)	-	0.01

## Directors' report (continued)

### Review and results of operations (continued)

#### Net Asset Value per unit

NAV per unit (quoted ex-distribution) are shown as follows:

	2021	2020
	\$	\$
At 30 June	2.90	1.83

#### Significant changes in state of affairs

The existence of COVID-19 continues to create uncertainty as businesses learn to navigate a new landscape. The impact of factors such as the timing, availability and efficacy of a vaccine; the resurgent infection rates around the world; and the potential for domestic outbreaks remains unclear. At the date of signing the financial statements, uncertainty remains on the likely duration and the ultimate impact COVID-19 will have on the short and long-term performance of the Fund. The Responsible Entity will continue to assess this impact.

Other than the above, there were no significant changes in the state of affairs of the Fund.

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

Since 30 June 2021, a number of events have arisen since the end of the reporting period such as government response to reimpose statewide lockdowns due to COVID-19 outbreaks.

Subsequent to the reporting date, the aggregate fair value of the Fund's financial assets have not changed significantly to 30 August 2021. As the financial assets of the Fund are measured at their 30 June 2021 fair values in the financial report, any changes in values are not reflected in the Statement of comprehensive income or the Statement of financial position.

At the date of signing of the financial statements, there is still significant uncertainty on the likely duration and the ultimate impact COVID-19 will have on world economies. Given the high degree of estimation uncertainty, the Responsible Entity cannot reasonably assess or quantify the potential short or longer term financial impact on the Fund. The Responsible Entity continues to monitor developments in the COVID-19 pandemic and the measures being implemented on the economy to control and slow the outbreak.

No other significant events have occurred since the end of the reporting period and up to the date of this report which would impact on the financial position of the Fund disclosed in the statement of financial position as at 30 June 2021 or on the results and cash flows of the Fund for the year ended on that date.

#### Likely developments and expected results of operations

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.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

#### Indemnity and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the Officers of K2 Asset Management Ltd or the auditors of the Fund. So long as the Officers of K2 Asset Management Ltd act in accordance with the Fund's Constitution and the Law, the Officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

## Directors' report (continued)

### 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 15 to the financial statements.

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

Units held in the Fund by the Responsible Entity or its related parties as at the end of the year are disclosed in Note 15 to the financial statements.

### Interests in the Fund

The movement in units on issue in the Fund during the year is set out below:

	As at	
	30 June 2021 No.'000	30 June 2020 No.'000
Units on issue - 1 July	4,043	8,481
Units issued during the year	808	2,037
Units redeemed during the year	(326)	(6,587)
Units issued upon reinvestment of distributions	16	112
Units on issue - 30 June	<u>4,541</u>	<u>4,043</u>

	As at	
	30 June 2021 \$'000	30 June 2020 \$'000
<b>Value of assets</b>		
Net value of the Fund's assets	13,177	7,410

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

### Environmental regulation

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

### Rounding of amounts to the nearest thousand dollars

The Fund is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the Directors' report and financial report. Amounts in the Directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

## Directors' report (continued)

### Lead auditor's independence declaration

A copy of the lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6 and forms part of the Directors' report.

This report is made in accordance with a resolution of the Directors of K2 Asset Management Ltd.



Hollie A Wight  
Director

Melbourne  
30 August 2021

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# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of K2 Asset Management Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of K2 Australian Small Cap Fund for the financial year ended 30 June 2021 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Dean Waters

*Partner*

Melbourne

30 August 2021

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## Statement of comprehensive income

	Notes	Year ended	
		30 June 2021 \$'000	30 June 2020 \$'000
<b>Investment income</b>			
Interest income		-	17
Dividend and distribution income		312	404
Net gains/(losses) on financial instruments at fair value through profit or loss	5	4,985	(1,285)
Net foreign exchange gains		7	4
Other operating income		1	-
<b>Total net investment income/(loss)</b>		<u>5,305</u>	<u>(860)</u>
<b>Expenses</b>			
Management fees	15	133	198
Auditor's remuneration	11	38	-
Transaction costs		75	113
Performance fees expense	15	606	61
Administrative expenses		76	-
Recoverable costs expense	15	2	26
Short dividend expense		-	26
Interest expense		8	9
Other operating expenses	12	12	20
<b>Total operating expenses</b>		<u>950</u>	<u>453</u>
<b>Profit/(loss) for the year</b>		<u>4,355</u>	<u>(1,313)</u>
<b>Total comprehensive income/(loss) for the year</b>		<u>4,355</u>	<u>(1,313)</u>

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



**Statement of financial position**

		As at	
		30 June 2021 \$'000	30 June 2020 \$'000
	Notes		
<b>Assets</b>			
Cash and cash equivalents	9	2,116	1,156
Receivables	13	168	19
Financial assets at fair value through profit or loss	6	<u>12,397</u>	<u>7,300</u>
<b>Total assets</b>		<u>14,681</u>	<u>8,475</u>
<b>Liabilities</b>			
Bank overdrafts	9	958	860
Payables	14	218	119
Performance fee payable	15	277	49
Due to brokers - payable for securities purchased		51	-
Distributions payable	8	<u>-</u>	<u>37</u>
<b>Total liabilities</b>		<u>1,504</u>	<u>1,065</u>
<b>Net assets attributable to unitholders - equity</b>	7	<u>13,177</u>	<u>7,410</u>

