

NATIONAL GUARANTEE FUND

ABN 69 546 559 493

FINANCIAL REPORT

FOR THE YEAR ENDED

30 JUNE 2021

Contents

- Trustees’ Report 3
- Auditor’s Independence Declaration..... 6
- Statement of comprehensive income 7
- Balance sheet 8
- Statement of changes in equity 9
- Statement of cash flows 10
- Notes to the Financial Statements..... 11
 - 1. Summary of Significant Accounting Policies11
 - 2. Financial Risk Management14
 - 3. Net (loss)/gain on financial instruments held at fair value.....18
 - 4. Distribution Income18
 - 5. Cash and cash equivalents19
 - 6. Financial assets held at fair value through profit and loss19
 - 7. Outstanding Claims Accruals19
 - 8. Payments to FIDA19
 - 9. Related Party Transactions19
 - 10. Key Management Personnel Compensation.....20
 - 11. Auditor’s remuneration20
 - 12. Commitments and Contingent Liabilities20
 - 13. Subsequent Events20
- Trustees’ declaration 21
- Independent auditor’s report to the trustee of National Guarantee Fund..... 22

Trustees' Report

The directors of Securities Exchanges Guarantee Corporation Limited (SEGC), the trustee of the National Guarantee Fund (NGF or the Fund), present their report, together with the financial statements of the Fund for the year ended 30 June 2021 and the auditor's report thereon.

Trustee and Board of Directors

The directors of SEGC, the trustee of the Fund, in office during the financial year and up until the date of this report were as follows:

Ms. Nancy J. Milne (Chairperson)
Ms. Susan M. Doyle
Mr. Colin R. Scully
Mr. David D. Trude (appointed 26 October 2020)
Mr. Peter H. Warne (resigned 26 October 2020)
Mr. Michael T. Willcock

Mr. Peter H. Warne and Mr. Colin R. Scully were appointed by ASX Limited (ASX). Mr David D. Trude was appointed by Chi-X Australia Pty Ltd (Chi-X). Mr Warne was a director of ASX during the financial year ended 30 June 2021 and was also a director of certain controlled entities of ASX during the financial year ended 30 June 2021. Mr. Trude was a director of Chi-X during the financial year ended 30 June 2021.

Principal Activities

The Fund's primary function is to provide investor compensation in the circumstances set out in Part 7.5 of the *Corporations Act 2001* and the *Corporations Regulations 2001*.

SEGC administers the Fund and holds the Fund's assets on trust in accordance with Division 4 of Part 7.5 of the *Corporations Act 2001*.

In accordance with sections 7.5.89 of the *Corporations Regulations 2001*, funds in excess of the minimum amount can be paid from the Fund for certain purposes approved by the Minister. During the financial year, the size of the Fund rose above the minimum amount of \$100.0 million and remains above the minimum amount at the date of this report. The Board has not resolved to change the minimum amount during the financial year, nor has it decided to raise further levies pursuant to Section 889J of the *Corporations Act 2001*.

Review of Operations

The profit for the period was \$9.512m (2020: \$0.216m).

In the current financial year, revenue increased by \$9.273 from \$1.312m in the prior financial year to \$10.585m, primarily due to two factors. The first was strong investment returns from the Schroder Real Return Fund, and second was the receipt of recoveries from the liquidators of BBY Ltd of \$4.475m in relation to claims paid out of the NGF in previous periods.

The movement in unrealised gains on investment funds held was \$3.394m (2021: Schrodors \$3.332m and UBS \$0.061133m), compared to a loss of \$1.579m in the prior year. Distribution income was \$2.402m (2021: UBS \$0.162m; Schrodors \$2.240m) which was \$0.152m lower than the previous year, as returns from the UBS fund were negatively impacted by lower interest rates.

During the year, the Government 'Cash Boost' of \$0.050m was received by the fund.

Expenses for the year reduced by \$0.023m to \$1.073m (2020: \$1.096m). Staff related costs were down reflecting a lower level of leave provisioning than in prior year.

Generally, administration costs remained consistent with the previous year at \$0.655m (2020: \$0.639m). The difference (\$0.016m) reflects the cost associated with the triennial actuarial review relating to the minimum amount of the NGF offset by reductions in insurance costs which were lower with a reduced level of cover.

