

# Spheria Australian Microcap Fund

ARSN 611 819 651

**Special purpose financial report –  
16 May 2016 to 30 June 2017**



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## Special purpose financial report - 16 May 2016 to 30 June 2017

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These financial statements cover the Spheria Australian Microcap Fund as an individual entity.

The Responsible Entity of the Spheria Australian Microcap Fund is Pinnacle Fund Services Limited (ABN 29 082 494 362). The Responsible Entity's registered office is Level 19, 307 Queen Street, Brisbane, QLD 4000.

## Directors' report

The directors of Pinnacle Fund Services Limited, the Responsible Entity of the Spheria Australian Microcap Fund ("the Fund"), present their report together with the financial statements of the Fund for the period 16 May 2016 to 30 June 2017.

### Principal activities

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

The Fund is an actively managed portfolio, investing in a broad range of small companies predominantly from Australia with the objective of specifically seeking out highly quality securities where the present value of future free cash flows can be reasonably ascertained and the security is trading at discount to its intrinsic value, subject to certain risk criteria.

The objective of the Fund is to outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term by investing predominantly in listed companies which are outside the top 250 ASX listed companies by market capitalisation and companies listed on the New Zealand Stock Exchange with an equivalent market capitalisation.

Spheria Asset Management Pty Limited is the Investment Manager of the Fund.

The Fund did not have any employees during the period.

### Directors

The following persons held office as directors of Pinnacle Fund Services Limited during the period or since the end of the period and up to the date of this report:

Mr I Macoun  
Mr A Ihlenfeldt  
Mr A Findlay  
Mr C Kwok (appointed 9 September 2016)

The Responsible Entity also has a Compliance Committee consisting of one non-independent person and two independent persons. The committee's role is to oversee the compliance requirements of the Fund operated by the Responsible Entity. The committee met four times during the financial period under review.

### Review and results of operations

There have been no significant changes to the operations of the Fund since inception.

During the period, the Fund continued to invest in accordance with target asset allocations as set out in the governing documents of the Fund.

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

	<b>Period ended 30 June 2017 \$'000</b>
Net operating profit/(loss) before finance costs attributable to unitholders	<u>1,015</u>
<b>Distributions</b>	
Distributions paid and payable	<u>1,258</u>
Distribution (cents per unit)	<u>4.2260</u>

## **Directors' report (continued)**

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

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial period.

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

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

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

### **Likely developments and expected results of operations**

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Trust 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.

### **Indemnification 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 Pinnacle Fund Services Limited or the auditors of the Fund. So long as the officers of Pinnacle Fund Services Limited act in accordance with the Fund's Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

The auditors of the Fund are not indemnified out of the assets of the Fund.

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

Fees paid to the Responsible Entity and its associates out of the Fund's property during the period are disclosed in note 14 to the financial statements.

No fees were paid out of the Fund's property to the directors of the Responsible Entity during the period.

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

### **Interests in the Fund**

The movement in units on issue in the Fund during the period is disclosed in note 13 to the financial statements.

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

## **Directors' report (continued)**

### **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 Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and financial statements have been rounded to the nearest thousand dollars in accordance with the ASIC Corporations Instrument, unless otherwise indicated.

### **Auditor's independence declaration**

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

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



Mr A Ihlenfeldt  
Director

Brisbane  
14 September 2017



## Auditor's Independence Declaration

As lead auditor for the audit of Spheria Australian Microcap Fund for the period 16 May 2016 to 30 June 2017, 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 'Craig Thomason', with a long horizontal flourish extending to the right.

Craig Thomason  
Partner  
PricewaterhouseCoopers

Sydney  
14 September 2017

**Spheria Australian Microcap Fund**  
**Statement of comprehensive income**  
**For the period 16 May 2016 to 30 June 2017**

**Statement of comprehensive income**

	Notes	Period ended 30 June 2017 \$'000
<b>Investment income</b>		
Interest income from financial assets not held at fair value through profit or loss		20
Dividend/Trust distribution income	5	743
Net gains/(losses) on financial instruments held at fair value through profit or loss	6	710
Net gains/(losses) on foreign exchange		<u>(3)</u>
<b>Total net investment income/(loss)</b>		<u>1,470</u>
<b>Expenses</b>		
Management fees	14	212
Performance fees	14	169
Transaction costs		<u>74</u>
<b>Total operating expenses</b>		<u>455</u>
<b>Operating profit/(loss)</b>		<u>1,015</u>
<b>Finance costs attributable to unitholders</b>		
Distributions to unitholders	8	(1,258)
(Increase)/decrease in net assets attributable to unitholders	13	<u>243</u>
<b>Profit/(loss) for the period</b>		<u>-</u>
Other comprehensive income		<u>-</u>
<b>Total comprehensive income</b>		<u>-</u>

