

30 August 2018

## **Australian Governance & Ethical Index Fund**

**ASX Code: AGM**

### **Annual Report – 30 June 2018**

In accordance with section 323D of the Corporations Act, the responsible entity for the Australian Governance & Ethical Index Fund (**Fund**) has determined that the inaugural financial year of the Fund will encompass the period from 10 May 2018 (date of registration of the Fund) to 30 June 2019.

In order to provide ongoing information to the unitholders of the Fund, who were also investors in Australian Governance Masters Index Fund Limited (**AQF**) prior to the record date for AQF restructure on 5 July 2018, AQF's audited financial report for the year ended 30 June 2018, and the accompanying Appendix 4E have been prepared and made available on ASX.

For further information, contact:

Fleur Jouault

GRACosway

0405 669 632

## Appendix 4E

### Annual Financial Report For the year ended 30 June 2018

Name of entity

**Australian Governance Masters Index Fund Limited**

ABN

48 140 842 397

Reporting Period

1 July 2017 to 30 June 2018

Previous Corresponding Period

1 July 2016 to 30 June 2017

#### Results for announcement to the market

		30 June 2018 \$'000
<b>Total revenue</b> ("revenue from ordinary activities")	Down by 2.9% to	\$2,192
<b>Net operating profit for the year</b> ("profit from ordinary activities after tax attributable to shareholders")	Down by 0.9% to	\$1,905
<b>Total comprehensive income</b> ("net profit for the period attributable to shareholders")	Down by 28.2% to	\$3,979

#### Commentary on results

Refer to attached Annual Financial Report, including the Chairman's Report to Shareholders and Manager's Report. Additional Appendix 4E disclosure requirements can be found in the notes to these financial statements.

#### Dividends

	Amount per security	Franked amount per security
Fully franked dividend (paid on 25 September 2017)	3 cents	3 cents
Fully franked dividend (paid on 12 January 2018)	3 cents	3 cents
Fully franked dividend (paid on 29 March 2018)	5 cents	5 cents
<b>Total dividends</b>	<b>11 cents</b>	<b>11 cents</b>
Fully franked dividend (declared on 28 June 2018 and paid on 9 July 2018 as part of In-specie distribution)	41.65 cents	41.65 cents

The Company's Dividend Reinvestment Plan (DRP) will not apply to the In-specie distribution.

#### Net tangible assets per share

30/06/2018	\$0.01 (After provision of \$1.87 per share distribution)
30/06/2017	\$1.83

#### Earnings per share

	30 June 2018	30 June 2017
Basic earnings per share	7.66 cents	7.08 cents
Diluted earnings per share	7.66 cents	7.08 cents

#### Financial Report

This report is based on the 30 June 2018 Annual Report and has been audited by William Buck.

# **Australian Governance Masters Index Fund Limited**

**ABN 48 140 842 397**

**Annual Report - 30 June 2018**

## **Australian Governance Masters Index Fund Limited**

### **Contents**

**30 June 2018**

Chairman's letter	2
Manager's report	4
Directors' report	6
Auditor's independence declaration	17
Statement of profit or loss and other comprehensive income	18
Statement of financial position	19
Statement of changes in equity	20
Statement of cash flows	21
Notes to the financial statements	22
Directors' declaration	40
Independent auditor's report to the members of Australian Governance Masters Index Fund Limited	41
Corporate directory	44

**Australian Governance Masters Index Fund Limited**  
**Chairman's letter**  
**30 June 2018**

Welcome to the Annual Report for the Australian Governance Masters Index Fund Limited (**Company** or **AQF**) for the financial year ended 30 June 2018 (**FY18**).

**Strong shareholder returns**

During the year the company announced a number of initiatives designed to improve returns to shareholders. This included a revision of the management fee structure, refinement of the investment approach and appointment of a dedicated portfolio manager, William Hart.

Pleasingly, the combination of these changes coupled with buoyant investment markets resulted in very strong returns for AQF investors in FY18, with total shareholder returns of 17.0%<sup>1</sup> outpacing the benchmark S&P/ASX 100 index (**Index**), which returned 13.7%<sup>2</sup>.

On a net tangible assets (**NTA**) basis, the company recorded a 13.8%<sup>3</sup> return for FY18 inclusive of the costs of the restructure of AQF from a listed investment company to a newly established listed investment trust, the Australian Governance & Ethical Index Fund (**AGM**).

During FY18, the Company generated a net profit after tax and unrealised movements of \$4.0 million. This compares to a net profit after tax and unrealised movements of \$5.5 million the prior financial year ended 30 June 2017.

The Company made a number of distributions during FY18, including the payment of: a fully franked dividend of 3 cents per share on 25 September 2017; a special fully franked dividend of 3 cents per share on 12 January 2018; and a fully franked dividend of 5 cents per share on 29 March 2018. The company also paid an in-specie distribution of \$1.87 per AQF share comprising a fully franked dividend of \$0.4165 per share and a capital return of \$1.4519 that was provided on 9 July 2018 in the form of an AGM unit.

Total dividends (excluding the in-specie distribution) paid for the year were \$2,740,000, of which \$794,000 was reinvested as part of the Company's Dividend Reinvestment Plan. Basic and diluted earnings per share after tax were 7.66 cents.

**Successful restructure**

AQF shareholders voted overwhelmingly on 18 June 2018 to approve restructure of the company from a listed investment company to a newly established listed investment trust, AGM, and extend AQF's existing focus on corporate governance to include ethical and social considerations in portfolio construction.

The proposed Restructure was a result of the AQF Board having reviewed how best to position AQF to continue to provide strong long term returns for shareholders. The proposal was designed to improve the structure, enhance the investment process, and broaden the appeal of the strategy with the aim of improving scale, liquidity, and resources to help drive investment performance.

Following shareholder approval, AQF shareholders received one unit in AGM for each AQF share owned at the record date of 5 July 2018. Shares in AQF ceased to trade on the ASX on 21 June 2018 and were removed from the official list on Monday 16 July 2018. The company intends to seek shareholder approval to facilitate the orderly wind-up of AQF. Until the wind-up of AQF is complete we encourage all AQF shareholders to continue to monitor for announcements on the Company website ([www.governancemasters.com.au](http://www.governancemasters.com.au)) – all announcements for AGM will be available on the ASX platform as well as on the the AGM website ([www.governanceandethicalfund.com.au](http://www.governanceandethicalfund.com.au))

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<sup>1</sup> Based on the Company's share price performance and including reinvestment of dividends, the in-specie distribution and the restructure costs and inclusive of any associated franking credits.

<sup>2</sup> S&P/ASX 100 index return including reinvestment of dividends and associated franking credits.

<sup>3</sup> Based on the Company's pre-tax net tangible asset price performance and including reinvestment of dividends, the in-specie distribution and the restructure costs and inclusive of any associated franking credits.

**Australian Governance Masters Index Fund Limited**  
**Chairman's letter**  
**30 June 2018**

**Governance activity**

The Company continued to pursue its active corporate governance strategy in FY18 by investing in approximately 75 to 85 of the best governed Australian companies within the Index, as ranked by the Company's corporate governance analysis and third-party research.

The Company actively participates in shareholder meetings and corporate actions by voting in accordance with corporate governance best practices. During FY18, the Company participated in 86 shareholder votes, voting on a total of 584 resolutions.

**Capital management**

The Company's goal is to manage its capital so as to achieve the most efficient capital structure and optimise returns to Shareholders. At the Company's Annual General Meeting on 20 November 2017, shareholders approved:

- the on-market buy-back of up to 25% of the issued ordinary Shares during the 12-month period beginning 1 December 2017; and
- the issue of up to 12,556,634 fully paid ordinary Shares.

In FY18, the Company bought back 1,939,719 shares.

On behalf of the Board, we thank you for your support of the company.



Mr Alex MacLachlan

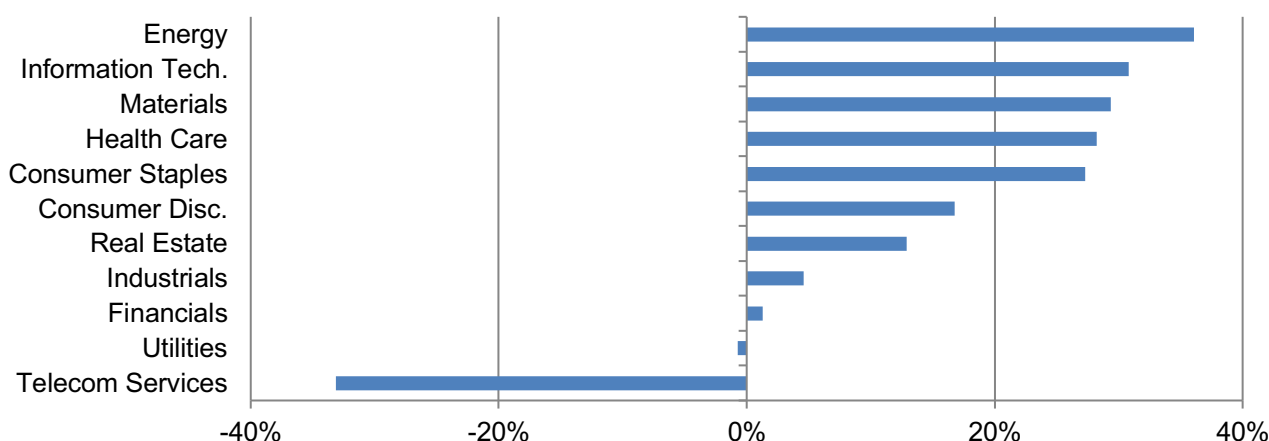
*Chairman*

30 August 2018

**Market commentary**

The financial year saw a return to more normalised conditions in global equity markets with the post-GFC phase of ultra-low interest rates across the major economies coming to a close, and movement away from the 'lower for longer' market rhetoric which has supported risk asset prices over recent years. Amid this economic backdrop, political uncertainty added to market disruptions; investors were influenced by Trump tweets, the emergence of populist power and trade war rhetoric as well as the structural shifts relating to US tax policies, energy prices and continued expansion of household balance sheets.