Net assets increased by \$9.512m to \$106.141m (2020: \$96.629m). This was predominantly due to increased revenue described above from recoveries paid by the liquidators of BBY Ltd in relation to

Trustees' Report – Continued

claims paid from the NGF in previous periods (\$4.475m) in addition to higher unrealised fund gains and higher fund distributions of: \$5.796m (2020: \$0.975m).

The following table summarises the number of compensation claims carried forward from prior year, received, disallowed, withdrawn, and paid in the current and prior year.

Number of	FY21	FY20
Open claims at start of period	3	7
Claims received	1	0
Claims disallowed	0	0
Claims withdrawn	0	0
Claims paid	0	(4)
Open claims at end of period	4	3
Determined or considered but not yet paid	3	3

During the financial year the Fund did not pay any claims. The Fund received one potential claim in relation to which it is seeking further information. It is currently not possible to determine the ultimate impact of the potential claim.

As at the end of the financial year, there are four outstanding claims on the Fund. Three of these claims were determined by the Claims Committee of the SEGC Board in a prior period but have yet to be paid prior to the date of this report. This is because either, the claimant entity has been deregistered or the claimant has failed to answer communication from SEGC relating to the payment. An outstanding claims provision of \$0.015m continues to be held in respect of these claims.

No claims have been received after 30 June 2021.

Financial Industry Development Account

FIDA is administered by ASX under section 7.5.89 of the *Corporations Regulations 2001*.

The Fund did not make any distributions to FIDA during the financial year ended 30 June 2021 (2020: \$nil).

There were no purposes approved by the Minister for payments to FIDA in the financial year.

Significant Changes in the State of Affairs

During the financial year, the size of the Fund rose above minimum amount of \$100 million.

Chi-X Australia Pty Ltd was admitted as a member of SEGC during the financial year.

Events Subsequent to Balance Date

No other matters or circumstances other than those noted in the review of operations and significant changes in the state of affairs have significantly affected, or may significantly affect, the operations of the Fund, the results of those operations, or the state of affairs of the Fund.

Likely Developments

SEGC expects that the Fund will receive the balance of liquidator recoveries in relation to the liquidation of BBY Ltd against certain claims paid. If compensation is paid in respect of a claim, SEGC is subrogated to the extent of that payment to the claimant's rights and remedies in relation to the loss to which the claim relates (refer section 892F of the *Corporations Act 2001*). The quantum of the remaining recoveries and the timing of payment is uncertain. The contingent asset has not been recognised in the Balance Sheet as receivable at 30 June 2021.

SEGC has commenced its triennial review of the minimum amount including an actuarial report with respect to the minimum amount. The actuarial report and review is not yet complete. The Board is likely to finalise the review and make a decision on the minimum amount during the current year.

Trustees' Report – Continued

SEGC intends to reallocate funds in the UBS Short-Term Fixed Income Fund and certain of the funds in the Schroder Real Return Fund into a different product offer more in line with the risk appetite of the Fund.

Environmental Regulation

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

Indemnification and Insurance of Directors and Officers

SEGC has paid insurance premiums out of NGF in respect of directors' and officers' liability for current and former directors and officers of SEGC and related entities. The insurance policies prohibit disclosure of the nature of the liabilities insured against and the amount of the premiums.

The constitution of the SEGC provides that every person who is or has been a director, secretary, or executive officer of SEGC, and each other officer or former officer of SEGC or of its related bodies corporate as the directors in each case determine, is indemnified by SEGC to the maximum extent permitted by law. The indemnity covers losses or liabilities incurred by the person as a director or officer, including but not limited to liability for negligence and for legal costs on a full indemnity basis.

Corporate Governance

The Board of SEGC consists of five non-executive directors. ASX and Chi-X as the members of SEGC, each appoint one director and those directors appoint three independent directors while each of them:

- is not a director, officer, or employee of or a partner in a participant of ASX or Chi-X;
- is not a director, officer, or employee of ASX or Chi-X or a body corporate that operates another financial market, or their related bodies corporate;
- is not a professional adviser to ASX or Chi-X or a body corporate that operates another financial market, or their related bodies corporate;
- is not a spouse, parent, or child of a person in any of the previous categories; and
- otherwise has no interest in a participant of ASX or Chi-X or another financial market, or their related bodies corporate, which would enable the person to influence the management and policies of the participant's stockbroking business.