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

**Spheria Australian Microcap Fund**  
**Statement of financial position**  
**As at 30 June 2017**

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**Statement of financial position**

	Notes	As at 30 June 2017 \$'000
<b>Assets</b>		
Cash and cash equivalents	9	2,402
Receivables	11	299
Financial assets held at fair value through profit or loss	10	<u>32,958</u>
<b>Total assets</b>		<u>35,659</u>
<b>Liabilities</b>		
Distributions payable	8	1,258
Payables	12	<u>564</u>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>1,822</u>
<b>Net assets attributable to unitholders - liability</b>	13	<u>33,837</u>

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



**Spheria Australian Microcap Fund**  
**Statement of changes in equity**  
**For the period 16 May 2016 to 30 June 2017**

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**Statement of changes in equity**

	<b>Period ended 30 June 2017 \$'000</b>
<b>Total equity at the beginning of the financial period</b>	-
Profit/(loss) for the period	-
Other comprehensive income	-
<b>Total comprehensive income</b>	-
Transactions with owners in their capacity as owners	-
<b>Total equity at the end of the financial period</b>	-

*In accordance with AASB 132 'Financial Instruments: Presentation', net assets attributable to unitholders is classified as a liability rather than equity. As a result there was no equity at the start or end of the period.*

*Changes in net assets attributable to unitholders are disclosed in note 13.*

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

**Spheria Australian Microcap Fund**  
**Statement of cash flows**  
**For the period 16 May 2016 to 30 June 2017**

**Statement of cash flows**

	Notes	Period ended 30 June 2017 \$'000
<b>Cash flows from operating activities</b>		
Proceeds from sale of financial instruments held at fair value through profit or loss		6,569
Purchase of financial instruments held at fair value through profit or loss		(38,756)
Transaction costs on financial instruments held at fair value through profit or loss		(74)
Dividend/Trust distribution received		707
Interest received		20
Management fees paid		(175)
Performance fees paid		(108)
RITC paid		(25)
<b>Net cash inflow/(outflow) from operating activities</b>	15(a)	<u>(31,842)</u>
<b>Cash flows from financing activities</b>		
Proceeds from applications by unitholders		35,168
Payments for redemptions by unitholders		(924)
<b>Net cash inflow/(outflow) from financing activities</b>		<u>34,244</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,402</b>
Cash and cash equivalents at the beginning of the period		<u>-</u>
<b>Cash and cash equivalents at the end of the period</b>	15(b), 9	<u><b>2,402</b></u>

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

## Notes to the financial statements

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## **1 General information**

These financial statements covers the Spheria Australian Microcap Fund ("the Fund") as an individual entity. The Fund was constituted on 8 April 2016. The Fund will terminate on 8 April 2096 unless terminated earlier in accordance with the provisions of the Fund's Constitution.

The Responsible Entity of the Fund is Pinnacle Fund Services Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 19, 307 Queen Street Brisbane, QLD 4000. The financial statements are presented in the Australian currency.

The Responsible Entity is incorporated and domiciled in Australia.

The Custodian of the Fund is RBC Investor Services Trust.

The financial statements were authorised for issue by the directors on 14 September 2017. The directors of the Responsible Entity have the power to amend the financial statements after they have been issued.

## **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, 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. The Spheria Australian Microcap Fund is a for-profit unit trust for the purpose of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The 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 liabilities at fair value through profit or loss 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 twelve months, however, an estimate of that amount cannot be determined as at balance date.

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

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

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

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

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial period beginning 16 May 2016 that have a material impact on the Fund.

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

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

#### *(i) Classification*

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

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

These include financial assets that are not held for trading purposes and which may be sold.

These are investments in exchange traded equity instruments, unlisted equity instruments, and listed unit trusts.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

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

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

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or
- the Fund has transferred its rights to receive cash flows from the asset and either:
  - has transferred substantially all the risks and rewards of the asset; or
  - has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) are included in the statement of comprehensive income in the period the asset is derecognised as realised gains or losses on financial instruments.

#### *(iii) Measurement*

Financial assets and liabilities held at fair value through profit or loss

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

- Fair value in an active market

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. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking prices.