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

**Statement of changes in equity**

		Year ended	
		30 June 2021 \$'000	30 June 2020 \$'000
<b>Total equity at the beginning of the year</b>	7	7,410	17,395
<b>Comprehensive income for the year</b>			
Profit/(loss) for the year		<u>4,355</u>	<u>(1,313)</u>
<b>Total comprehensive income/(loss) for the year</b>		<u>4,355</u>	<u>(1,313)</u>
<b>Transactions with unitholders</b>			
Applications		2,203	3,766
Redemptions		(821)	(12,641)
Units issued upon reinvestment of distributions		30	240
Distributions to unitholders		<u>-</u>	<u>(37)</u>
<b>Total transactions with unitholders</b>		<u>1,412</u>	<u>(8,672)</u>
<b>Total equity at the end of the year</b>	7	<u>13,177</u>	<u>7,410</u>

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

## Statement of cash flows

	Notes	Year ended	
		30 June 2021 \$'000	30 June 2020 \$'000
<b>Cash flows from operating activities</b>			
Proceeds from sale of financial instruments at fair value through profit or loss		19,300	25,523
Purchase of financial instruments at fair value through profit or loss		(19,361)	(22,658)
Dividends and distributions received		284	411
Interest received		-	19
Management fees paid		(127)	(209)
Performance fees expense paid		(378)	(12)
Payment of short dividend expense		-	(82)
Interest paid		(8)	(9)
Payment of other operating expenses		(158)	(89)
Proceeds from/(payments for) foreign exchange movements		11	(3)
<b>Net cash inflow/(outflow) from operating activities</b>	10(a)	<u>(437)</u>	<u>2,891</u>
<b>Cash flows from financing activities</b>			
Proceeds from applications by unitholders		2,101	3,766
Payments for redemptions by unitholders		(761)	(12,603)
Distributions paid		(37)	(607)
<b>Net cash inflow/(outflow) from financing activities</b>		<u>1,303</u>	<u>(9,444)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>866</b>	<b>(6,553)</b>
Cash and cash equivalents at the beginning of the year		296	6,842
Effects of foreign currency exchange rate changes on cash and cash equivalents		(4)	7
<b>Cash and cash equivalents at the end of the year</b>	9	<u>1,158</u>	<u>296</u>

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

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## 1 General information

These financial statements cover K2 Australian Small Cap Fund (the "Fund") as an individual entity which is a registered managed investment scheme under the *Corporations Act 2001* and was admitted to trading status on the ASX under the AQUA Rules on 15 December 2015. The Fund was registered with the Australian Securities and Investments Commission (ASIC) as a registered managed investment scheme on 11 November 2013 and began operations on 2 December 2013. The Fund will terminate on 12 November 2093 unless terminated earlier in accordance with the provisions of the Fund's Constitution.

The Responsible Entity of the Fund is K2 Asset Management Ltd (the "Responsible Entity"). The Responsible Entity's registered office is Level 32, 101 Collins Street, Melbourne VIC 3000. The financial statements are presented in Australian currency.

These financial statements were approved by the Board of Directors of the Responsible Entity and authorised for issue by the Directors on 30 August 2021. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

The financial statements of the Fund are for the year ended 30 June 2021.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies presented 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 and the *Corporations Act 2001* in Australia. K2 Australian Small Cap Fund is a for-profit fund for the purpose of preparing the financial statements.

The financial statements are prepared on the historical cost basis except for financial instruments at fair value through profit or loss, which are measured at fair value.

The statement of financial position is presented on a liquidity basis.

Assets and liabilities are presented in decreasing order of liquidity and are not distinguished 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 at the end of the reporting period.

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 (IFRS)

The financial statements of the Fund also comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

### (b) New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2020 that have a material impact on the Fund.

## 2 Summary of significant accounting policies (continued)

### (c) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2021 and have not been early adopted in preparing these financial statements.

None of these are expected to have a material effect on the financial statements of the Fund.

### (d) Financial Instruments

#### (i) Classification

- Financial assets

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

-those to be measured subsequently at fair value through profit or loss; and

-those to be measured at amortised cost.

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

Equity securities are measured at fair value through profit or loss.

For cash and cash equivalents, due from brokers and receivables, these amounts are initially recognised at fair value and subsequently measured at amortised cost.

- Financial liabilities

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are held for trading and are consequently classified as financial liabilities at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

For financial liabilities that are not classified and measured at fair value through profit or loss, these are classified as financial liabilities at amortised cost (distributions payable, due to brokers, management fees payable and other payables).

#### (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 the fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all of the risk and rewards of ownership.