SEGC's constitution provides that the term of office of each director expires three years after the date the director's appointment takes effect. A retiring director is eligible to be reappointed to the Board. Directors' remuneration is determined from time to time by the members of SEGC.

Two executives perform the management and secretarial functions for SEGC.

Non-Audit Services

There were no non-audit services provided by PricewaterhouseCoopers during the year.

Rounding of Amounts

The Fund is of the kind referred to in ASIC Class Order 2016/191. In accordance with that class order, amounts in the directors' report and financial statements have been rounded to the nearest thousand dollars, 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 included on page 6.

Signed in accordance with a resolution of the directors:



Nancy J Milne

Chairperson

Sydney, 24 August 2021



Auditor's Independence Declaration

As lead auditor for the audit of National Guarantee Fund for the year ended 30 June 2021, 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.

A handwritten signature in black ink, appearing to read 'M Lunn', with a horizontal line underneath.

Matthew Lunn
Partner
PricewaterhouseCoopers

Sydney
24 August 2021

PricewaterhouseCoopers, ABN 52 780 433 757
One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001
T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au
Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124
T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.

Statement of comprehensive income

For the year ended 30 June	Note	2021 \$'000	2020 \$'000
Revenue			
Unrealised Net gain/(loss) on financial instruments held at fair value	3	3,394	(1,579)
Distribution Income	4	2,402	2,554
Miscellaneous Income		129	117
Government 'Cash Boost'		50	50
Member Contributions		30	-
Imputation Credits		106	152
Net Claims Recovery		4,475	16
Interest Income		-	2
		10,585	1,312
Expenses			
Staff Related Costs		(129)	(145)
Legal Expenses		(222)	(237)
Administration		(655)	(639)
Occupancy		(67)	(75)
		(1,073)	(1,096)
(Loss)/profit before Income Tax Expense		9,512	216
Income tax expense		-	-
Net (loss)/profit for the period attributable to members of the Fund		9,512	216
Other comprehensive income for the period, net of tax		-	-
Total comprehensive (loss)/income for the period attributable to members of the Fund		9,512	216

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

Balance sheet

As at 30 June	Note	2021 \$'000	2020 \$'000
Current assets			
Cash	5	1,348	385
Receivables		1,327	1272
Prepayments		24	47
Investments	6	103,550	95,027
Total current assets		106,248	96,731
Non-current assets			
Fixed Assets		2	5
Right of Use Asset		52	114
Total non-current assets		54	119
Total assets		106,302	96,850
Current liabilities			
Sundry Creditors		33	26
Lease Liability		61	126
Expense Accruals		45	45
Withholding Tax Payable		8	9
Outstanding Claims Liability	8	15	15
Total current liabilities		161	221
Total liabilities		161	221
Net assets		106,141	96,629
Equity			
Retained earnings		106,141	96,629
Total equity		106,141	96,629

The above Balance Sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

For the year ended 30 June	Note	2021 \$'000	2020 \$'000
Opening balance of retained earnings at 1 July		96,629	96,423
Opening balance adjustment on adoption of AASB 16		-	(10)
Adjusted balance of retained earnings at 1 July 2019		96,629	96,413
(Loss)/Profit for the period		9,512	216
Other comprehensive income for the period		-	-
Total comprehensive (loss)/income for the period, net of tax		9,512	216
Closing balance of retained earnings at 30 June		106,141	96,629

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

Statement of cash flows

For the year ended 30 June	Note	2021 \$'000	2020 \$'000
Cash flows from operating activities			
Payments for applications to new investments		(5,000)	-
Investment distribution income received		2,402	651
Miscellaneous income		196	206
Proceeds from participant levies		-	-
Payments to suppliers (inclusive of GST)		(1,054)	(1,111)
Proceeds from recovered GST		45	74
Claims		4,475	(82)
Interest received		-	2
Net cash inflow from operating activities		963	(260)
Cash flows from investing activities			
Purchase of PP&E		-	(3)
Net cash (outflow) from investing activities		0	(3)
Lease repayment		-	(60)
Net cash flows from financing activities		0	(60)
Net increase in cash		963	(323)
Cash at the beginning of the financial period		385	708
Cash at the end of the financial period		1348	385
Reconciliation of the operating (loss)/profit after income tax to the net cash flows from operating activities			
Net (loss)/profit after tax		9,512	216
Adjustments for:			
Depreciation and amortisation		4	68
Net(gain) / loss on financial instruments held at fair value		(3,394)	1,579
Changes in operating assets and liabilities:			
Decrease/(increase) in investments		(5,129)	(1,198)
Decrease/(increase) in right of use asset		61	62
Increase/(decrease) in lease liability		(65)	(60)
Decrease/(increase) in receivables		(55)	(794)
Decrease/(increase) in prepayments		24	(4)
Increase/(decrease) in payables		6	(38)
Increase (decrease) in expense accruals		-	1
Increase (decrease) in outstanding claims liability		-	(92)
Net cash inflow from operating activities		963	(260)