**S&P/ASX 100 Index sector performance - total returns FY18<sup>4</sup>**



Despite rising uncertainty, the domestic market performed strongly in the 2018 financial year, with the ASX 100 returning 13.7 per cent, inclusive of gross dividends. Important to note however, was the considerable dispersion in returns generated at both a stock and sector level. The Energy sector (up 36.1%) was a standout, supported primarily by a 66% rise in the crude oil price (Brent). Such a rise proved fruitful for highly leveraged energy companies such as Santos (+107%) but proved a negative for many other companies, given the flow-on effects for higher energy and input costs and the consumer responses to lower rates of discretionary spending. The Materials sector (up 29.3%) also performed strongly primarily as a beneficiary of rising demand for bulk commodities such as iron ore.

Health Care (up 28.2%) continued its outperformance, although in common with the divergence in performance across the market, fortunes were mixed at a security level. At one extreme was CSL (+41%) which benefited from better than expected sales of its Idelvion and Haegarda products, with Haegarda taking 50% of the US prophylactic market in little over 12 months. In contrast, former market darling Ramsay Health Care (-24%) performed poorly as it missed high growth market expectations and faced broader regulatory risks both domestically and abroad.

The domestic listed property sector matched the performance of the broader share market (up 12.9%) as it benefitted from some supportive macro factors, primarily adjustments to expectations for future domestic interest rate rises. The big news influencing the retail sector was the impact of online competition and in particular the potential impact on bricks and mortar of the entry of US giant Amazon into the Australian market. The exit of sector heavy-weight Westfield Group also came as a surprise following the takeover by European property giant Unibail Rodamco which saw around A\$7b of cash proceeds out to find a new home.

Both the Telecommunication Services (down 33.1%) and Financials sectors (up 1.3%) weighed on domestic markets. Telstra was the major source of weakness for its sector, falling 32% on the back of increasing competition in its core mobile market, resulting in declining earnings growth and a cut to its dividend. Meanwhile, the major banks were dealt their fair share of challenges following a Royal Commission, higher funding costs and regulatory imposts to name a few. ANZ Banking Group (up 6.4%) was the pick of the big four banks, while Commonwealth Bank (down 4.8%) saw its

<sup>4</sup> Source: Walsh & Company Asset Management, Bloomberg

**Australian Governance Masters Index Fund Limited**  
**Manager's report**  
**30 June 2018**

valuation premium reduced as its brand continued to suffer following a series of mishaps including a \$700 million settlement over the alleged facilitation of money laundering by AUSTRAC. Highlighting the challenges facing the larger end of town, smaller companies (up 25.3%) significantly outperformed their large cap counterparts, in part reflective of the relatively high resources exposure and operational leverage in the smaller end of the market.



**Australian Governance Masters Index Fund Limited**  
**Directors' report**  
**30 June 2018**

The directors present their report, together with the financial statements, on the company for the year ended 30 June 2018.

**Directors**

The names of the directors in office at any time during, or since the end of, the year are:

Mr Jeffrey Robert Whalan - Independent Non-Executive Chairman (retired 6 July 2018)  
Ms Josephine Tan - Independent Non-Executive Director (retired 6 July 2018)  
Dr Ian Watt - Independent Non-Executive Director (retired 6 July 2018)  
Ms Nerida Cole - Non-Executive Director (retired 6 July 2018)  
Mr Alex MacLachlan - Non-Executive Chairman (appointed 6 July 2018)  
Mr Warwick Keneally - Non-Executive Director (appointed 6 July 2018)  
Ms Jaclyn Strelow - Non-Executive Director (appointed 6 July 2018)

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

**Information on Directors**

Jeffrey Robert Whalan AO, BA  
Independent Non-Executive Chairman (retired 6 July 2018)

Jeffrey is an Independent Director of Australian Governance Masters Index Fund Limited. He is Managing Director of the Jeff Whalan Learning Group, a specialist human resources company. He was a senior executive officer in the Australian Public Service from 1990 to 2008.

Jeffrey was appointed an Officer in the Order of Australia in 2008 for his work as chief executive officer of Centrelink. Among other things, the award recognised his achievements in 'the development of corporate accountability processes'.

Jeffrey is a Fellow of the Australian Institute of Company Directors and a Fellow of the Australian Institute of Management.

As CEO of Centrelink, Jeffrey was responsible for the largest agency of the Australian Public Service, \$70 billion of government outlays and 27,000 staff. Prior to joining Centrelink, he was chief executive officer of Medicare Australia. Jeffrey has held Deputy Secretary positions in the Departments of Prime Minister and Cabinet, Defence and the then Department of Family and Community Services. He has also held senior executive positions in the Transport and Health departments.

He was appointed as independent director and Non-Executive Chairman on 30 November 2009 and he beneficially holds 76,971 fully paid ordinary shares in the capital of the Company.

During the past three years, he has acted as a Non-Executive Director of the following Australian listed public company:

- Global Resource Masters Fund Limited (since 2008, delisted on 11 March 2016)
- New Energy Solar Limited (since 2017)

**Australian Governance Masters Index Fund Limited**  
**Directors' report**  
**30 June 2018**

Josephine Tan BCom, BSc  
Independent Non-Executive Director (retired 6 July 2018)

Josephine is currently founding member, COO and CFO of Sandown Bay Resource Capital, a London based mining private equity fund focused on turnaround investments in the junior mining sector. Ms Tan is responsible for designing the investment process, governance structure, operation and compliance framework of the fund, as well as overseeing risk management, financial reporting and regulatory compliance.

Prior to her role at Sandown Bay, Ms Tan was a senior investment banker for UBS AG in both Melbourne and London. During her ten years at UBS she worked across various teams and industry sectors, including as part of the Australian Resources Group, the European Energy Group and the Global Industrials Group. Ms Tan commenced her career at Boston Consulting Group in Melbourne.

Josephine was appointed as a Non-Executive Director on 25 February 2015 and holds no shares in the capital of the Company. She retired from her role as Director on 6 July 2018.

During the past three years, she has not acted as director of any other Australian listed public company.

Dr Ian Watt AC  
Independent Non-Executive Director (retired 6 July 2018)

Dr Watt has worked for nearly 20 years at the highest levels of the Australian Public Service, with his most recent appointment as Secretary of the Department of the Prime Minister and Cabinet where he advised on all Government decisions. Prior to that he was Secretary of the Departments of Defence, Finance and Deregulation, Communications, Information Technology and the Arts, and various other public service roles.

Dr Watt was appointed a Companion of the Order of Australia in 2016 for his eminent service to the community through public sector leadership and administration, to innovative and effective governance, program delivery and policy reform, and to the promotion of workplace diversity. He is currently Chair of BAE Systems Australia, and of the National Innovation and Science Agenda Implementation Committee, he holds Board roles with SMART Infrastructure Facility Advisory Council at the University of Wollongong, Prader-Willi Research Foundation Australia and the International Centre for Democratic Partnerships. Dr Watt is also a Director of Citigroup Pty Limited, Smartgroup Corporation, O'Connell Street Associates Pty Ltd and CEDA.

He was appointed as Non-Executive Director on 30 June 2017 and beneficially holds 30,000 fully paid ordinary shares in the capital of the Company. He retired from his role as Director on 6 July 2018.

During the past three years, he has acted as director of the following Australian listed public company:

- Smartgroup Corporation Limited (since 2015)

**Australian Governance Masters Index Fund Limited**  
**Directors' report**  
**30 June 2018**

Nerida Cole BCom, SSA, CFP, GAICD  
Non-Executive Director (retired 6 July 2018)

Nerida, Managing Director of the Financial Advisory division of Dixon Advisory is a highly-respected expert on superannuation, including self managed super funds (**SMSF**), retirement planning and wealth-building strategies. Her expertise in these areas is well regarded, and has been called upon to assist the Parliamentary Joint Committee on Corporations and Financial Services. She also coordinates Dixon Advisory submissions to the federal government on issues affecting SMSF trustees and superannuation members as well as matters of concern to the financial planning industry.

Nerida is an executive director on the Board of the Dixon Advisory Group, a member of the Investment Committee and Chair of the Compliance Committee.

Prior to her last 12 years at Dixon Advisory, Nerida worked for NAB Financial Planning and ANZ Bank as well as five years of government experience.

She was appointed as Non-Executive Director on 30 June 2017 and beneficially holds 16,717 fully paid ordinary shares in the capital of the Company. She retired from her role as Director on 6 July 2018.

During the past three years, she has not acted as director of any other Australian listed public company.

Alex MacLachlan BA, MBA  
Non-Executive Chairman

Alex is currently the Chairman of the Responsible Entity for Cordish Dixon Private Equity Fund Series, Fort Street Real Estate Capital Fund Series, Evans & Partners Global Flagship Fund (formerly Emerging Markets Masters Fund), New Energy Solar Fund, US Masters Residential Property Fund, Evans & Partners Asia Fund, Evans & Partners Australian Flagship Fund and Evans & Partners Global Disruption Fund. Alex is also a director of Fort Street Real Estate Capital and the Australian Masters Yield Fund Series.