#### (iii) Measurement

At initial recognition, the Fund measures its investments, which are classified as financial assets and financial liabilities at fair value through profit or loss, at fair value. Transaction costs of financial assets and liabilities carried at fair value through profit or loss are expenses 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 in the period in which they arise.

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

## 2 Summary of significant accounting policies (continued)

### (d) Financial Instruments (continued)

#### (iii) Measurement (continued)

For financial assets and liabilities at amortised cost, they are subsequently measured according to their classification.

### (e) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and the units can be put back to the Fund at any time for cash based on the redemption price, which is equal to a proportionate share of the Fund's net asset value attributable to the unitholders less redemption costs. The units are carried at the redemption amount that is payable at balance sheet date if the holder exercises the right to put the units back to the Fund. This amount represents the expected cash flows on redemption of these units.

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 unfavorable 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 the life are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life the investments (excluding any effects of the instrument).

The Fund's units have been classified as equity having satisfied all the above criteria.

### (f) 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 banks, other short term, highly liquid investments with maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value and are used by Fund in the management of short-term commitments, other than cash collateral provided in respect of derivatives and securities borrowing transactions including cash management trusts, and bank overdrafts (which are shown separately on the statement of financial position).

### (g) Investment income

Interest income from financial assets at amortised cost is recognised on a time-proportionate basis using the effective interest method and includes interest from cash and cash equivalents.

Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities.

Dividend and distribution income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within dividend income and distribution income when the Fund's right to receive payments is established.

Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2(d) to the financial statements.

## 2 Summary of significant accounting policies (continued)

### (h) Expenses

All expenses, including management fees, performance fees, Responsible Entity fees and custodian fees, are recognised in the statement of comprehensive income on an accruals basis.

Effective 1 September 2020, the Fund ceased paying recoverable costs to K2 Asset Management Ltd. Recoverable costs expenses were paid to K2 Asset Management Ltd to cover auditors' remuneration, administration fees, unit registry costs and other fees and expense relating to the administration of the Fund. These costs are now directly expensed to and paid by the Fund. The recoverable cost for the current period is related to 1 July 2020 to 31 August 2020.

The performance fee is calculated and accrued daily based on the NAV (Net Asset Value) (before performance fee) of the Fund and is paid in arrears on a semi-annual basis as at the last business day in December and June. Performance fees are paid where applicable on redemptions throughout the financial year on a pro-rata basis.

Dividends declared on securities sold short are accrued on ex-dividend date and recognised as an expense in the statement of comprehensive income.

### (i) Income tax

Under current legislation, the Fund is not subject to income tax provided it attributes the entirety of its taxable income to its unitholders.

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

### (j) Distributions

Distributions are payable as set out in the Fund's Product Disclosure Statement. Such distributions are determined by the Responsible Entity of the Fund. Distributable income includes capital gains arising from the disposal of financial assets and liabilities at fair value through profit or loss. Unrealised gains and losses on financial assets and liabilities at fair value through profit or loss that are recognised as income are transferred to net assets attributable to unitholders and are not assessable and distributable until realised. Capital losses are not distributed to unitholders but are retained in the Fund to be offset against any future realised capital gains.

### (k) Change in net assets attributable to unitholders

Movements in net assets attributable to unitholders are recognised in the statement of changes in equity.

### (l) 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 they operate (the "functional currency"). The Fund's functional currency is the Australian dollar. This is also the Fund's presentation currency.

#### (ii) Transactions and balances

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

The Fund does not isolate that portion of gains or losses on securities and derivative financial instruments that are measured at fair value through profit or loss and which are due to changes in foreign exchange rates from those due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss.



## 2 Summary of significant accounting policies (continued)

### (m) Due from/to brokers

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

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on amounts due from broker at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

### (n) Receivables

Receivables may include amounts for distributions, dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in Note 2(g) above. Amounts are generally received within 30 days of being recorded as receivables.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

### (o) Payables

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

### (p) Applications and redemptions

Unit application and redemption prices are determined by reference to the unit price methodology outlined in the Fund's Constitution and Product Disclosure Statement. These prices may differ from the market price quoted on the ASX.

### (q) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as audit fees, custodial services and investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of 55% - 75%; hence investment management fees, custodial fees and other expenses have been

## 2 Summary of significant accounting policies (continued)

### (q) Goods and Services Tax (GST) (continued)

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.

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

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

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

The adoption of AASB 9 introduced a new expected credit loss (ECL) impairment model, which has not materially impacted the Fund. Please see Note 3 for more information on credit risk.

### (s) Rounding of amounts

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

### (t) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

### (u) Comparative disclosures

Where appropriate, comparative disclosures have been reclassified/amended to be consistent with the current year's presentation. Such reclassifications/amendments have not affected total comprehensive income for the year or net assets attributable to unitholders.

## 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.

### 3 Financial risk management (continued)

The Fund's overall risk management program focuses on ensuring compliance with the Fund's Product Disclosure Statement and Constitution 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 management team using policies approved by the Board of Directors of the Responsible Entity (the "Board"). These policies include exposure limits, hedging and stop loss guidelines. Other aspects of risk are overseen by the Responsible Entity's compliance committee.