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

Notes to the Financial Statements

1. Summary of Significant Accounting Policies

National Guarantee Fund (the Fund) is a not-for-profit trust domiciled in Australia. The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The financial statements for the year ended 30 June 2021 were authorised for issue by the directors of the trustee, Securities Exchanges Guarantee Corporation (SEGC) on 24 August 2021. The directors have the power to amend and reissue the financial statements.

(a) Basis of Preparation

The financial statements are general purpose financial statements that:

- have been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements issued by the Australian Accounting Standards Board (AASB) and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB)
- have been prepared on a historical cost basis, except for investments, which have been measured at fair value
- are measured and presented in Australian dollars (being the Fund's functional and presentation currency) with all values rounded to the nearest thousand dollars unless otherwise stated, in accordance with ASIC Class Order 2016/191.

New and Amended Standards Adopted by the Fund

No new or revised standards have been adopted by the Fund.

New Accounting Standards and Interpretations Not Yet Adopted by the Fund

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

(b) Revenue Recognition

Movements in the fair value of investment units

Investments in units of managed funds are classified as financial assets at fair value through profit or loss and are stated at fair value in accordance with AASB 13 *Fair Value Measurement*. Net gains and losses that result from fair value movements in investment units are included in revenue.

Distributions

Distribution revenue from investments in managed funds is recognised when the right to receive the distribution has been established.

Interest

Interest revenue on cash at bank is recognised using the effective interest method.

Miscellaneous Income

Rebates of management fees associated with investments in managed funds are treated as miscellaneous income to differentiate this management fee offset.

Government 'Cash Boost'

This reflects the Government initiative to provide funding support to business, including not-for-profit organisations to retain staff during the Covid-19 global pandemic up to a maximum limit of \$50,000. This measure ceased at the end of September 2020.

Notes to the Financial Statements – Continued

Refund of Imputation Credits

The Australian Taxation Office (ATO) has endorsed the Fund as an income tax exempt charitable entity. As a result, imputation credits arising from distributions received during the year are recognised as revenue. Imputation credits not received by the end of the financial year are recognised as receivables.

(c) Claims

Claims are recognised on an accruals basis when they are considered by the Claims Committee of the SEGC Board as valid. Provisions for claims are recognised when the following conditions are met:

- (i) the Fund has a present legal or constructive obligation as a result of past events;
- (ii) it is probable that an outflow of resources will be required to settle the obligation; and
- (iii) the amount can be reliably estimated.

If compensation is paid in respect of a claim, SEGC is subrogated to the extent of that payment to the claimant's rights and remedies in relation to the loss to which the claim relates (section 892F of the *Corporations Act 2001*).

(d) Income Tax

No provision is made for income tax as the Fund has received notification from the ATO of endorsement as an income tax exempt charitable entity.

(e) Goods and Services Tax (GST)

Revenues, expenses, and assets are recognised net of the amount of GST, except where the amount of GST is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the item of expense to which it relates.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as a current asset or liability in the balance sheet.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

(f) Cash

Cash as presented on the balance sheet and statement of cash flows comprises the cash balance held with the National Australia Bank.

(g) Receivables

Receivables are initially recognised at fair value and subsequently measured at amortised cost, less any provision for impairment.

(h) Contingent Assets

SEGC expects that the Fund will receive recoveries in relation to the liquidation of BBY Ltd against certain claims paid. If compensation is paid in respect of a claim, SEGC is subrogated to the extent of that payment to the claimant's rights and remedies in relation to the loss to which the claim relates (refer section 892F of the *Corporations Act 2001*). The quantum of the recoveries and the timing of payment is uncertain. The contingent asset has not been recognised in the Balance Sheet as receivable at 30 June 2021.