Alex joined Dixon Advisory in 2008 to lead the then newly formed Funds Management division, which later became Walsh & Company. From funds under management of under \$100 million at the time of his start, Alex has grown Walsh & Company Group to over \$5 billion of assets under management today, with investments across residential and commercial property, fixed income, private equity, listed equities and renewable energy.

Prior to joining the firm, Alex was an investment banker at UBS AG, where he rose to Head of Energy for Australasia. During his tenure in investment banking, Alex worked on more than \$100 billion in mergers and acquisitions and capital markets transactions, advising some of the world's leading companies.

Alex has a Bachelor of Arts from Cornell University and a Masters of Business Administration from The Wharton School, University of Pennsylvania.

Alex was appointed as a Non-Executive Chairman on 6 July 2018 and holds no shares in the capital of the Company.

## **Australian Governance Masters Index Fund Limited**

### **Directors' report**

**30 June 2018**

During the past three years Alex has acted as a non-executive director or director of the responsible entity of the following Australian listed public entities:

- Asian Masters Fund Limited (since 2009, delisted 17 May 2018)
- Australian Governance & Ethical Index Fund (since 2018)
- Australian Masters Corporate Bond Fund No 5 Limited (since 2009, delisted 26 August 2016)
- Australian Masters Yield Fund No 1 Limited (since 2010, delisted 28 July 2017)
- Australian Masters Yield Fund No 2 Limited (since 2010, delisted 28 July 2017)
- Australian Masters Yield Fund No 3 Limited (since 2011, delisted 13 April 2018)
- Australian Masters Yield Fund No 4 Limited (since 2011)
- Australian Masters Yield Fund No 5 Limited (since 2012)
- Cordish Dixon Private Equity Fund I (since 2012)
- Cordish Dixon Private Equity Fund II (since 2013)
- Cordish Dixon Private Equity Fund III (since 2016)
- Evans & Partners Asia Fund (since 2018)
- Evans & Partners Australian Fund (since 2018)
- Evans & Partners Global Disruption Fund (since 2017)
- Evans & Partners Global Flagship Fund (since 2018)
- Global Resource Masters Fund Limited (since 2008, delisted 11 March 2016)
- New Energy Solar Fund (since 2015)
- New Energy Solar Limited (since 2015, until 27 October 2017)
- US Masters Residential Property Fund (since 2011)

Warwick Keneally BEc, BComm, CA

Non-Executive Director

Warwick is Head of Finance at Walsh & Company, the Funds Management division of Evans Dixon and Director of Walsh & Company Investments Limited, the Responsible Entity for Cordish Dixon Private Equity Fund Series, Fort Street Real Estate Capital Fund Series, Evans & Partners Global Flagship Fund (formerly Emerging Markets Masters Fund), New Energy Solar Fund, US Masters Residential Property Fund, Evans & Partners Asia Fund, Evans & Partners Australian Flagship Fund and Evans & Partners Global Disruption Fund.

Before joining Walsh & Company, Warwick worked in chartered accounting firms specialising in turnaround and restructuring. Warwick started his career with KPMG, working in their Canberra, Sydney and London offices and has undertaken a range of complex restructuring and insolvency engagements across Europe, UK and Australia, for a range of Australian, UK, European and US banks.

## **Australian Governance Masters Index Fund Limited**

### **Directors' report**

**30 June 2018**

Warwick has worked with companies and lenders to develop and implement strategic business options, provide advice in relation to continuous disclosure requirements, develop cash forecasting training for national firms, and lectured on cash management. Among his former roles, Warwick worked on the initial stages of the HIH insolvency - as part of the key management group tasked with the wind-down of the global estate.

Warwick has a Bachelor of Economics and Bachelor of Commerce from the Australian National University and is a Member of Chartered Accountants Australia and New Zealand.

Warwick was appointed as a Non-Executive Director on 6 July 2018 and holds no shares in the capital of the Company.

During the past three years Warwick has acted as a non-executive director of the responsible entity of the following Australian listed public entities:

- Asian Masters Fund Limited (since 2018, delisted 17 May 2018)
- Australian Masters Yield Fund No 4 Limited (since 2017)
- Australian Masters Yield Fund No 5 Limited (since 2017)
- Cordish Dixon Private Equity Fund I (since 2017)
- Cordish Dixon Private Equity Fund II (since 2017)
- Cordish Dixon Private Equity Fund III (since 2017)
- Evans & Partners Asia Fund (since 2018)
- Evans & Partners Australian Flagship Fund (since 2018)
- Evans & Partners Global Disruption Fund (since 2017)
- Evans & Partners Global Flagship Fund (since 2018)
- New Energy Solar Limited (since 2016, until 3 May 2017)
- New Energy Solar Fund (since 2017)
- US Masters Residential Property Fund (since 2017)

Jaclyn Strelow BJus, LLB. (Hons), MBA  
Non-Executive Director

Jaclyn joined Walsh & Company in 2016 to lead corporate finance and capital raising transactions. Jaclyn has a corporate law background and brings substantial experience specialising in debt and equity markets, mergers and acquisitions and corporate development in Australia and the UK, working in listed company and professional services environments.

Prior to joining Walsh & Company, Jaclyn was legal counsel for Aurizon, managing legal risk and strategy across the business development, mergers and acquisitions, strategy, governance and treasury functions. Prior to Aurizon, Jaclyn worked as legal counsel in capital markets and professional services with Instinet and PwC Legal in London and Mallesons Stephen Jaques in Australia.

Jaclyn was appointed as a Non-Executive Director on 6 July 2018 and holds no shares in the capital of the Company.

During the past three years, she has not acted as director of any other Australian listed public company.

### **Company secretary**

The name of the Company Secretary in office at the date of this report is Ms Hannah Chan.

**Australian Governance Masters Index Fund Limited**  
**Directors' report**  
**30 June 2018**

**Information on Company Secretary**

Hannah Chan BCom, MCom, CA

Hannah has a Bachelor of Commerce degree in Finance from the University of NSW and a Master of Commerce degree in Accounting from the University of Sydney. She is also a member of Chartered Accountants Australia and New Zealand. Prior to joining Dixon Advisory, Hannah gained extensive audit experience while working with Deloitte Touche Tohmatsu and Ernst & Young.

She is also the Company Secretary of Australian Masters Yield Fund Series, Asian Masters Fund Limited, joint Company Secretary of New Energy Solar Limited, Walsh & Company Investments Limited and Walsh & Company Asset Management Pty Limited.

She was appointed as Company Secretary on 30 November 2009.

**Principal activities and significant changes in nature of activities**

The principal activity of the Company during the financial year was investing in securities included in the S&P/ASX 100 Index screened for the relative quality of their corporate governance.

**Significant changes in the state of affairs**

At the general meeting on 18 June 2018, shareholders of the Company approved changes to the Company ("Restructure") from a listed investment company to a newly established listed investment trust, Australian Governance and Ethical Index Fund ("AGM").

To effect the transfer of net assets of the Company to AGM as part of the Restructure, the Company announced on 28 June 2018 a \$1.87 per share distribution, comprising a fully franked dividend of \$0.4165 per share and a capital return of \$1.4519 per share. On 9 July 2018, the implementation date of the Restructure ("Effective Date"), net assets of the Company was transferred to AGM and in exchange fully paid ordinary units were issued by AGM to shareholders of the Company for every ordinary share they held in the Company. The units were issued at \$1.87 per unit ("Issue Price").

**Review of operations**

At 30 June 2018, the Company held total assets of approximately \$49.5 million with no borrowings, offset by the amount to be transferred by AQF to AGM. The net asset value per ordinary share of the Company was \$0.01 after taking into account the distribution announced on 28 June 2018 in connection with the Restructure.

The profit for the Company after providing for income tax amounted to \$1,905,000 (30 June 2017: \$1,922,000).

Total comprehensive income for the financial year was \$3,979,000 (2017: \$5,543,000) for the Company.

The weighted average number of ordinary shares for the year was 24,885,285. The basic and diluted earnings per share after tax was 7.66 cents.

During the year ended 30 June 2018, the Company bought back 1,939,719 ordinary shares for a total consideration of \$3,694,000.

Further details are included in the Chairman's Letter which forms part of this report.

The directors of the Company reached an agreement with the Investment Manager Walsh & Company Asset Management Pty Limited to revise the fee structure of the Company reducing the total expense ratio to 0.19% (Inclusive of GST), net of RITC) of gross assets from 0.49% (exclusive of GST and other expenses) under the existing Investment Management Agreement. The new fee structure came into effect from 1 January 2018. The directors believe the change will be advantageous to existing and future investors.

## **Australian Governance Masters Index Fund Limited**

### **Directors' report**

**30 June 2018**

#### **Dividends paid or declared**

The Company paid a fully franked dividend of 3 cents per share on 25 September 2017, a special fully franked dividend of 3 cents per share on 12 January 2018 and a combined fully franked dividend and special dividend of 5 cents per share on 29 March 2018. Total dividends paid for the year was \$2,740,000 of which \$794,000 was reinvested as part of the Company's Dividend Reinvestment Plan.

On 28 June 2018, a fully franked dividend of \$0.4165 per unit was announced. This dividend was one of two components of the distribution made to shareholders on 9 July 2018, as part of the Restructure.