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

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

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

- Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Fund recognises the difference in profit or loss to reflect a change in factors, including time that market participants would consider in setting a price.

Further details on how the fair values of financial instruments are determined are disclosed in note 4.

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

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

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

Units are redeemable at the unitholders' option and are classified as financial liabilities as the Fund is required to distribute its taxable income. The units can be put back to the Fund at any time for cash equal to a proportionate share of the Fund's net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to put the units back to the Fund.

### **(d) Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

### **(e) Investment income**

Interest income is recognised in the statement of comprehensive income for all financial instruments that are not held at fair value through profit or loss using the effective interest method. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b).

Dividend income is recognised on the ex-dividend date net off any related foreign withholding tax.

Trust distributions are recognised on an entitlements basis.

Net gains/(losses) on financial assets and financial liabilities held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at period end and the fair value at the previous valuation point. Net gains/(losses) do not include interest or dividend income.

### **(f) Expenses**

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

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

### **(g) Income tax**

Under current legislation, the Fund is not subject to income tax provided the taxable income of the Fund is fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Fund).

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

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

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

### **(h) Distributions**

In accordance with the Fund's Constitution, the Fund distributes its distributable (taxable) income, and any other amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as finance costs attributable to unitholders.

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

Movements in net assets attributable to unitholders are recognised in finance costs in the statement of comprehensive income. The movements include undistributable income which may consist of undistributable unrealised changes in fair value of financial instruments held at fair value through profit or loss and derivative financial instruments; accrued income not yet assessable; expenses provided or accrued for which are not yet deductible; net capital losses; and tax free or tax deferred income. Net capital gains on the realisation of any financial instruments (including any adjustments for tax deferred income previously taken directly to net assets attributable to unitholders) and accrued income not yet assessable will be included in the determination of distributable income in the same year in which it becomes assessable for tax.

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

#### *Functional and presentation currency*

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

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

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

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

### **(l) Receivables**

Receivables may include amounts for dividends, interest and trust distributions and amounts due from brokers. 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(e). Amounts are generally received within 30 days of being recorded as receivables.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

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

### **(m) Payables**

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

The distribution amount payable to unitholders as at the reporting period is recognised separately in the statement of financial position as unitholders are presently entitled to the distributable income as at 30 June 2017 under the Fund's Constitution.

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

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

Unit redemption prices are determined by reference to the net assets of the Fund divided by the number of units on issue.

### **(o) 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% hence investment management fees, custodial fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.



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

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

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. 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 certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

### **(q) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for 16 May 2016 to 30 June 2017 reporting periods and have not been early adopted by the Fund. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

*AASB 9 Financial Instruments* (and applicable amendments), (effective from 1 January 2018)

*AASB 9 Financial Instruments* addresses the classification, measurement, impairment and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting. The standard is not applicable until 1 January 2018 but is available for early adoption.

The directors do not expect this to have a significant impact on the recognition and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss.

The derecognition rules have not been changed from the previous requirements, and the Fund does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Fund's investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Fund.

The Fund has decided not to adopt AASB 9 early.

*AASB 15 Revenue from Contracts with Customers*, (effective from 1 January 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

The Fund's main sources of income are interest, dividends and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the directors do not expect the adoption of the new revenue recognition rules to have a significant impact on the Fund's accounting policies or the amounts recognised in the financial statements.

The Fund has decided not to adopt AASB 15 early.

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

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

### **(r) 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 Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and financial statements have been rounded to the nearest thousand dollars in accordance with the ASIC Corporations Instrument, unless otherwise indicated.

## **3 Financial risk management**

### **(a) Objectives, strategies, policies and processes**

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

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

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

### **(b) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risks: price risk, foreign currency risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

The market risk disclosures are prepared on the basis of the Fund's direct investments and not on a look-through basis for investments held in the Fund.

The sensitivity of the Fund's net assets attributable to unitholders (and net operating profit/(loss)) to price risk and interest rate risk is measured by the reasonably possible movements approach. This approach is determined based on management's best estimate, having regard to a number of factors, including the historical correlation of the Fund's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

#### *(i) Price risk*

Equity price risk is the risk that the fair value of equities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Equity price risk exposure arises from the Fund's investment portfolio. The investments 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. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

### 3 Financial risk management (continued)

#### (b) Market risk (continued)

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

The Investment Manager manages price risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the Board.