The Fund uses different methods to measure the different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other 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, foreign exchange rates, equity prices and credits spreads, will affect the Fund's income or the fair value of its holdings of financial instruments.

##### (i) Price Risk

The Fund is exposed to equity securities and derivative securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Where non-monetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate due to changes in foreign exchange rates. Paragraph (ii) sets out how this component of price risk is managed and measured. They are classified on the statement of financial position as at fair value through profit or loss. 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 instrument. Possible losses from equities sold short can be unlimited. Policies restricting exposure to short positions aim to reduce this risk along with stop loss strategies that provide investment managers with instant notification when a position falls below a defined performance target. This enables investment managers to immediately execute a trade to minimise losses when the prices of short positions are rising or when prices on long positions are falling. Compliance with exposure limits and stop loss guidelines are reviewed on a daily basis by the investment managers.

The Fund also enters into over-the-counter option contracts to meet the requirements of its risk management and trading activities. The Fund monitors its positions to reduce the risk of potential loss due to changes in market value or failure of counterparties to perform.

The Investment Manager also aims to mitigate risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the Board.

The majority of the Fund's equity investments are publicly traded on stock exchanges as described in the Product Disclosure Statement.

The table in Note 3(b) summarises the sensitivity of the Fund's assets and liabilities to price risk. The analysis is based on the assumptions that the markets in which the Fund invests increased/(decreased) by 10% (30 June 2020: 10%). The impact mainly arises from the possible change in the fair value of listed equities and equity derivatives.

##### (ii) Foreign exchange risk

The Fund holds both 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. Foreign exchange risk arises as the value of monetary securities denominated in other currencies fluctuate due to changes in exchange rates. The Investment Manager aims to mitigate this risk via actively managing its currency exposure. One hundred percent of a foreign currency may be hedged or alternatively the Investment Manager may elect to have no currency hedging implemented. The risk is measured using sensitivity analysis.

The investment strategy for foreign exchange exposure is reviewed on a daily basis.

### 3 Financial risk management (continued)

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

##### (ii) Foreign exchange risk (continued)

The table below summarises the Fund's major exposure to assets and liabilities that are denominated in a currency other than the Australian dollar.

	30 June 2021	30 June 2020
	NZD	NZD
	A\$'000	A\$'000
Financial assets held at fair value through profit or loss	1,435	795
Bank overdrafts	(958)	(860)
Payables	(1)	(1)
<b>Total</b>	<b>476</b>	<b>(66)</b>

The table in Note 3(b) summarises the sensitivities of the Fund's monetary assets and liabilities to foreign exchange risk. The analysis is based on the assumption that the Australian dollar weakened/strengthened by 10% (2020: 10%) against other currencies to which the Fund is exposed.

##### (iii) Interest rate risk

The Fund's interest bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

The 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 re-pricing or maturity dates.

As at 30 June 2021	Floating interest rate \$'000	Fixed interest rate \$'000	Non interest bearing \$'000	Total \$'000
<b>Assets</b>				
Cash and cash equivalents	2,116	-	-	2,116
Receivables	-	-	168	168
Financial assets at fair value through profit and loss	-	-	12,397	12,397
<b>Liabilities</b>				
Bank overdrafts	(958)	-	-	(958)
Payables	-	-	(218)	(218)
Performance fee payable	-	-	(277)	(277)
Due to brokers - payable for securities purchased	-	-	(51)	(51)
<b>Net exposure</b>	<b>1,158</b>	<b>-</b>	<b>12,019</b>	<b>13,177</b>

### 3 Financial risk management (continued)

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

##### (iii) Interest rate risk (continued)

As at 30 June 2020	Floating interest rate \$'000	Fixed interest rate \$'000	Non interest bearing \$'000	Total \$'000
<b>Assets</b>				
Cash and cash equivalents	1,156	-	-	1,156
Receivables	-	-	19	19
Financial assets at fair value through profit and loss	-	-	7,300	7,300
<b>Liabilities</b>				
Bank overdrafts	(860)	-	-	(860)
Payables	-	-	(119)	(119)
Performance fee payable	-	-	(49)	(49)
Distributions payable	-	-	(37)	(37)
<b>Net exposure</b>	<b>296</b>	<b>-</b>	<b>7,114</b>	<b>7,410</b>

An analysis of financial liabilities by maturities is provided in Note 3(d).

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 +/- 125 basis points (2020: +/- 125 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, foreign exchange risk and other price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and foreign exchange rates, historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusual market movements 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.