#### **Future developments, prospects and business strategies**

Following completion of the Restructure, the Directors have convened a Shareholders meeting to approve resolutions to wind-up the Company. Further information in this regard is provided in a notice of meeting dated 13 August 2018, which is available on the Company's website..

#### **Environmental issues**

The Company is not subject to any significant environmental regulation under Australian Commonwealth or State law.

#### **Options**

No options over issued shares or interests in the Company were granted during, or since the end of, the financial year and there were no options outstanding at the date of this report.

#### **Indemnifying officers or auditor**

The company has agreed to indemnify, to the extent permitted by the *Corporations Act 2001*, each officer in respect of certain liabilities, which the director may incur as a result of, or by reason of (whether solely or in part), being or acting as a Director of the Company. The Company has also agreed to maintain in favour of each director a directors' and officers' policy of insurance for the period that he or she is a director and for a period of seven years after the officer ceases to be a director. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

No indemnities have been given or insurance premiums paid during, or since the end of, the financial year for the auditor of the Company.

#### **Proceedings on behalf of the company**

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

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

#### **Remuneration report (audited)**

The remuneration report details the key management personnel remuneration arrangements for the Company, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Determination of remuneration
- Details of remuneration
- Service agreements
- Additional disclosures relating to key management personnel

**Australian Governance Masters Index Fund Limited**  
**Directors' report**  
**30 June 2018**

***Determination of remuneration***

Under the Company's Constitution, each director may be remunerated for ordinary services performed as a director. Under ASX Listing Rules, the maximum fees payable to directors may not be increased without the prior approval from shareholders of the Company at a general meeting. Directors will seek approval from time to time as deemed appropriate.

The maximum total remuneration of the directors has been set at \$200,000 per annum, to be divided among them in such proportions as they agree.

***Non-executive directors remuneration***

The independent non-executive directors are remunerated by the Company. It is the policy of the Board to remunerate at the market rates corresponding with the responsibilities borne by the independent non-executive directors. One of the independent non-executive director, Jeffrey Whalan, has agreed not to be paid any remuneration for the services he performs as a director effective from 1 July 2017.

The independent non-executive directors' base remuneration is reviewed annually. Fees paid to each director have remained unchanged from the time of their appointment. The amount of base remuneration is not dependent on the satisfaction of a performance condition, or on the performance of the Company, the Company's share price, or dividends paid by the Company.

The independent non-executive directors' base remuneration is reviewed annually. Fees paid to each director have remained unchanged from the time of their appointment. The amount of base remuneration is not dependent on the satisfaction of a performance condition, or on the performance of the Company, the Company's share price, or dividends paid by the Company.

The non-independent non-executive Director of the Company, Nerida Cole, also agreed not to be paid any remuneration for the services she performs as a director.

***Retirement benefits to directors***

The Company does not provide retirement benefits, other than superannuation, to the non-executive directors.

***Other benefits and incentives***

The Company does not pay other benefits and incentives to the non-executive directors.

***Details of remuneration***

Key management personnel include the directors who have authority and responsibility for planning, directing and controlling the activities of the Company. No other executive personnel are employed or remunerated by the Company.

Details of remuneration paid during the year to key management personnel are set out in the table below.

	Short-term benefits	Post-employment benefits	
	Cash salary	Super-annuation	Total
<b>2018</b>	\$	\$	\$
<i>Directors</i>			
Ian Watt	45,787	4,349	50,136
Josephine Tan	50,000	-	50,000
	<u>95,787</u>	<u>4,349</u>	<u>100,136</u>



**Australian Governance Masters Index Fund Limited**  
**Directors' report**  
**30 June 2018**

2017	Short-term	Post-	Total
	benefits	employment	
	Cash salary	Super-	
	and fees	annuation	
	\$	\$	\$
<i>Directors</i>			
Jeffrey Whalan	45,662	4,338	50,000
Josephine Tan	50,000	-	50,000
	<u>95,662</u>	<u>4,338</u>	<u>100,000</u>

***Service agreements***

The Company does not presently have formal service agreements or employment contracts with any key management personnel.

***Additional disclosures relating to key management personnel***

***Shareholding***

The number of shares in the company held during the financial year by each director and other members of key management personnel of the company, including their personally related parties, is set out below:

	Balance at	Received		Disposals/	Balance at
	the start of	as part of	Additions	other	the end of
	the year	remuneration			the year
<i>Ordinary shares</i>					
Jeffrey Whalan	76,971	-	-	-	76,971
Ian Watt	10,000	-	20,000	-	30,000
Nerida Cole	16,109	-	608	-	16,717
	<u>103,080</u>	<u>-</u>	<u>20,608</u>	<u>-</u>	<u>123,688</u>

***Option holding***

No director holds options over the ordinary shares of the Company.

***Related party transactions***

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated and are as follows:

i) Management fee - Walsh & Company Asset Management Pty Limited

Ms Nerida Cole is a Director of the Company and an executive director of Dixon Advisory Group Pty Limited, parent of Walsh & Company Asset Management Pty Limited.

## Australian Governance Masters Index Fund Limited

### Directors' report

30 June 2018

For the period 1 July to 31 December 2017, the Manager received an annualised management fee of 0.49% (exclusive of GST), calculated with reference to the gross value of the Portfolio less fees payable to Directors of the Company for the performance of their duties as directors and fees payable to the Auditor in connection with the audit of the annual financial statements and the review of the half-yearly financial statements of the Company.

The directors of the Company reached an agreement with the Investment Manager Walsh & Company Asset Management Pty Limited to revise the fee structure of the Company reducing the total expense ratio to 0.19% (Inclusive of GST, net of RITC) of gross assets from 0.49% (exclusive of GST and other expenses). The new fee structure came into effect from 1 January 2018.

The management fee paid or payable for the year ended 30 June 2018 was \$89,000 (2017: \$165,000), inclusive of GST. The management fee owed by the Company to Walsh & Company Asset Management Pty Limited at 30 June 2018 was nil (2017: \$13,000).

The Directors of the Company are satisfied that the management fee is in line with market rates.

#### ii) Brokerage - Dixon Advisory & Superannuation Services Limited

Ms Nerida Cole is director of the Company and an executive director of Dixon Advisory Group Pty Limited, parent of Dixon Advisory & Superannuation Services Limited.

Dixon Advisory & Superannuation Services Limited, a related entity of Walsh & Company Asset Management Pty Limited, is engaged as a broker by the company. As investment broker, Dixon Advisory & Superannuation Services Limited received brokerage of 0.25% (exclusive of GST), on all investment and buyback transactions. From 1 March 2018, Dixon Advisory & Superannuation Services Limited received 0.25% (exclusive of GST) on all investment transactions and 0.5% (exclusive of GST) on all transactions relating to buybacks undertaken by Australian Governance Masters Index Fund Limited in managing the investment portfolio of the Company. During the year, the brokerage paid was \$52,000 (2017: \$52,000), inclusive of GST.

***This concludes the remuneration report, which has been audited.***

#### Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2018, and the number of meetings attended by each director were:

	Board meetings Attended	Board meetings Held
Jeffrey Whalan	6	6
Josephine Tan	6	6
Ian Watt	6	6
Nerida Cole	5	6

Held: represents the number of meetings held during the time the director held office.

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

On the Effective Date, the net assets of the Company were transferred to AGM and in exchange fully paid ordinary units were issued by AGM to shareholders of the Company for every ordinary share they held in the Company. The units were issued at Issue Price, equal to the \$1.87 per unit distribution announced on 28 June 2018.

As foreshadowed in the Notice of Meeting dated 17 May 2018, an application was made to ASX for the removal of the Company from the official list of ASX. The Company was removed effective at close of trade on 16 July 2018. Further, a notice of general meeting (dated 13 August 2018) has been sent to shareholders to consider resolutions to wind up the Company. The general meeting is expected to be held on 7 September 2018.

**Australian Governance Masters Index Fund Limited**  
**Directors' report**  
**30 June 2018**

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

**Rounding**

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable and where noted (\$'000)) under the option available to the Company under ASIC Instrument 2016/191. The Company is an entity to which the ASIC Instrument applies.

**Auditor**

William Buck continues in office in accordance with section 327 of the *Corporations Act 2001*.