The Fund's overall market positions are monitored on a daily basis by the Fund's Investment Manager and are reviewed at least quarterly by the Board.

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

Net assets attributable to unitholders include investments in equity securities. At 30 June 2017, the overall market exposures were as follows:

	As at 30 June 2017 \$'000
Securities designated at fair value through profit or loss	32,958

At 30 June 2017, if the equity prices had increased by 10% with all other variables held constant, this would have increased net assets attributable to unitholders (and net operating profit/(loss)) by approximately \$3,295,836. Conversely, if the equity prices had decreased by 10%, this would have decreased net assets attributable to unitholders (and net operating profit/(loss)) by approximately \$3,295,836.

##### (ii) Foreign exchange risk

The Fund is not exposed to significant risks from movements in foreign exchange rates as there are no financial assets and liabilities denominated in foreign currencies.

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

The majority of the Fund's financial assets and liabilities are non interest bearing. Interest-bearing financial assets and interest-bearing financial liabilities mature or reprice in the short-term, no longer than twelve months. As a result, the Fund is subject to limited exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

#### (c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Fund holds no collateral as security or any other credit enhancements. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

There are no material concentrations of credit risk at 30 June 2017.

#### (d) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous. This risk is controlled through the Fund's investment in financial instruments, which under normal market conditions are readily convertible to cash, as the majority are listed on the ASX. In addition, the Fund maintains sufficient cash and cash equivalents to meet normal operating requirements.

### 3 Financial risk management (continued)

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

The Fund's Constitution provides for daily application and redemption of units and it is therefore exposed to liquidity risk of meeting unitholder redemptions at any time.

In accordance with the Fund's policy, the Responsible Entity monitors the Fund's liquidity position on a daily basis. The Fund's policy is reviewed annually.

#### *Maturity analysis for financial liabilities*

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

At 30 June 2017	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	12-60 months \$'000
Distributions payable	1,258	-	-	-
Due to brokers - payable for securities purchased	143	-	-	-
Redemptions payable	322	-	-	-
Accrued expenses	99	-	-	-
Net assets attributable to unitholders	33,837	-	-	-
<b>Total financial liabilities</b>	<b>35,659</b>	-	-	-

### 4 Fair value measurements

The Fund measures and recognises financial assets and liabilities held at fair value through profit or loss on a recurring basis.

- Financial assets / liabilities designated at fair value through profit or loss (FVTPL)
- Financial assets / liabilities held for trading

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

#### (a) Fair value hierarchy

##### *Classification of financial assets and financial liabilities*

The Fund classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

## **4 Fair value measurements (continued)**

### **(a) Fair value hierarchy (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. 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 held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Fund holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking 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, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

#### *(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 end of the reporting period. 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.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such trusts.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with 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.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

#### 4 Fair value measurements (continued)

##### (a) Fair value hierarchy (continued)

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

##### Recognised fair value measurements

The tables below set out the Fund's financial assets and liabilities measured at fair value according to the fair value hierarchy at 30 June 2017:

As at 30 June 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss:				
Listed equities	32,159	-	-	32,159
Listed unit trusts	649	-	-	649
Unlisted equities	-	150	-	150
<b>Total assets</b>	<b>32,808</b>	<b>150</b>	<b>-</b>	<b>32,958</b>

For the period ended 30 June 2017 the Fund did not include financial assets and financial liabilities that were determined using valuation techniques. The fair values of the Fund's financial assets and liabilities for the periods then ended were determined directly, in full or in part, by reference to quoted prices that were available from various sources, such as exchanges, dealers, brokers, industry groups and pricing services, as on the balance date without any deduction for estimated future selling cost.

The fair value of financial instruments traded in active markets (listed equities and listed unit trusts) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Fund is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (unlisted equities) is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. These instruments are included in Level 2.

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

##### (iii) Transfers between levels

The following table presents the transfers between levels for the period 16 May 2016 to 30 June 2017:

As at 30 June 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
Transfers between levels 1 and 3:			
Listed equities	(250)	-	-
Unlisted equities	-	-	250

The transfer from level 1 to level 3 relates to a single corporate equity security which was delisted in current year and has subsequently been placed in administration. Accordingly, the valuation inputs for this security were unable to be based on market observable inputs and due to subsequent administration the investment manager has written the security to nil.