Notes to the Financial Statements – Continued

(i) Prepayments

Prepayments represent insurance premiums paid in advance for directors' and officers' liability insurance and investment manager's insurance. Prepayments are amortised over the period that the service is provided.

(j) Investments

The investments of the Fund are unit trust investments currently managed by two professional investment portfolio managers, UBS Global Asset Management (Australia) Limited (UBS) and Schroder Investment Management Limited (Schroders). During the year, the Fund held investments in the UBS Short-Term Fixed Income Fund which provides investors with access to an actively managed portfolio of high grade Australian fixed income and money market securities. The fund employs a range of credit and interest rate relative value strategies to enhance returns and minimise the risk of a negative return over any rolling three-month period. The Schroders fund invests in a wide range of assets, including domestic and global equities. The main risks specifically with investing in this strategy are market risk, equities risk, interest rate risk, credit risk, derivatives risk and risks associated with international investing such as movements in exchange rates.

The fair value of the investments is established by referring to redemption prices quoted by both fund managers. The fund managers are responsible for using the relevant market bid prices of underlying instruments in the portfolios at balance date to calculate the redemption prices for the funds.

(k) Payables

Payables are initially measured at fair value and represent liabilities for goods and services provided to the Fund prior to the end of the reporting period which are unpaid. The amounts, which are stated at amortised cost, are unsecured and are usually paid within 30 days of the end of each quarter to which they relate.

(l) Payments to Financial Industry Development Account (FIDA)

Requests for payment in relation to purposes approved for FIDA funding are recognised as a liability of the Fund once the request for payment has been submitted to and approved by the Board of Directors of SEGC.

Notes to the Financial Statements – Continued

2. Financial Risk Management

The Fund's activities expose it to a variety of financial risks including market risk (comprising interest rate and foreign currency risk), credit risk and liquidity risk. The Fund's overall risk management strategy seeks to manage potential adverse effects on the financial performance of the Fund. Risk management is carried out under policies approved by the Board of SEGC, as trustee of the Fund. The Board has endorsed an Investment Policy Statement which is varied from time to time to meet the needs of the Fund. In developing the investment policy and investment strategy contained in the statement, the Board has regard to several matters, including but not limited to, the purpose of the Fund as set out in the Division 4 or Part 7.5 of the *Corporations Act 2001*. The Fund's risks are managed in accordance with this statement.

The Fund holds the following financial assets and liabilities by category.

As at 30 June 2021	Fair value through profit or loss \$'000	Amortised cost \$'000	Total \$'000
Financial assets			
Cash	-	1,348	1,348
Investments	103,550	-	103,550
Total financial assets	103,550	1,348	104,898
Financial liabilities			
Sundry creditors	-	33	33
Lease liability	-	61	61
Other Payables	-	8	8
Accrued Expenses	-	45	45
Outstanding Claims Liability	-	15	15
Total financial liabilities	-	162	162
As at 30 June 2020			
Financial assets			
Cash	-	385	385
Investments	95,027	-	95,027
Total financial assets	95,027	385	95,412
Financial liabilities			
Sundry Creditors	-	26	26
Lease Liability	-	126	126
Other Payables	-	9	9
Accrued Expenses	-	45	45
Outstanding Claims Liability	-	15	15
Total financial liabilities	-	221	221

Notes to the Financial Statements – Continued

(a) Market Risk

Market risk is the risk of loss arising from movements in observable market variables such as interest rates and other market prices. The Fund is exposed to market risks, predominantly through the investment of Fund balances. For the years ended 30 June 2021 and 30 June 2020, the Fund balances were invested with UBS and Schroders in accordance with the NGF Investment Policy Statement as approved by the Board.

(i) Interest Rate Risk

The Fund has exposure to interest rate risk which arises in relation to cash at bank and indirectly from investments. Cash at bank includes an amount of cash held for operational purposes and interest rate risk on this balance is considered to be low. Investments, represented by holdings in UBS and Schroders, have significant exposure to interest rate risk but are classified as non-interest bearing as the revenue generated from these investments is derived from variations in unit prices rather than directly from movements in interest rates. Unit prices, which are used to value the investments, may however be impacted by interest rate variations.