	Price risk		Interest rate risk		Foreign exchange risk	
	-10%	10%	-125bps	+125bps	-10%	10%
	Impact on operating profit/Net assets attributable to unitholders					
	\$'000	\$'000	\$'000	\$'000	NZD A\$'000	NZD A\$'000
30 June 2021	(1,240)	1,240	(14)	14	(48)	48
30 June 2020	(730)	730	(4)	4	7	(7)

Investing in a managed Fund is not without associated risk. The Fund's ability to produce investment returns is dependent on a wide range of factors, non unusual or unique to this Fund. An investment in the Fund, by itself, generally does not provide a complete investment program but rather is intended to serve as part of an investor's overall investment portfolio. The Fund will be exposed to risks through its direct investment in any given asset, sector or asset class. Investors should refer to the Funds Product Disclosure Document for detail of the risks inherent in investing in the Fund.

### 3 Financial risk management (continued)

#### (b) Summarised sensitivity analysis (continued)

COVID-19 and efforts to contain its global spread have resulted in, among other things, border closings and other significant travel restrictions, significant disruptions to business operations, supply chains and customer activity, lower consumer demand for certain goods and services, event cancellations and restrictions, service cancellations, significant challenges in healthcare service preparation and delivery, as well as general concern and uncertainty. The impact of the COVID-19 outbreak has negatively affected the global economy, the economies of individual countries, the financial performance of individual issuers, sectors, industries, asset classes, and markets in significant and unforeseen ways and may continue to do so in the future. The COVID-19 pandemic may also exacerbate other pre-existing political, social, economic, market and financial risks. The COVID-19 pandemic and its effects may last for an extended period of time and could result in further significant market volatility, exchange trading suspensions or closures, declines in global financial markets, higher default rates, economic downturn or recession. The impact of this in relation to the Fund's performance and the operational standards of the Fund's service providers is unknown. COVID-19 risk has arisen over a recent timeframe and is therefore specifically noted. The Fund has not made any changes to the methods or assumptions used to determine its sensitivity to the market risk compared to the comparative period.

#### (c) Credit risk

'Credit risk' is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund.

Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are past due or impaired.

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

The Fund does not have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics except for cash held with custodians. The creditworthiness of counterparties is reviewed by the Board to further assist in mitigating this risk. The credit rating of the prime broker and Fund administrator is reviewed annually and on an as needs basis.

#### Collateral pledged under prime brokerage agreements

The Fund has entered into a prime brokerage agreement with the Fund's prime broker. The prime broker is only able to charge, on lend or otherwise use a limited amount of the assets of the Fund, based on the liabilities owed to the prime broker, including amounts due to brokers for securities purchased and securities sold short. If there are no liabilities owing then none of the Fund assets can be used by the prime broker.

#### (d) Liquidity risk

'Liquidity risk' is the risk that the Fund will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk occurs when securities become illiquid and as a result the position becomes difficult to exit. The Investment Manager aims to mitigate this risk by only investing in those markets that provide reasonable liquidity. Portfolio liquidity testing is conducted regularly to assess the time frames required to exit current positions.

The Fund's listed securities are considered readily realisable, as the majority are listed on viable stock exchanges.

The Fund may, from time to time, invest in derivative contracts traded over the counter or hold securities suspended from trading, which are not traded in an organised market and may be illiquid. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer or counterparty.

### 3 Financial risk management (continued)

#### (d) Liquidity risk (continued)

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period from contractual maturity date to the year end date. The amounts in the table are contractual undiscounted cash flows.

	Less than 1 month	1-6 months	6-12 months	Over 12 months	No stated maturity
As at 30 June 2021	\$'000	\$'000	\$'000	\$'000	\$'000
Bank overdrafts	-	-	-	-	958
Payables	218	-	-	-	-
Performance fee payable	277	-	-	-	-
Due to brokers - payable for securities purchased	51	-	-	-	-
<b>Total liabilities</b>	<b>546</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>958</b>
As at 30 June 2020	\$'000	\$'000	\$'000	\$'000	\$'000
Bank overdrafts	-	-	-	-	860
Payables	119	-	-	-	-
Performance fee payable	49	-	-	-	-
Distributions payable	37	-	-	-	-
<b>Total liabilities</b>	<b>205</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>860</b>

The table above shows the undiscounted cash flows of the Fund's financial liabilities on the basis of their earliest possible contractual maturity. The carrying amounts approximate the nominal amounts.

The bank overdraft relates to the multi-currency cash account, held with Morgan Stanley in line with the Prime Brokerage agreement. The prime broker is only able to charge, on lend or otherwise use a limited amount of the assets of the Fund, based on the liabilities owed to the prime broker, including amounts due to brokers for securities purchased and securities sold short. Interest is paid at floating interest rates.

### 4 Fair value measurement

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

- Financial assets at fair value through profit or loss (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:

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

#### 4 Fair value measurement (continued)

(i) 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 is the last traded price. When the Fund holds derivatives with offsetting market risks, it uses last traded prices as a basis for establishing fair values for the offsetting risk positions and applies this last traded price to the net open position, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

(ii) 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 using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

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

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

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

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

#### Recognised fair value measurements

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 30 June 2021 and 30 June 2020.