#### 4 Fair value measurements (continued)

##### (b) Fair value estimation

*Fair value measurements using significant unobservable inputs (level 3)*

The following table presents the movement in level 3 instruments for the period 16 May 2016 to 30 June 2017 by class of financial instrument:

##### As at 30 June 2017

	Unlisted equities \$'000
Opening balance	-
Purchases	-
Sales	-
Transfers into/(out) from level 3	250
Gains and losses recognised in profit or loss	<u>(250)</u>
<b>Closing balance</b>	<u>-</u>
Total gains or losses for the year included in the statement of comprehensive income for financial assets and liabilities held at the end of the year	<u>(250)</u>

#### 5 Dividend/Trust distribution income

	Period ended 30 June 2017 \$'000
Dividends	697
Trust distributions	<u>46</u>
<b>Total dividend/trust distribution income</b>	<u>743</u>

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

	Period ended 30 June 2017 \$'000
<b>Financial assets</b>	
Net unrealised gain/(loss) on financial assets designated at fair value through profit or loss	(227)
Net realised gain/(loss) on financial assets designated as at fair value through profit or loss	<u>937</u>
<b>Total net gains/(losses) on financial instruments held at fair value through profit or loss</b>	<u>710</u>

## 7 Auditor's remuneration

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

	Period ended 30 June 2017 \$
<b>PwC Australian firm</b>	
<b><i>Audit and other assurance service</i></b>	
Audit and review of financial statements	12,169
Audit of compliance plan	<u>2,709</u>
<b>Total remuneration of audit services</b>	<u>14,878</u>
<b><i>Taxation services</i></b>	
Tax compliance services	<u>4,896</u>
<b>Total remuneration for taxation services</b>	<u>4,896</u>
<b>Total remuneration of PwC</b>	<u>19,774</u>

The fees for audit and non audit services are paid by the Investment Manager out of the management fee that they earn.

## 8 Distributions to unitholders

The distributions were payable as follows:

	Period ended	
	30 June 2017 \$'000	30 June 2017 CPU
<b>Distributions</b>		
Distributions payable - June	<u>1,258</u>	<u>4.2260</u>
	<u>1,258</u>	<u>4.2260</u>

## 9 Cash and cash equivalents

	As at 30 June 2017 \$'000
Cash at bank	<u>2,402</u>
	<u>2,402</u>



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

	As at 30 June 2017 \$'000
<b>Designated at fair value through profit or loss</b>	
Listed equities	32,159
Listed unit trusts	649
Unlisted equities	150
<b>Total financial assets held at fair value through profit or loss</b>	<b>32,958</b>

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

## 11 Receivables

	As at 30 June 2017 \$'000
Applications receivable	157
Accrued income	31
GST receivable	25
Due from brokers - receivable for securities sold	86
<b>Total receivables</b>	<b>299</b>

## 12 Payables

	As at 30 June 2017 \$'000
Redemptions payable	322
Due to brokers - payable for securities purchased	143
Accrued expenses	99
<b>Total payables</b>	<b>564</b>

### 13 Net assets attributable to unitholders

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

	As at	
	30 June 2017	30 June 2017
<b>Net assets attributable to unitholders</b>	<b>No. '000</b>	<b>\$'000</b>
Opening balance	-	-
Applications	30,829	35,325
Redemptions	(1,070)	(1,245)
Units issued upon reinvestment of distributions	-	-
Increase/(decrease) in net assets attributable to unitholders	-	(243)
Closing balance	<u>29,759</u>	<u>33,837</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 net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

The Fund monitors the level of daily applications and redemptions relative to the liquid assets in the Fund. The Fund's strategy was to hold a certain portion of the net assets attributable to unitholders in liquid investments. Liquid assets include cash and cash equivalents and listed equities. Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units, if the exercise of such discretion is in the best interests of unitholders.

### 14 Related party transactions

#### Responsible entity

The Responsible Entity of the Spheria Australian Microcap Fund is Pinnacle Fund Services Limited.

Pinnacle Investment Management Limited is the parent company of Pinnacle Fund Services Limited. Pinnacle Investment Management Group Limited is the ultimate holding company of Pinnacle Fund Services Limited.

Spheria Asset Management Pty Limited is the Investment Manager of the Fund.