Interest rate risk is managed through diversifying the total investment portfolio between two professional investment portfolio managers as shown above and regular performance monitoring of both investments by the Board of SEGC. The UBS Short-Term Fixed Income Fund includes investments in cash or cash-like products. The Schroder Real Return Fund includes exposure to cash, domestic fixed interest, inflation linked securities, higher yielding credit, mortgage & floating rate credit, emerging market debt and global fixed income, and other securities that are exposed to interest rate risk.

The Fund's receivables and payables are non-interest bearing and not subject to interest rate risk since neither the carrying amount nor the future cash flows will fluctuate due to a change in market interest rates.

The maximum direct and indirect exposure to interest rate risk is represented by the below financial assets:

As at 30 June 2021	Interest - bearing \$'000	Non - interest - bearing \$'000	Total \$'000
Financial assets			
Cash	1,348	-	1,348
Investments	-	103,550	103,550
Total financial assets	1,348	103,550	104,898
Weighted average earning rate for the year	0.00%	5.99%	
As at 30 June 2020	Interest - bearing \$'000	Non - interest - bearing \$'000	Total \$'000
Financial assets			
Cash	385	-	385
Investments	-	95,027	95,027
Total financial assets	385	95,027	95,413
Weighted average earning rate for the year	0.29%	1.35%	

Sensitivity Analysis

Fair Value Sensitivity Analysis of Interest - Bearing Financial Assets:

At 30 June 2021, an increase/decrease of 25 basis points in interest rates from year end rates would have resulted in an immaterial change in profit or loss.

Notes to the Financial Statements – Continued

Variations in interest rates may also affect the unit prices of the Fund's non - interest - bearing financial assets (Investments), however the amount cannot be reliably measured.

Fair Value Sensitivity Analysis of Non - Interest - Bearing Financial Assets:

At 30 June 2021, if investment redemption prices increased/decreased by 25 basis points from year end prices, profit would have been \$0.259m (2020: \$0.238m) higher/lower due to a change in the fair value of the investments.

(ii) Foreign Currency Risk

The Fund has indirect exposure to foreign currency risk from its investment exposure to the Schroder Real Return Fund. Where managed funds have investments in underlying securities that are denominated in foreign currencies, the unit prices, which are used to value the investments, may be impacted by variations in exchange rates. The Board of SEGC manages this risk through regular review of the composition of both funds and the proportion of the total funds invested in securities denominated in foreign currencies.

(b) Credit Risk

The Fund is exposed to credit risk which represents the potential loss that may arise from the failure of a counterparty to meet its obligation or commitments to the Fund or its administrator, SEGC.

The carrying amount of the Fund's financial assets represents the maximum exposure to credit risk. Credit risk relating to investments is managed by investing in two separate funds which have a diversified range of investments with different counterparties. Counterparty exposure and credit quality is managed by the individual portfolio managers of each fund.

The expected credit loss on Receivables as at 30 June 2021 amounted to zero (2020: zero).

(c) Liquidity Risk

Liquidity risk associated with the need to pay claims or other expenses, as determined by SEGC, is mitigated by investing in funds that hold underlying liquid investments. It is considered that both the UBS Short-Term Fixed Income Fund and Schroder Real Return Fund can be called upon at short notice to fund liquidity requirements.

The maturities of the Fund's financial assets and liabilities at 30 June are shown below.

At 30 June 2021	> Up to 1 mth \$'000	> 1 mth to 3 mths \$'000	Total \$'000
Financial assets			
Cash	1,348	0	1,348
Investments	103,550	0	103,550
Total financial assets	104,898	0	104,898
Financial liabilities			
Sundry Creditors	-	33	33
Lease Liability	-	61	61
Other Payables	-	8	8
Accrued Expenses	-	45	45
Outstanding Claims Liability	-	15	15
Total financial liabilities	-	162	162

Notes to the Financial Statements – Continued

At 30 June 2020	> Up to 1 mth \$'000	> 1 mth to 3 mths \$'000	Total \$'000
Financial assets			
Cash	385	-	385
Investments	95,027	-	95,027
Total financial assets	95,412	-	95,412
Financial liabilities			
Sundry Creditors	-	26	26
Lease Liability	-	126	126
Other Payables	-	9	9
Accrued Expenses	-	45	45
Outstanding Claims Liability	-	15	15
Total financial liabilities	-	221	221

(d) Equity Market Risk

The Fund is exposed to equity market risk through its holdings in the Schroder Real Return Fund. Equity market risk relating to investments is managed by investing through a professional investment manager and exposure to that fund is to be maintained within the allocation range set in the NGF Investment Policy Statement.