**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 immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors



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Alex MacLachlan  
Chairman

30 August 2018

**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE  
CORPORATIONS ACT 2001 TO THE DIRECTORS OF AUSTRALIAN GOVERNANCE  
MASTERS INDEX FUND LIMITED**

I declare that, to the best of my knowledge and belief during the year ended 30 June 2018 there have been:

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



William Buck  
Chartered Accountants  
ABN 16 021 300 521



L.E. Tutt  
Partner

Sydney, 30 August 2018

**CHARTERED ACCOUNTANTS  
& ADVISORS**

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**Australian Governance Masters Index Fund Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2018**

	<b>Note</b>	<b>2018</b>	<b>2017</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>	3	2,192	2,258
<b>Expenses</b>			
Management fee		(84)	(154)
Directors' fees		(102)	(100)
Other expenses		(45)	(65)
<b>Profit before income tax expense</b>		1,961	1,939
Income tax expense	4	(56)	(17)
<b>Profit after income tax expense for the year attributable to the owners of Australian Governance Masters Index Fund Limited</b>		1,905	1,922
<b>Other comprehensive income</b>			
<i>Items that will not be reclassified subsequently to profit or loss</i>			
Gain on sale and revaluation of investments		3,299	4,835
Provision for tax on the above		(1,225)	(1,214)
Other comprehensive income for the year, net of tax		2,074	3,621
<b>Total comprehensive income for the year attributable to the owners of Australian Governance Masters Index Fund Limited</b>		<u>3,979</u>	<u>5,543</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	5	7.66	7.08
Diluted earnings per share	5	7.66	7.08

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Australian Governance Masters Index Fund Limited**  
**Statement of financial position**  
**As at 30 June 2018**

	Note	2018 \$'000	2017 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	6	4,359	1,204
Receivables	7	426	464
Financial assets	8	44,742	-
Prepayments		4	-
<b>Total current assets</b>		<u>49,531</u>	<u>1,668</u>
<b>Non-current assets</b>			
Financial assets	9	-	48,259
<b>Total non-current assets</b>		<u>-</u>	<u>48,259</u>
<b>Total assets</b>		<u>49,531</u>	<u>49,927</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Dividends payable	22	45,315	11
Current tax liabilities	10	3,893	-
Trade and other payables	11	20	29
<b>Total current liabilities</b>		<u>49,228</u>	<u>40</u>
<b>Non-current liabilities</b>			
Deferred tax	12	-	2,606
<b>Total non-current liabilities</b>		<u>-</u>	<u>2,606</u>
<b>Total liabilities</b>		<u>49,228</u>	<u>2,646</u>
<b>Net assets</b>		<u>303</u>	<u>47,281</u>
<b>Equity</b>			
Issued capital	13	300	38,419
Reserves	14	-	7,805
Retained profits		3	1,057
<b>Total equity</b>		<u>303</u>	<u>47,281</u>

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

**Australian Governance Masters Index Fund Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2018**

	Issued capital \$'000	Asset revaluation reserve \$'000	Capital profits reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2016	44,792	4,406	(222)	1,319	50,295
Profit after income tax expense for the year	-	-	-	1,922	1,922
Other comprehensive income for the year, net of tax	-	3,621	-	-	3,621
Total comprehensive income for the year	-	3,621	-	1,922	5,543
Transfer to capital profits reserve of cumulative realised gain on disposal of investments (net of tax)	-	(1,122)	1,122	-	-
<i>Transactions with owners in their capacity as owners:</i>					
Shares Issue (note 13)	645	-	-	-	645
Shares bought back (note 13)	(6,999)	-	-	-	(6,999)
Issue and buyback costs (net of tax) (note 13)	(19)	-	-	-	(19)
Dividends paid (note 15)	-	-	-	(2,184)	(2,184)
Balance at 30 June 2017	<u>38,419</u>	<u>6,905</u>	<u>900</u>	<u>1,057</u>	<u>47,281</u>

	Issued capital \$'000	Asset revaluation reserve \$'000	Capital profits reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2017	38,419	6,905	900	1,057	47,281
Profit after income tax expense for the year	-	-	-	1,905	1,905
Other comprehensive income for the year, net of tax	-	2,074	-	-	2,074
Total comprehensive income for the year	-	2,074	-	1,905	3,979
Transfer to capital profits reserve of cumulative realised gain on disposal of investments (net of tax)	-	(1,339)	1,339	-	-
<i>Transactions with owners in their capacity as owners:</i>					
Shares issue (note 13)	794	-	-	-	794
Shares bought back (note 13)	(3,694)	-	-	-	(3,694)
Issue and buyback costs (net of tax) (note 13)	(14)	-	-	-	(14)
Transfer to retained earnings	-	(7,640)	(2,239)	9,879	-
Return of capital	(35,205)	-	-	-	(35,205)
Dividends paid (note 15)	-	-	-	(12,838)	(12,838)
Balance at 30 June 2018	<u>300</u>	<u>-</u>	<u>-</u>	<u>3</u>	<u>303</u>

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

**Australian Governance Masters Index Fund Limited**  
**Statement of cash flows**  
**For the year ended 30 June 2018**

	<b>Note</b>	<b>2018</b>	<b>2017</b>
		<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities</b>			
Interest received from bank		12	14
Dividends received		2,222	2,316
Payment to suppliers		<u>(239)</u>	<u>(304)</u>
Net cash from operating activities	16	<u>1,995</u>	<u>2,026</u>
<b>Cash flows from investing activities</b>			
Proceeds from disposal of investments		10,692	10,634
Payments for purchase of investments		<u>(3,887)</u>	<u>(3,009)</u>
Net cash from investing activities		<u>6,805</u>	<u>7,625</u>
<b>Cash flows from financing activities</b>			
Dividends paid		(1,928)	(1,540)
Payments of issue and buyback costs		(23)	(27)
Payments for share buy-backs		<u>(3,694)</u>	<u>(7,086)</u>
Net cash used in financing activities		<u>(5,645)</u>	<u>(8,653)</u>
Net increase in cash and cash equivalents		3,155	998
Cash and cash equivalents at the beginning of the financial year		<u>1,204</u>	<u>206</u>
Cash and cash equivalents at the end of the financial year	6	<u><u>4,359</u></u>	<u><u>1,204</u></u>

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



**Australian Governance Masters Index Fund Limited**  
**Notes to the financial statements**  
**30 June 2018**

**1. General information**

The financial statements cover Australian Governance Masters Index Fund Limited (**Company**) as an individual entity. Australian Governance Masters Index Fund Limited is a company limited by shares, incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange Limited (**ASX**).

The financial statements were approved for issue in accordance with a resolution of the directors on 29 August 2018.

**2. Significant accounting policies**

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

**Basis of preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001*. The company is a for-profit entity.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless otherwise stated.

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement of fair value of selected non-current assets, financial assets and financial liabilities.

**New Accounting Standards and Interpretations**

The company has adopted all of the new and revised pronouncements which became mandatory for the first time in the current annual reporting period. The adoption of these new and revised pronouncements did not result in any changes to the recognition, measurement or disclosure of amounts presented in the financial statements.

**Operating segments**

The Company operates in Australia and is engaged in investing activities and derives revenue from financial assets, the results of which are disclosed in these financial statements.

**Foreign currency transactions and balances**

The functional currency of the Company is measured using the currency of the primary economic environment in which that Company operates. The financial statements are presented in Australian dollars which is the Company's functional and presentation currency.

**Revenue recognition**

Revenue is recognised and measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

*Interest income*

Interest income is recognised in the Statement of Profit or Loss and Other Comprehensive Income using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

*Other revenue*

Other revenue is recognised when it is received or when the right to receive payment is established.

## **2. Significant accounting policies (continued)**

### *Dividends*

Revenue is recognised when the Company's right to receive the payment is established.

All revenue is stated net of the amount of Goods and Services Tax (**GST**).

### **Income tax**

The income tax expense (benefit) for the year comprises current income tax expense (benefit) and deferred tax expense (benefit).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well as unused tax losses.

Current and deferred income tax expense (benefit) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantially enacted at the end of the reporting period. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists. The deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

### **Cash and cash equivalents**

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

### **Financial instruments**

Financial Instruments, incorporating financial assets and financial liabilities, are recognised when the Company becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by market place convention.

The Company has early adopted AASB 9 'Financial Instruments', which was issued on 7 December 2009. AASB 9 includes requirements for the classification and measurement of financial assets. The revised standard was adopted from 1 July 2012. There were no adjustments required upon initial adoption of this standard.

**2. Significant accounting policies (continued)**

(i) Financial assets

Initial recognition and measurement

When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs. The Company determines the classification of its financial assets at initial recognition.

Subsequent measurement

The Company classifies its financial assets into those to be measured subsequently at fair value and those to be measured at amortised cost. The classification depends on the Company's business model for managing the financial asset, and the contractual terms of the cash flow.

Equity investments

The Company has irrevocably elected to present subsequent changes in fair value of equity instruments in other comprehensive income through the asset revaluation reserve after deducting a provision for the potential deferred capital gains tax liability as these investments are long term holdings of equity instruments.

Dividends earned from such investments are recognised in the profit or loss unless they clearly represent a repayment of part of the cost of the investment.

Financial assets measured at amortised cost

A financial asset is subsequently measured at amortised cost using the effective interest rate method and net of any impairment losses if:

- The asset is held within a business model with an objective to hold assets in order to meet contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

Derecognition

Cumulative gain or loss on derecognition of equity investments, net of tax thereon, are transferred from the asset revaluation reserve to the capital profits reserve.

(ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as derivative and non-derivative instruments, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value.

Subsequent Measurement

Non-derivative instruments are subsequently measured at amortised cost using the effective interest rate method.

## **2. Significant accounting policies (continued)**

### (iii) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal (or most advantageous) market at balance date under market conditions.

Fair value is determined as the redemption value for investments. When the redemption price is not available, alternative techniques are applied to determine the fair value of these investments, including recent arm's length transactions, reference to similar instruments and option pricing models.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

### (iv) Impairment

The group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets carried at amortised cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For trade and other receivables carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

### **Other payables**

Other payables are recognised when the Company becomes obliged to make future payments resulting from the purchase of goods and services. The balance is unsecured and is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

### **Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

### **Issued capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### **Dividends**

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

## **2. Significant accounting policies (continued)**

### **Earnings per share**

Basic earnings per share is determined by dividing the operating profit or loss after income tax excluding any cost of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year. Diluted earnings per share is the same because there are no dilutive potential ordinary shares.

### **Comparative Figures**

Comparative figures are, where appropriate, reclassified so as to be compatible with the figures presented for the financial year.