As at 30 June 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value through profit or loss</b>				
Equity securities	11,627	-	-	11,627
Unit trusts	770	-	-	770
Total	<u>12,397</u>	<u>-</u>	<u>-</u>	<u>12,397</u>



## 4 Fair value measurement (continued)

### Recognised fair value measurements (continued)

As at 30 June 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value through profit or loss</b>				
Equity securities	7,011	-	-	7,011
Unit trusts	<u>289</u>	<u>-</u>	<u>-</u>	<u>289</u>
<b>Total</b>	<u><b>7,300</b></u>	<u><b>-</b></u>	<u><b>-</b></u>	<u><b>7,300</b></u>

#### (i) Transfers between levels

There were no transfers between levels in the fair value hierarchy for the year ended 30 June 2021 and year ended 30 June 2020. There were also no changes made to any of the valuation techniques applied as of 30 June 2020.

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

#### (ii) Fair value measurements using significant unobservable inputs (Level 3)

All financial instruments held by the Fund with fair value measurements using significant unobservable inputs at 30 June 2021 and 30 June 2020 have been valued at nil.

#### (iii) Valuation processes

Portfolio reviews are undertaken regularly by management to identify securities that potentially may not be actively traded or have stale security pricing. This process identifies securities which possibly could be regarded as being Level 3 securities.

Further analysis, should it be required, is undertaken to determine the accounting significance of the identification. For certain security types, in selecting the most appropriate valuation model, management performs back testing and considers actual market transactions. Changes in allocation to or from Level 3 are analysed at the end of each reporting period.

#### (iv) Financial instruments not measured at fair value

The Fund did not hold any financial instruments which were not measured at fair value in the statement of financial position. Due to their short term nature, the carrying amounts of receivables and payables are assumed to approximate their fair value.

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

The following table details the gains and losses recognised in relation to financial assets and liabilities at fair value through profit or loss:

	Year ended	
	30 June 2021 \$'000	30 June 2020 \$'000
<b>Financial assets</b>		
Net gains/(losses) on financial assets at fair value through profit and loss	4,985	(1,304)
<b>Financial liabilities</b>		
Net gains/(losses) on financial liabilities at fair value through profit and loss	-	19
<b>Total net gains/(losses) from financial instruments at fair value through profit or loss</b>	<u>4,985</u>	<u>(1,285)</u>

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

	As at	
	30 June 2021 \$'000	30 June 2020 \$'000
<b>Financial assets at fair value through profit or loss</b>		
Australian equity securities	10,192	6,216
New Zealand equity securities	1,435	795
Real Estate Investment Trust	770	289
<b>Total financial assets at fair value through profit or loss</b>	<u>12,397</u>	<u>7,300</u>

The amount above includes \$Nil (2020: Nil) of equity securities on lent to the Fund's Prime Broker in accordance with the Prime Brokerage agreement. Refer to Note 3(c).

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

## 7 Net assets attributable to unitholders

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

	30 June 2021 No.'000	30 June 2020 No. '000	30 June 2021 \$'000	30 June 2020 \$'000
<b>Net assets attributable to unitholders</b>				
Opening balance	4,043	8,481	7,410	17,395
Applications	808	2,037	2,203	3,766
Redemptions	(326)	(6,587)	(821)	(12,641)
Units issued upon reinvestment of distributions	16	112	30	240
Distributions paid and payable	-	-	-	(37)
Profit/(loss) for the year	-	-	4,355	(1,313)
Closing balance	<u>4,541</u>	<u>4,043</u>	<u>13,177</u>	<u>7,410</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 attaching to it as all other units of the Fund.

### Capital risk management

The Fund considers its capital to be unitholders' funds. The Investment Manager manages its 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.

The Fund monitors the level of daily applications and redemptions relative to the liquid assets in the Fund. The Fund strives to invest in securities that meet the Fund's investment objectives while maintaining sufficient liquidity to meet unitholders' redemptions.

## 8 Distributions to unitholders

The distributions for the year were as follows:

	30 June 2021 \$'000	Year ended 30 June 2021 DPU	30 June 2020 \$'000	30 June 2020 DPU
Distributions payable	-	-	37	0.01
Total	<u>-</u>	<u>-</u>	<u>37</u>	<u>0.01</u>

## 9 Cash and cash equivalents

	As at	
	30 June 2021	30 June 2020
	\$'000	\$'000
Cash at bank	2,116	1,156
	2,116	1,156

### Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	As at	
	30 June 2021	30 June 2020
	\$'000	\$'000
Balances as above	2,116	1,156
Bank overdrafts	(958)	(860)
Balance per statement of cash flows	1,158	296

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

	Year ended	
	30 June 2021	30 June 2020
	\$'000	\$'000
<b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Profit/(loss) for the year	4,355	(1,313)
Proceeds from sale of financial instruments at fair value through profit or loss	19,300	25,523
Purchase of financial instruments at fair value through profit or loss	(19,361)	(22,658)
Net (gains)/losses on financial instruments at fair value through profit or loss	(4,985)	1,285
Net change in receivables	(17)	29
Net change in payables	267	32
Unrealised foreign exchange gains/(losses)	4	(7)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(437)</b>	<b>2,891</b>
<b>(b) Non-cash financing activities</b>		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	<b>30</b>	<b>240</b>