(e) Capital Management

The SEGC Board's policy is to maintain the assets of the Fund at a level at or above the minimum amount to meet claims and administration costs of SEGC and the Fund, and where the assets of the Fund fall below that level to consider what action is required. This may include developing a plan to return the assets of the Fund to the minimum amount within a five-year timeframe. The minimum amount may be determined by the Board from time to time with the approval of the Minister in accordance with the *Corporations Act 2001*. The minimum amount of the Fund is currently \$100 million. The minimum amount is subject to regular review with the assistance of independent professional advisers appointed by the Board of SEGC.

The Board has an investment strategy in place to invest available financial assets, totalling \$103.550m at 30 June 2021 (30 June 2020: \$95.027m), into funds managed by professional investment portfolio managers in order to appropriately manage the financial assets of the Fund.

The Board monitors the Fund by receiving and reviewing quarterly investment reports from the fund managers and regular reports from the Capital and Investment Committee with respect to capital management, investment strategy and portfolio risk analysis.

If the total fair value amount of the Fund falls below the minimum amount, the Board is able to undertake certain measures to manage the financial position, including taking insurance against claims liability, paying claims in instalments, external borrowings or imposing levies on members or member participants. The Board periodically reviews the need for these measures to be undertaken in accordance with the SEGC capital management plan.

During the year the size of the Fund exceeded the minimum amount. The Board has not had to undertake any of the measures above at this stage. This is because SEGC has received the large portion of recoveries in relation to the liquidation of BBY Ltd against certain claims paid. This assisted to return the assets of the Fund to above the minimum amount of \$100 million.

SEGC continues to monitor the amount in the Fund and the minimum amount in accordance with its capital management plan. Levies may be required if the Fund falls below the minimum amount.

Notes to the Financial Statements – Continued

If the amount in the Fund exceeds the minimum amount, the Board has discretion to pay the excess or part of the excess to the FIDA, for purposes approved by the Minister or his delegate. FIDA is administered by ASX.

(f) Fair value measurements

(i) Fair value hierarchy

The Fund uses the following hierarchy to categorise its financial instruments measured and carried at fair value:

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

All of the Fund's assets measured and recognised at fair value on 30 June 2021 are categorised as 'level 2' in the fair value hierarchy. The Fund did not have any financial liabilities measured at fair value as at 30 June 2021 (2020: nil).

(ii) Valuation Techniques used to Determine Fair Values

Fair values of investments are established by referring to redemption prices, as quoted by the two fund managers, which are based on the relevant market prices of underlying instruments in the portfolios at balance sheet date. As the fair values of the investments are not determined directly by reference to quoted prices in active markets, they are designated in level 2 of the fair value hierarchy.

There are no financial instruments designated within level 1 or 3 of the fair value hierarchy as at 30 June 2021 or 30 June 2020. The carrying amounts of receivables and related party payables approximates their fair value as the impact of discounting is not significant.

The Fund did not measure any assets or liabilities at fair value on a non-recurring basis as at 30 June 2021 (2020: nil).

3. Net (loss)/gain on financial instruments held at fair value

	2021	2020
	\$'000	\$'000
UBS Short-Term Fixed Income Fund	61	20
Schroder Real Return Fund	3,332	(1,599)
Total net gain/(loss) financial instruments held at fair value	3,394	(1,579)

4. Distribution Income

	2021	2020
	\$'000	\$'000
UBS Short-Term Fixed Income Fund	162	401
Schroder Real Return Fund	2,239	2,153
Total distribution income	2,402	2,554

Notes to the Financial Statements – Continued

5. Cash and cash equivalents

	2021	2020
	\$'000	\$'000
Cash at bank	1,348	385
Total cash and cash equivalents	1,348	385

6. Financial assets held at fair value through profit and loss

	2021	2020
	\$'000	\$'000
UBS Short-Term Fixed Income Fund	43,380	38,254
Schroder Real Return Fund	60,170	56,773
Total financial assets held at fair value through profit and loss	103,550	95,027

7. Outstanding Claims Accruals

	2021	2020
	\$'000	\$'000
Claims (including interest)	15	15
Claimant Legal fees	-	-
Total expense accruals	15	15

8. Payments to FIDA

Section 7.5.89(1) of the *Corporations Regulations 2001* confers on the Board of SEGC, being the administrator of the Fund, discretion to pay amounts from the excess above the minimum amount, currently \$100.0 million, for purposes approved by the Minister or his delegate under regulation 7.5.88 of the *Corporations Regulations 2001*. Excess money paid from the Fund must be paid into FIDA and may only be used for approved purposes.