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

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

In most cases, the Company qualifies for Reduced Input Tax Credits (**RITCs**) at a rate of 75%; hence expenses have been recognised in the Statement of Profit or Loss and Other Comprehensive Income net of the amount of GST recoverable from the Australian Taxation Office.

The net amount of GST recoverable from the Australian Taxation Office is included in Receivables in the Statement of Financial Position.

Cash flows are presented in the Statement of Cash Flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

### **Rounding of amounts**

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable and where noted (\$'000)) under the option available to the Company under ASIC Instrument 2016/191. The Company is an entity to which the ASIC Instrument applies.

### **New Accounting Standards and Interpretations issued but not yet effective**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Company for the annual reporting period ended 30 June 2018. The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company, are set out below.

#### *AASB 9 Financial Instruments*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard was early adopted in part during the 2013 financial year in accordance with the transitional provisions of AASB 9 which is issued in December 2009 and available for early adoption at that time. The complete AASB 9 standard as issued in December 2014 incorporating the impairment and hedge accounting requirements has not yet been adopted by the Company, however on mandatory application it was not expected to have any significant impact on the Company's reported financial position or performance due to the nature of the company's financial instruments. The Company will adopt this standard from 1 January 2018.

**Australian Governance Masters Index Fund Limited**  
**Notes to the financial statements**  
**30 June 2018**

**2. Significant accounting policies (continued)**

*AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. AASB 15 establishes a single, comprehensive framework for revenue recognition, and replaces the previous revenue Standards AASB 118 Revenue and AASB 111 Construction Contracts, and the related Interpretations on revenue recognition Interpretation 13 Customer Loyalty Programmes, Interpretation 15 Agreements for the Construction of Real Estate, Interpretation 18 Transfers of Assets from Customers and Interpretation 131 Revenue—Barter Transactions Involving Advertising Services.

AASB 15 introduces a five step process for revenue recognition with the core principle of the new Standard being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the Company expects to be entitled in exchange for those goods or services. AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements. The Company will adopt this standard from 1 January 2018 but the impact of its adoption is expected to have no impact.

**3. Revenue**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Dividends revenue	2,188	2,244
Interest income	4	14
	<hr/>	<hr/>
Revenue	<u>2,192</u>	<u>2,258</u>
	 <b>2018</b>	 <b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Dividend and distribution income from:		
Investments held at the end of the year	1,969	2,040
Investments derecognised during the year	219	204
	<hr/>	<hr/>
Total dividend revenue	<u>2,188</u>	<u>2,244</u>

**4. Income tax expense**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	1,961	1,939
	<hr/>	<hr/>
Tax at the statutory tax rate of 30%	588	582
	<hr/>	<hr/>
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Rebateable franked dividends	(621)	(571)
	<hr/>	<hr/>
	(33)	11
Other	89	6
	<hr/>	<hr/>
Income tax expense	<u>56</u>	<u>17</u>

**Australian Governance Masters Index Fund Limited**  
**Notes to the financial statements**  
**30 June 2018**

**5. Earnings per share**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax attributable to the owners of Australian Governance Masters Index Fund Limited	<u>1,905</u>	<u>1,922</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>24,885,285</u>	<u>27,149,229</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>24,885,285</u>	<u>27,149,229</u>
	<b>Cents</b>	<b>Cents</b>
Basic earnings per share	7.66	7.08
Diluted earnings per share	7.66	7.08

There are no instruments on issue that could potentially dilute basic earnings per share in the future.

**6. Current assets - cash and cash equivalents**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank	<u>4,359</u>	<u>1,204</u>

The weighted average interest rate on cash at bank is 1.30% (2017: 1.39%) as at year end.

**7. Current assets - receivables**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Dividends receivable	424	457
GST receivable	<u>2</u>	<u>7</u>
	<u>426</u>	<u>464</u>

There are no balances above that contain assets that are impaired or past due. All the receivables above are non-interest bearing.

Due to the short term nature of the balances, the carrying amount is considered a reasonable approximation of fair value.

**8. Current assets - Financial assets**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Financial assets	<u>44,742</u>	<u>-</u>

**Australian Governance Masters Index Fund Limited**  
**Notes to the financial statements**  
**30 June 2018**

**8. Current assets - Financial assets (continued)**

**Equity investments at 30 June 2018**

All of the following investments are measured at fair value through other comprehensive income.

Investment	Fair Value 2018 \$'000
Commonwealth Bank Of Australia	3,754
BHP Billiton Limited	3,133
CSL Limited	3,023
Westpac Banking Corp	2,895
ANZ Banking Group	2,381
National Australia Bank Ltd	2,173
Wesfarmers Ltd	1,648
Woolworths Group Ltd	1,361
Macquarie Group Ltd	1,242
Rio Tinto Limited	1,182
Woodside Petroleum Limited	1,098
Telstra Corporation Ltd	1,087
Transurban Group	907
Scentre Group Stapled	813
Insurance Australia Group Ltd	799
Aristocrat Leisure Limited	688
Newcrest Mining Limited	644
Origin Energy Ltd	601
South32 Ltd	583
Suncorp Group Ltd	569
Sydney Airport Holdings Pty Ltd	568
Ancor Limited	496
Lendlease Group	487
Agl Energy Ltd	484
Santos Ltd	431
Stockland Corporation Ltd	430
Brambles Limited	426
A2 Milk Company Ltd	416
James Hardie Industries	401
Treasury Wine Estates Ltd	400
Computershare Limited	399
GPT Group	396
Sonic Healthcare Limited	373
ASX Ltd	373
Vicinity Centres Re Ltd	367
Qantas Airways Limited	352
Mirvac Group	351
Cochlear Limited	347
APA Group	339
Tabcorp Holdings Limited	331
Boral Limited	315
Bluescope Steel Limited	313
Dexus Stapled	305
Aurizon Holdings Ltd	270
Cybg PLC	267
Seek Limited	265
Caltex Australia Limited	254
Star Entertainment Group	244
Medibank Private Ltd	241
Challenger Ltd	215
Orica Ltd	203
Alumina Limited	194
Incitec Pivot Ltd	175
Healthscope Ltd	174
Xero Limited	162
Bendigo And Adelaide Bank Ltd	156
Iluka Resources Limited	146
Other Listed Investments	2,094
<b>Total investments at fair value through other comprehensive income</b>	<b>44,742</b>



**Australian Governance Masters Index Fund Limited**  
**Notes to the financial statements**  
**30 June 2018**

**9. Non-current assets - Financial assets**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Equity investments</b>		
Fair value through other comprehensive income	-	48,259
	<b>2018</b>	<b>2017</b>
<b>Reconciliation of financial assets</b>		
Carrying amount at the beginning of the year	48,259	50,068
Additions	4,228	2,929
Revaluation to fair value	1,379	3,229
Disposals	(9,124)	(7,967)
Classified as current assets*	(44,742)	-
Carrying amount at the end of the year	-	48,259

\*Financial assets have been reclassified to current assets due to the Restructure effective 9 July 2018.

**Disposal of investments**

During the year ended 30 June 2018, the fair value of disposed equity investments at disposal date was \$10,780,000 (2017: \$9,561,000), and the total realised gain on disposals transferred to capital profits reserve was \$1,339,000 (2017: \$1,122,000).

Disposals occurred in the normal course of the Company's operations as a listed investment company.

**10. Current liabilities - Current tax liabilities**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Current tax liabilities	3,893	-

**11. Current liabilities - Trade and other payables**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Accrued liabilities	2	14
Other payables	18	15
	<b>20</b>	<b>29</b>

**Australian Governance Masters Index Fund Limited**  
**Notes to the financial statements**  
**30 June 2018**

**12. Non-current liabilities - deferred tax**

	2018 \$'000	2017 \$'000
Deferred tax liabilities/(assets) comprise:		
Transaction costs	-	(12)
Fair value adjustments and accrued dividends	-	2,618
Deferred tax liability	<u>-</u>	<u>2,606</u>
<i>Movements:</i>		
Opening balance	2,606	1,384
Charged to profit or loss	-	17
Debited to equity	-	1,205
Transfer to provision for income tax expense	<u>(2,606)</u>	<u>-</u>
Closing balance	<u>-</u>	<u>2,606</u>

**13. Equity - issued capital**

	2018 Shares	2017 Shares	2018 \$'000	2017 \$'000
Ordinary shares - fully paid	<u>24,247,481</u>	<u>25,770,370</u>	<u>300</u>	<u>38,419</u>

*Movements in ordinary share capital*

Details	Date	Shares	\$'000
Balance	1 July 2016	29,247,386	44,792
Issue of ordinary shares (i)	22 September 2016	142,880	250
Issue of ordinary shares (ii)	9 January 2017	88,675	161
Issue of ordinary shares (iii)	31 March 2017	121,637	234
Buyback of shares		(3,830,208)	(6,999)
Issue and buyback costs (net of tax)		-	(19)
Balance	30 June 2017	25,770,370	38,419
Issue of ordinary shares (iv)	25 September 2017	117,050	219
Issue of ordinary shares (v)	12 January 2018	111,416	215
Issue of ordinary shares (vi)	29 March 2018	188,364	360
Return of Capital (vii)		-	(35,205)
Buyback of shares		(1,939,719)	(3,694)
Issue and buyback costs (net of tax)		-	(14)
Balance	30 June 2018	<u>24,247,481</u>	<u>300</u>

(i) With respect to dividend paid on 22 September 2016, 142,880 ordinary shares were issued at \$1.75 per share.