## 11 Auditor's remuneration

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

	Year ended	
	30 June 2021 \$	30 June 2020 \$
<i>Audit services</i>		
Auditing/reviewing the financial report	24,930	24,930
Compliance plan audit	5,150	5,150
	<u>30,080</u>	<u>30,080</u>
<i>Taxation services</i>		
Tax compliance services	7,890	7,890
	<u>7,890</u>	<u>7,890</u>
Total remuneration paid or payable to KPMG	<u>37,970</u>	<u>37,970</u>

## 12 Other operating expenses

	Year ended	
	30 June 2021 \$'000	30 June 2020 \$'000
Dividend withholding tax	11	17
Stock loan expense - short sells	1	1
Sundry	-	2
Total other operating expenses	<u>12</u>	<u>20</u>

## 13 Receivables

	As at	
	30 June 2021 \$'000	30 June 2020 \$'000
Dividend and distribution receivable	30	13
GST receivable	5	6
Application receivable	132	-
Other receivables	1	-
Total receivables	<u>168</u>	<u>19</u>

## 14 Payables

	As at	
	30 June 2021 \$'000	30 June 2020 \$'000
Recoverable costs payable	-	2
Management fees payable	14	8
Audit fees payable	22	-
Redemptions payable	134	74
Administrative expenses payable	15	-
Other payables	33	35
Total payables	<u>218</u>	<u>119</u>

## 15 Related party transactions

### Responsible Entity

The Responsible Entity of K2 Australian Small Cap Fund is K2 Asset Management Ltd.

### Key management personnel

The Fund does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Fund.

#### Directors

Key management personnel includes persons who were Directors of K2 Asset Management Ltd at any time during the financial year and up to the date of this report:

Campbell W Neal  
Mark S Newman (Retired 29 March 2021)  
Hollie A Wight  
George Boubouras (Appointed 29 March 2021)

## 15 Related party transactions (continued)

### Key management personnel unitholdings

The key management personnel of K2 Asset Management Ltd (or their related entities) held units in the Fund as follows:

2021

Director	Closing unit holding (Units)	Interest held %	Value of units held* (\$)	Units purchased (Units)	Prior Year Distribution reinvested (Units)	Units sold (Units)	Current Year Distributions received (\$)
Campbell W Neal	1,888,013	41.83	5,475,238	-	9,149	-	-
Hollie A Wight	35,540	0.79	103,066	-	173	-	-
George Boubouras	30,147	0.67	87,426	-	147	-	-
Total	1,953,700	43.29	5,665,730	-	9,469	-	-

\* Value of units is calculated based on NAV per unit (quoted ex-distribution).

2020

Director	Closing unit holding (Units)	Interest held %	Value of units held* (\$)	Units purchased (Units)	Prior Year Distribution reinvested (Units)	Units sold (Units)	Current Year Distributions received (\$)
Campbell W Neal	1,878,864	46.47	3,438,321	871,539	44,791	-	17,157
Hollie A Wight	35,367	0.87	64,722	-	1,572	-	323
Total	1,914,231	47.34	3,503,043	871,539	46,363	-	17,480

\* Value of units is calculated based on NAV per unit (quoted ex-distribution).

### Related party unitholdings

Neither the Responsible Entity nor its Parent company held units in the Fund at the end of the financial year.

### Transactions and balances with related parties

Transactions with K2 Asset Management Ltd in its role as the Responsible Entity and Investment Manager have taken place at arm's length, in the ordinary course of business and are as follows:

	Year ended	
	30 June 2021	30 June 2020
	\$	\$
Management fees expense for the financial year	132,556	198,408
Performance fees expense for the financial year	605,561	60,544
Recoverable costs expense for the financial year	2,274	25,708

## 15 Related party transactions (continued)

### Transactions and balances with related parties (continued)

	As at	
	30 June 2021	30 June 2020
	\$	\$
Management fees payable at the end of each financial year	13,604	8,409
Performance fees payable at the end of each financial year	276,568	49,296
Recoverable costs payable at the end of each financial year	-	1,085

### Recoverable costs

Effective 1 September 2020, the Fund ceased paying recoverable costs to K2 Asset Management Ltd. Recoverable costs expenses were paid to K2 Asset Management Ltd to cover auditors' remuneration, administration fees, unit registry costs and other fees and expense relating to the administration of the Fund. These costs are now directly expensed to and paid by the Fund. The recoverable cost for the current period is related to 1 July 2020 to 31 August 2020.

### Key management personnel compensation

Key management personnel are paid by K2 Asset Management Ltd. Payments made from the Fund to K2 Asset Management Ltd do not include any amounts directly attributable to compensation of key management personnel.

### Key management personnel loan disclosures

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.

### Investments

The Fund did not hold any investments in K2 Asset Management Ltd or K2 Asset Management Holdings Ltd or its affiliates during the year.

### Other transactions within the Fund

From time to time Directors of the Responsible Entity of the K2 Australian Small Cap Fund, or their 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.