No payments to FIDA were made in the financial year and there were no approved purposes.

9. Related Party Transactions

(a) Directors

The directors of SEGC in office during the financial year and up until the date of this report were as follows:

Ms. Nancy J. Milne (Chairperson)
Ms. Susan M. Doyle
Mr. Colin R. Scully
Mr. Peter H. Warne (resigned 26 October 2020)
Mr. David D. Trude (appointed 26 October 2020)
Mr. Michael T. Willcock

Mr Colin R. Scully and Mr Peter H Warne were appointed by ASX Limited (ASX). Mr Warne was a director of ASX and was also director of certain controlled entities of ASX during the financial year ended 30 June 2020. Mr David D. Trude was appointed by Chi-X Australia Pty Ltd (Chi-X). Mr. Trude was a director of Chi-X during the financial year ended 30 June 2021

Notes to the Financial Statements – Continued

10. Key Management Personnel Compensation

The key management personnel comprised the five directors of SEGC.

Key management personnel compensation provided during the financial years ended 30 June 2021 and 30 June 2020, is as follows:

	2021	2020
	\$	\$
Short-term benefits	330,290	320,000
Post-employment benefits	31,452	30,400
Total Key Management Personnel compensation	361,742	350,400

Directors' fees and superannuation are paid to the directors of SEGC out of the Fund.

11. Auditor's remuneration

The auditor provided the following services to the Fund in relation to the year.

	2021	2020
	\$	\$
PricewaterhouseCoopers Australia		
Statutory audit services:		
Audit of the financial statements under the <i>Corporations Act 2001</i>	25,500	25,500
Total remuneration to PricewaterhouseCoopers Australia	25,500	25,500

In accordance with section 889H of the *Corporations Act 2001*, auditor's remuneration is paid by the Fund. In addition, the Fund is to cover costs to the auditor of \$5,500 for the audit of the SEGC financial statements (2020: \$5,500).

The auditor, PricewaterhouseCoopers, provided no other services to the Fund during the year to the value of \$ nil (2020: \$nil).

12. Commitments and Contingent Liabilities

There are no other contingent liabilities or commitments.

13. Subsequent Events

In the period between 30 June 2021 and 24 August 2021, no compensation claims have been received.

No other matters or circumstances have arisen which have significantly affected the operations of the Fund, the results of those operations or the state of affairs of the Fund.

Trustees' declaration

In the directors' opinion:

- a) the financial statements and notes set out on pages 7 to 20 are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Fund's financial position as at 30 June 2021 and of its performance, as represented by the results of its operations and its cash flows, for the period ended on that date; and
 - (ii) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- 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) the financial statements also comply with International Financial Reporting Standards as disclosed in note 1.

This declaration is made in accordance with a resolution of the directors.



Nancy J Milne
Chairperson

Sydney, 24 August 2021



Independent auditor's report

To the Trustee of National Guarantee Fund

Our opinion

In our opinion:

The accompanying financial report of National Guarantee 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 2021 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 2021
- 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 Trustees' 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

Securities Exchanges Guarantee Corporation Limited (SEGC) is the trustee of the Fund. The directors of SEGC (the directors) are responsible for the other information. Other information comprises the

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001

T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124

T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



information included in the annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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 for the financial report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or 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.

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001

T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124

T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.



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.

PricewaterhouseCoopers
PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'M Lunn', written over a horizontal line.

Matthew Lunn
Partner

Sydney
24 August 2021

PricewaterhouseCoopers, ABN 52 780 433 757

One International Towers Sydney, Watermans Quay, Barangaroo, GPO BOX 2650, SYDNEY NSW 2001

T: +61 2 8266 0000, F: +61 2 8266 9999, www.pwc.com.au

Level 11, 1PSQ, 169 Macquarie Street, Parramatta NSW 2150, PO Box 1155 Parramatta NSW 2124

T: +61 2 9659 2476, F: +61 2 8266 9999, www.pwc.com.au

Liability limited by a scheme approved under Professional Standards Legislation.