(ii) With respect to dividend paid on 9 January 2017, 88,675 ordinary shares were issued at \$1.81 per share.

(iii) With respect to dividend paid on 31 March 2017, 121,637 ordinary shares were issued at \$1.92 per share.

(iv) With respect to dividend paid on 25 September 2017, 117,050 ordinary shares were issued at \$1.87 per share.

(v) With respect to dividend paid on 12 January 2018, 111,416 ordinary shares were issued at \$1.93 per share.

(vi) With respect to dividend paid on 29 March 2018, 188,364 ordinary shares were issued at \$1.91 per share.

(vii) With respect to the capital return of \$1.4519 per share.

**Australian Governance Masters Index Fund Limited**  
**Notes to the financial statements**  
**30 June 2018**

**13. Equity - issued capital (continued)**

*Ordinary shares*

Holders of ordinary shares participate in dividends and the proceeds on the winding up of the Company in proportion to the number of shares held.

At shareholder meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

*Capital risk management*

The Company's objective in managing capital is to continue to provide shareholders with dividends and capital appreciation over the longer term.

The Company's capital will fluctuate with prevailing market movements and it may undertake a buyback of its shares in the event that they trade at a sizable discount to Net Tangible Asset backing.

The Company's capital consists of shareholders' equity. The movement in equity is shown in the Statement of Changes in Equity. There are no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

Continuing with its-pre-existing buy-back program, the Company was granted shareholder approval at a General Meeting held on 20 November 2017 to purchase up to 25% of the shares on issue. During the year ended 30 June 2018, 1,939,719 shares were bought back at a total cost (excluding securities trade fees) of approximately \$3.7 million. This represents 7.5% of the share capital on issue at the end of the previous financial year.

As part of the Company restructure process approved by shareholders on 18 June 2018, to ensure that shareholders who voted against the Restructure resolutions were provided with an opportunity to exit their investment, the Company continued to buyback shares on-market up until close of trade on 21 June 2018.

**14. Equity - reserves**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Asset revaluation reserve	-	6,905
Capital profits reserve	-	900
	<u>-</u>	<u>7,805</u>

*Asset revaluation reserve*

Changes in fair value of financial assets at fair value through other comprehensive income, after provision of deferred tax, are recorded in this reserve.

*Capital profits reserve*

The capital profits reserve records realised gains and losses, after provision of deferred tax, from sale of investments which are transferred from asset revaluation reserve.

**Australian Governance Masters Index Fund Limited**  
**Notes to the financial statements**  
**30 June 2018**

**14. Equity - reserves (continued)**

*Movements in reserves*

Movements in each class of reserve during the current and previous financial year are set out below:

	Asset revaluation reserve \$'000	Capital profits reserve \$'000	Total \$'000
Balance at 1 July 2016	4,406	(222)	4,184
Gain on investment revaluations	4,835	-	4,835
Tax on the above	(1,214)	-	(1,214)
Transfer to capital profits reserve	(1,602)	1,602	-
Tax on the above	480	(480)	-
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2017	6,905	900	7,805
Gain on investment revaluations	3,299	-	3,299
Tax on the above	(1,225)	-	(1,225)
Transfer to capital profits reserve	(1,912)	1,912	-
Tax on the above	573	(573)	-
Transfer to retained earnings	(7,640)	(2,239)	(9,879)
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2018	-	-	-

**15. Equity - dividends**

*Dividends*

Dividends paid during the financial year were as follows:

	2018 \$'000	2017 \$'000
Fully franked dividend of 3.0 cents per share paid on 22 September 2016	-	862
Fully franked dividend of 2.0 cents per share paid on 9 January 2017	-	537
Fully franked dividend of 3.0 cents per share paid on 31 March 2017	-	785
Fully franked dividend of 3.0 cents per share paid on 25 September 2017	755	-
Fully franked dividend of 3.0 cents per share paid on 12 January 2018	747	-
Fully franked dividend of 5.0 cents per share paid on 29 March 2018	1,237	-
Fully franked dividend of 41.65 cents per share announced on 28 June 2018	10,099	-
	<hr/>	<hr/>
	12,838	2,184
	<hr/>	<hr/>

**Australian Governance Masters Index Fund Limited**  
**Notes to the financial statements**  
**30 June 2018**

**15. Equity - dividends (continued)**

*Franking credits*

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Franking credits available at the reporting date based on a tax rate of 30%	406	819
Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date based on a tax rate of 30%	3,893	-
Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date based on a tax rate of 30%	(4,328)	-
Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date based on a tax rate of 30%	126	147
	<u>97</u>	<u>966</u>
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>97</u>	<u>966</u>

The above amounts represent the balance of the franking account at the end of the reporting period, adjusted for:

- a. franking credits that will arise from the payment of the amount of provision for income tax;
- b. franking debits that will arise from the payment of dividends recognised as a liability at the end of the reporting period; and
- c. franking credits that will arise from the receipt of dividends recognised as receivables at the end of the reporting period.

On 28 June 2018, the AQF Board announced a distribution of \$1.87 per AQF share comprising a fully franked dividend of \$0.4165 and a capital return of \$1.4519 to be provided on 6 July 2018 (**effective date**) with respect to the resolutions approving the restructure of AQF passed by shareholders at the general meeting on 18 June 2018.

On effective date of the restructure, shareholders received one fully paid ordinary unit in the Australian Governance & Ethical Index Fund (**AGM**) for every ordinary share they held in AQF as at record date, being 5 July 2018.

Accordingly, no cash was paid to AQF shareholders in relation to this in-specie distribution. The issue price for these units was \$1.87 per unit.

**16. Reconciliation of profit after income tax to net cash from operating activities**

	<b>2018</b>	<b>2017</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax expense for the year	1,905	1,922
Change in operating assets and liabilities:		
Decrease in other receivables	53	70
Decrease in tax assets	56	17
(Decrease)/Increase in trade payables and accruals	(19)	17
	<u>1,995</u>	<u>2,026</u>
Net cash from operating activities	<u>1,995</u>	<u>2,026</u>

The Company does not have any formal loan facilities in place at the date of these financial statements (2017: Nil).

**Australian Governance Masters Index Fund Limited**  
**Notes to the financial statements**  
**30 June 2018**

**17. Related party transactions**

*Key management personnel*

Disclosures relating to key management personnel are set out in note 18 and the remuneration report included in the directors' report.

***Receivable from and payable to related parties***

***Management fee - Walsh & Company Asset Management Pty Limited***

Ms Nerida Cole is a director of the Company, and a director of Dixon Advisory Superannuation Services Limited and Dixon Advisory Group Limited, parent of Walsh & Company Asset Management Pty Limited.

For the period 1 July to 31 December 2017, the Manager received an annualised management fee of 0.49% (exclusive of GST), calculated with reference to the gross value of the Portfolio less fees payable to directors of the Company for the performance of their duties as directors and fees payable to the Auditor in connection with the audit of the annual financial statements and the review of the half-yearly financial statements of the Company.

The directors of the Company reached an agreement with the Investment Manager Walsh & Company Asset Management Pty Limited to revise the fee structure of the Company reducing the total expense ratio to 0.19% (Inclusive of GST, net of RITC) of gross assets from 0.49% (exclusive of GST and other expenses). The new fee structure came into effect from 1 January 2018.

The management fee paid or payable for the year ended 30 June 2018 was \$89,000, inclusive of GST (2017: \$165,000). The management fee owed by the Company to Walsh & Company Asset Management Pty Limited at 30 June 2018 was \$nil (2017: \$13,000).

The Directors of the Company are satisfied that the management fee is in line with market rates.

***Brokerage - Dixon Advisory & Superannuation Services Limited***

Ms Nerida Cole is a director of the Company and a director Dixon Advisory Superannuation Services Limited and Dixon Advisory Group Limited, parent of Dixon Advisory & Superannuation Services Limited.

Dixon Advisory & Superannuation Services Limited, a related entity of Walsh & Company Asset Management Pty Limited, is engaged as a broker by the company. As investment broker, Dixon Advisory & Superannuation Services Limited received brokerage of 0.25% (exclusive of GST), on all investment and buyback transactions.

From 1 March 2018, Dixon Advisory & Superannuation Services Limited received 0.25% (exclusive of GST) on all investment transactions and 0.5% (exclusive of GST) on all transactions relating to buybacks undertaken by Australian Governance Masters Index Fund Limited in managing the investment portfolio of the Company. During the year, the brokerage paid was \$52,000 (2017: \$52,000), inclusive of GST.

The directors of the Company are satisfied that the brokerage rate is in line with market rates.

***Terms and conditions***

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated.

**18. Key management personnel disclosures**

***Directors***

The following persons were directors of Australian Governance Masters Index Fund Limited during the financial year:

Jeffrey Robert Whalan	Independent non-executive chairman
Josephine Tan	Independent non-executive director
Ian Watt	Independent non-executive director
Nerida Cole	Non-executive director

**Australian Governance Masters Index Fund Limited**  
**Notes to the financial statements**  
**30 June 2018**

**18. Key management personnel disclosures (continued)**

*Compensation*

The aggregate compensation made to directors of the company is set out below:

	2018 \$	2017 \$
Short-term employee benefits	95,787	95,662
Post-employment benefits	4,349	4,338
	<u>100,136</u>	<u>100,000</u>

**19. Financial instruments**

***Financial risk management objectives***

The Company's financial instruments consist mainly of deposits with banks and long term investments. The main risks the Company is exposed to through its financial instruments are market price risk, credit risk and liquidity risk.