## 14 Related party transactions (continued)

### Key management personnel

#### Directors

Key management personnel includes persons who were directors of Pinnacle Fund Services Limited and Pinnacle Investment Management Limited at any time during the financial period as follows:

#### Pinnacle Fund Services Limited

Mr I Macoun  
Mr A Ihlenfeldt  
Mr A Findlay  
Mr C Kwok (appointed 9 September 2016)

#### Pinnacle Investment Management Limited

Mr I Macoun  
Mr A Ihlenfeldt  
Mr C Darvall (resigned 30 June 2016)  
Ms E Padman (appointed 12 August 2016 and resigned 22 June 2017)  
Mr A Grant (resigned 16 August 2016)  
Mr S Wilson (resigned 18 August 2016)  
Mr A Whittingham (appointed 22 June 2017)

#### Other key management personnel

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

#### Management fees and other transactions

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the period and amounts payable at period end between the Fund and the Responsible Entity and the Investment Manager were as follows:

	Period ended 30 June 2017 \$
Management fees for the period paid/payable by the Fund	211,710
Performance fees for the period paid/payable by the Fund	169,483
Aggregate amount payable to the Investment Manager at the reporting date	98,689

The management fee of 1.35% p.a. is calculated daily based on the net asset value of the Fund. The performance fee of 20% of the Fund's excess return versus its benchmark, S&P/ASX All Ordinaries Accumulation Index, is calculated net of management fee.

Responsible Entity fees are paid by the Investment Manager out of the fees that they earn.

## 14 Related party transactions (continued)

### Related party unitholdings

Period ended  
30 June 2017

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/payable by the Fund (\$)
Macoun Family Super Pty Ltd ATF Macoun Family Superannuation Fund	-	274,823	313,903	0.92	274,823	-	11,202

### Investments

The Fund did not hold any investments in Pinnacle Fund Services Limited or its related parties during the period.

### Key management personnel compensation

Key management personnel of Pinnacle Fund Services Limited are paid by Pinnacle Services Administration Pty Ltd. Payments made from the Fund to Pinnacle Fund Services Limited do not include any amounts directly attributable to key management personnel remuneration.

### 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.

### Other transactions within the Fund

From time to time directors of Pinnacle Fund Services Limited, 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 and are not material in nature.

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

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

	Period ended 30 June 2017 \$'000
<b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>	
Net profit/(loss) for the period	-
Increase/(decrease) in net assets attributable to unitholders	(243)
Proceeds from sale of financial instruments held at fair value through profit or loss	6,569
Purchase of financial instruments held at fair value through profit or loss	(38,756)
Net (gains)/losses on financial instruments held at fair value through profit or loss	(710)
Distributions to unitholders	1,258
Distributions reinvested	(6)
Net foreign exchange losses/(gains)	3
Net change in receivables and other assets	(56)
Net change in payables and other liabilities	99
<b>Net cash inflow/(outflow) from operating activities</b>	<u><b>(31,842)</b></u>
<b>(b) Cash and cash equivalents</b>	
Cash at bank	<u>2,402</u>
	<u>2,402</u>

As described in note 2(i), income not distributed is included in net assets attributable to unitholders. The change in this amount each year (as reported in (a) above) represents a non- cash financing cost as it is not settled in cash until such time as it becomes distributable.

## 16 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2017.

## 17 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period other than those already noted within the financial statement which would impact on the financial position of the Fund as at 30 June 2017 or on the results and cash flows of the Fund for the period ended on that date.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 28 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2017 and of its performance for the financial period ended on that date.
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
- (c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Mr A Ihlenfeldt  
Director

Brisbane  
14 September 2017



## *Independent auditor's report*

To the unitholders of Spheria Australian Microcap Fund

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### *Our opinion*

In our opinion:

The accompanying financial report of Spheria Australian Microcap Fund (the Registered Scheme) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Registered Scheme's financial position as at 30 June 2017 and of its financial performance for the period 16 May 2016 to 30 June 2017
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### ***What we have audited***

The financial report comprises:

- the statement of financial position as at 30 June 2017
- the statement of comprehensive income for the period 16 May 2016 to 30 June 2017
- the statement of changes in equity for the period 16 May 2016 to 30 June 2017
- the statement of cash flows for the period 16 May 2016 to 30 June 2017
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors of the Responsible Entity's declaration.

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

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

The directors of the Responsible Entity of the Registered Scheme are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity

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determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Registered Scheme to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intend to liquidate the Registered Scheme or to cease operations, or have no realistic alternative but to do so.

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### *Auditor's responsibilities for the audit of the financial report*

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

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

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A handwritten signature in black ink, appearing to read 'Craig Thomason', with a long horizontal flourish extending to the right.

Craig Thomason  
Partner

Sydney  
14 September 2017