## 16 Segment information

The Fund is organised into one main segment which operates solely in the business of investment management within Australia.

The Fund operates in Australia and holds investments in Australia and New Zealand.

## 17 Events occurring after the reporting period

Since 30 June 2021, a number of events have arisen since the end of the reporting period such as government response to reimpose statewide lockdowns due to COVID-19 outbreaks.



## 17 Events occurring after the reporting period (continued)

Subsequent to the reporting date, the aggregate fair value of the Fund's financial assets have not changed significantly to 30 August 2021. As the financial assets of the Fund are measured at their 30 June 2021 fair values in the financial report, any changes in values are not reflected in the Statement of Comprehensive income or the Statement of financial position.

At the date of signing of the financial statements, there is still significant uncertainty on the likely duration and the ultimate impact COVID-19 will have on world economies. Given the high degree of estimation uncertainty, the Responsible Entity cannot reasonably assess or quantify the potential short or longer term financial impact on the Fund. The Responsible Entity continues to monitor developments in the COVID-19 pandemic and the measures being implemented on the economy to control and slow the outbreak.

No other significant events have occurred since the end of the reporting period and up to the date of this report which would impact on the financial position of the Fund disclosed in the statement of financial position as at 30 June 2021 or on the results and cash flows of the Fund for the year ended on that date.

## 18 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2021 and 30 June 2020.

## Directors' declaration

In the opinion of the Directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 7 to 32 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), 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 2021 and of its performance for the financial year ended on that date; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 2; and
- (c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors of K2 Asset Management Ltd.



Hollie A Wight  
Director

Melbourne  
30 August 2021



# Independent Auditor's Report

To the unitholders of K2 Australian Small Cap Fund

## Opinion

We have audited the **Financial Report** of K2 Australian Small Cap Fund (the Scheme).

In our opinion, the accompanying **Financial Report** of the Scheme is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Scheme's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Statement of financial position as at 30 June 2021
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

## Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Scheme in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

## Valuation of financial assets at fair value through profit or loss \$12,397,238

Refer to Note 2(d), Note 4 and Note 6

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The key audit matter	How the matter was addressed in our audit
<p>Valuation of financial assets at fair value through profit and loss comprising of equity securities and real estate investment trusts is a key audit matter due to:</p> <ul style="list-style-type: none"> <li>• The size of the Scheme’s portfolio of equity securities and real estate investment trusts (94% of net assets);</li> <li>• The importance of the performance of these financial assets in driving the Scheme’s investment income and capital performance, as reported in the financial report;</li> <li>• It being the area with the greatest effect on our audit strategy and allocation of resources in planning and completing our audit;</li> <li>• The Scheme outsourcing certain processes and controls relevant to recording and valuing these financial assets at fair value to custodians.</li> </ul>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>• We obtained and inspected the Scheme’s custodians’ GS007 (<i>Guidance Statement 007 Audit Implications of the User of Service Organisations for Investment Management Services</i>) assurance report to understand the custodian’s processes and assess controls to record and value the Scheme’s equity securities and real estate investment trusts;</li> <li>• We assessed the reputation, professional competence and independence of the auditors of the GS007 assurance report;</li> <li>• We compared the ownership and quantity of equity securities and real estate investment trusts to independent confirmations from custodians and underlying custodial records;</li> <li>• We compared the valuation of listed equity securities and real estate investment trusts in the portfolio to externally quoted market prices;</li> <li>• We evaluated the Scheme’s disclosures of equity securities and real estate investment trusts, such as, the fair value hierarchy against the requirements of the accounting standards.</li> </ul>
<b>Measurement of performance fees \$605,561</b>	
<p>Refer to <i>Note 2(h) and Note 15</i></p>	
The key audit matter	How the matter was addressed in our audit
<p>Measurement of performance fees is a key audit matter due to:</p> <ul style="list-style-type: none"> <li>• the manual nature of the calculation, thereby increasing risk of error;</li> <li>• the impact of unitholder movement in and out of the Scheme, therefore the dependence on the precision and timing of processing fees for those unitholders; and</li> <li>• K2 Asset Management Ltd being the beneficiary of any performance fee paid by the Scheme, a significant level of audit effort is required given the risk associated with the related-party relationship.</li> </ul>	<p>We recalculated performance fees for the year ended 30 June 2021 using the calculation methodology as described in the Scheme's Product Disclosure Statement. We compared the independently calculated performance fee calculations to those of the Scheme and investigated significant variances.</p> <p>We checked calculation inputs such as unitholder applications and redemptions to third party sources.</p>

## Other Information

Other Information is financial and non-financial information in K2 Australian Small Cap Fund's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of K2 Asset Management Ltd (the Responsible Entity) are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

## Responsibilities of the Directors for the Financial Report

The Directors of K2 Asset Management Ltd (the Responsible Entity) are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Scheme's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf). This description forms part of our Auditor's Report.



KPMG



Dean Waters  
Partner  
Melbourne  
30 August 2021

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