***Market risk***

*Market price risk*

Market price risk is the risk that changes in market prices such as interest rates and equity prices will affect the Company's income and the value of its holdings of financial instruments.

Inherently, the Company is not free of market price risk because it invests its capital in securities whose market prices can fluctuate.

Market risk is moderated by ensuring that the Company's investment portfolio is not over exposed to one company or a particular sector. The relative weightings of the individual securities are reviewed by the Board frequently.

The Company has performed sensitivity analysis relating to its exposure to its market price risk at the end of the reporting period. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a reasonably possible change in risk variable on these financial assets.

At 30 June, the effect on profit and equity as a result of changes in market price on financial assets at fair value through other comprehensive income, with all other variables remaining constant, would be as follows:

2018	% change	Effect on		% change	Effect on	
		profit before tax	Effect on equity		profit before tax	Effect on equity
Financial assets*	5%	<u>-</u>	<u>2,237</u>	(5%)	<u>-</u>	<u>(2,237)</u>
2017	% change	Effect on		% change	Effect on	
		profit before tax	Effect on equity		profit before tax	Effect on equity
Financial assets*	5%	<u>-</u>	<u>2,412</u>	(5%)	<u>-</u>	<u>(2,412)</u>

\*Financial assets are designated as at fair value through other comprehensive income.

**Australian Governance Masters Index Fund Limited**  
**Notes to the financial statements**  
**30 June 2018**

**19. Financial instruments (continued)**

***Credit risk***

The maximum exposure to credit risk, excluding the value of any collateral or other security, at the end of the reporting period to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements.

The Company does not have any material credit risk exposure to a single receivable or group of debtors under financial instruments entered into by the Company.

There are no amounts of collateral held as security at 30 June 2018 (2017: Nil).

***Liquidity risk***

Liquidity risk arises from the financial liabilities of the Company and the Company's subsequent ability to meet its obligations to repay their financial liabilities when they fall due.

The Company's exposure to liquidity risk is minimal. The Company has no borrowings as at 30 June 2018 (2017: Nil) and cash inflows from dividends are received to meet the operating expense obligations of the Company. Listed securities can be readily traded on the Australian Securities Exchange, in the case the Company needs to convert investments into cash.

***Fair value of financial instruments***

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

**20. Fair value measurement**

***Net fair values***

The net fair values of:

- other assets and other liabilities approximate their carrying value;
- listed securities included in "Equity Investments" are readily traded on the Australian Securities Exchange in a standardised form. The net fair value of listed securities is determined by valuing them at the last quoted sale price as at the end of the reporting period. The net fair value of investments is set out in note 8.

The aggregate net fair values and carrying amounts of financial assets and financial liabilities at the end of the reporting period are disclosed in the statement of financial position and in the notes to the financial statements.

AASB 13 'Fair Value Measurement' requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

<b>2018</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Financial assets at fair value through other comprehensive income</i>				
Equity investments	44,742	-	-	44,742
Total assets	44,742	-	-	44,742



**Australian Governance Masters Index Fund Limited**  
**Notes to the financial statements**  
**30 June 2018**

**20. Fair value measurement (continued)**

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>2017</b>				
<i>Financial assets at fair value through other comprehensive income</i>				
Equity investments	48,259	-	-	48,259
Total assets	48,259	-	-	48,259

There were no transfers between levels during the financial year.

**21. Contingent liabilities**

The directors are not aware of any potential liabilities or claims against the Company as at the date of these financial statements (2017: nil).

**22. Current liabilities - Dividends payable**

	2018 \$'000	2017 \$'000
Dividends payable	45,315	11

On 28, June 2018, the AQF Board announced, a distribution of \$1.87 per AQF share comprising a fully franked dividend of \$0.4165 per share and a capital return of \$1.4519 to be provided on 6 July (**effective date**) with respect to the resolutions approving the restructure of AQF passed by shareholders at the general meeting on 18 June 2018.

On effective date of the restructure, shareholders will receive one fully paid ordinary unit in the Australian Governance Ethical Index Fund (**AGM**) for every ordinary share they held in AQF as at record date, being 5 July 2018.

Accordingly, no cash will be paid to AQF shareholders in relation to this in-specie distribution. The issue price for these units is \$1.87 per unit.

**23. Remuneration of auditors**

During the financial year the following fees were paid or payable for services provided by William Buck, the auditor of the company:

	2018 \$	2017 \$
<i>Audit services - William Buck</i>		
Audit or review of the financial statements	38,900	37,700
<i>Other services - William Buck</i>		
Tax review	-	12,600
	38,900	50,300

Under the Management Agreement, the Manager, Walsh & Company Asset Management Pty Limited, is liable for all audit and accounting costs of the Company, hence there is no accrued liability for these expenses in the Company's financial statements.

**Australian Governance Masters Index Fund Limited**  
**Notes to the financial statements**  
**30 June 2018**

**24. Events after the reporting period**

On the Effective Date, the net assets of the Company were transferred to AGM and in exchange fully paid ordinary units were issued by AGM to shareholders of the Company for every ordinary share they held in the Company. The units were issued at Issue Price, equal to the \$1.87 per unit distribution announced on 28 June 2018.

As foreshadowed in the Notice of Meeting dated 17 May 2018, an application was made to ASX for the removal of the Company from the official list of ASX. The Company was removed effective at close of trade on 16 July 2018. Further, a notice of general meeting (dated 13 August 2018) has been sent to shareholders to consider resolutions to wind up the Company. The general meeting is expected to be held on 7 September 2018.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

**Australian Governance Masters Index Fund Limited**  
**Directors' declaration**  
**30 June 2018**

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the company's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



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Alex MacLachlan  
Chairman

30 August 2018

## Australian Governance Masters Index Fund Limited

### Independent auditor's report to the members

## Report on the Audit of the Financial Report

### Opinion

We have audited the financial report of Australian Governance Masters Index Fund Limited (the Company), which comprises the statement of financial position as at 30 June 2018, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and the directors' declaration.

In our opinion, the accompanying financial report of the Company, is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Company's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

### 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 are independent of the Company 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.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### CHARTERED ACCOUNTANTS & ADVISORS

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## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Fair Value Assessment of Investments	
Area of focus Refer also to notes 2(iii), 8 and 18	How our audit addressed it
<p>The Company's key business activity is investing in securities included in the S&amp;P/ASX 100. At 30 June 2018 the financial assets owned by the Company amounted to \$44,742,000 (2017: \$48,259,000).</p> <p>Given the volatility within the capital markets, this increases the risk associated with the fair value assessment of the investments held.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>— Evaluating the fair value calculations prepared by the company in light of current market conditions;</li> <li>— Obtaining external confirmation of the year end quantities of shares held in each investment; and</li> <li>— Assessing the adequacy of the Company's disclosures in respect of their investment portfolio.</li> </ul>

## Other Information

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2018, but does not include the financial report and the 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, 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 of the Company 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 Company 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 Company or to cease operations, or has 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 this financial report.

A further description of our responsibilities for the audit of these financial statements is located at the Auditing and Assurance Standards Board website at:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf)

This description forms part of our independent auditor's report.

## **Report on the Remuneration Report**

### **Opinion on the Remuneration Report**

We have audited the Remuneration Report included in pages 12 to 15 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Australian Governance Masters Index Fund Limited, for the year ended 30 June 2018, complies with section 300A of the *Corporations Act 2001*.

### **Responsibilities**

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

A handwritten signature in black ink that reads 'William Buck'.

William Buck  
Chartered Accountants  
ABN: 16 021 300 521

A handwritten signature in black ink that reads 'L.E. Tutt'.

L.E. Tutt  
Partner

Sydney, 30 August 2018

**Australian Governance Masters Index Fund Limited**  
**Corporate directory**  
**30 June 2018**

**Directors**

Mr Jeffrey Robert Whalan  
(Non-Executive Chairman)  
(retired 6 July 2018)

Ms Josephine Tan  
(Non-Executive Director)  
(retired 6 July 2018)

Dr Ian Watt  
(Non-Executive Director)  
(retired 6 July 2018)

Ms Nerida Cole  
(Non-Executive Director)  
(retired 6 July 2018)

Mr Alex MacLachlan  
(Non-Executive Chairman)  
(appointed 6 July 2018)

Mr Warwick Keneally  
(Non-Executive Director)  
(appointed 6 July 2018)

Ms Jaclyn Strelow  
(Non-Executive Director)  
(appointed 6 July 2018)

**Company Secretary**

Ms Hannah Chan

**Registered Office**

Level 15  
100 Pacific Highway  
North Sydney NSW 2060

Telephone                      Facsimile  
1300 454 801                      1300 457 349

**Principal Office**

Level 15  
100 Pacific Highway  
North Sydney NSW 2060

Telephone                      Facsimile  
1300 454 801                      1300 457 349  
Website: [www.governancemasters.com.au](http://www.governancemasters.com.au)

**Share Register managed by**

Boardroom Pty Limited  
Level 12  
225 George Street  
Sydney NSW 2000

Telephone                      Facsimile  
(02) 9290 9600                      (02) 9279 0664  
Website: [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au)

**Auditor**

William Buck  
Level 29  
66 Goulburn Street  
Sydney NSW 2000

Telephone                      Facsimile  
(02) 8263 4000                      (02) 8263 4111  
Website: [www.williambuck.com](http://www.williambuck.com)

**Bankers**

Macquarie Bank  
ANZ Bank