Audited Annual Report

# JPMorgan Global Research Enhanced Index Equity Fund (Hedged)

(ARSN 166 890 937)

30 June 2018

J.P.Morgan
Asset Management

# JPMorgan Global Research Enhanced Index Equity Fund (Hedged)

ARSN 166 890 937

## Annual report

## for the year ended 30 June 2018

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## for the year ended 30 June 2018

### Contents



These financial statements cover JPMorgan Global Research Enhanced Index Equity Fund (Hedged) as an individual entity.
The Responsible Entity of JPMorgan Global Research Enhanced Index Equity Fund (Hedged) is Perpetual Trust Services Limited (ABN 48 000 142 049).
The Responsible Entity's registered office is Level 18, 123 Pitt Street, Sydney, NSW 2000.

## Directors' report

The directors of Perpetual Trust Services Limited ("the Responsible Entity") of JPMorgan Global Research Enhanced Index Equity Fund (Hedged) (the "Fund"), present their report together with the financial statements, for the year ended 30 June 2018.

### Principal activities

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

The Fund continued to invest funds in accordance with the governing documents of the Fund and the provisions of the Fund's Constitution.

The Fund did not have any employees during the year.

There were no significant changes in the nature of the Fund's activities during the year.

### Directors

The following persons held office as directors of Perpetual Trust Services Limited during the year or since the end of the year and up to the date of this report:

| | |
|---|---|
| Andrew Cannane | Resigned as Director on 23 February 2018 |
| Glenn Foster | |
| Christopher Green | |
| Michael Vainauskas | |
| Andrew McIver | Alternate Director for Michael Vainauskas |
| Vicki Riggio | Appointed as Alternate Director for Christopher Green on 1 December 2017 |
| | Resigned as Alternate Director for Andrew Cannane on 23 February 2018 |
| | Resigned as Alternate Director for Christopher Green on 20 April 2018 |
| | Appointed as Director on 20 April 2018 |
| Rodney Ellwood | Resigned as Alternate Director for Christopher Green on 1 December 2017 |
| Gillian Larkins | Appointed as Alternate Director for Glenn Foster on 14 July 2017 |
| Neil Wesley | Resigned as Alternate Director for Glenn Foster on 14 July 2017 |
| Phillip Blackmore | Appointed as Alternate Director for Christopher Green and Vicki Riggio on 6 July 2018 |

### Review of operations

During the year, the Fund invested in accordance with target asset allocations as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

*Unit Redemption Prices*

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

| | **As at** | |
|---|---|---|
| | **30 June 2018 $** | 30 June 2017 $ |
| Redemption value of outstanding units | **4,087,821** | 1,085,482 |
| Adjustments for differences in valuation inputs | **-** | - |
| Net assets attributable to unitholders | **4,087,821** | 1,085,482 |

# Directors' report (continued)

**Results**

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

| | Year ended | |
|---|---|---|
| | **30 June 2018** | 30 June 2017 |
| Operating profit attributable to unitholders ($) | **188,164** | 134,658 |
| *Distributions* | | |
| Distribution paid and payable ($) | **184,776** | 8,647 |
| Distribution (cents per unit) | **5.47** | 0.90 |

**Significant changes in state of affairs**

The Fund has amended its Constitution to change the obligation to distribute trust income to unitholders effective 1 July 2017 as part of a process to become eligible to elect into the new Attribution Managed Investment Trust ("AMIT") tax regime.

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

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

Phillip Blackmore was appointed as an alternate director for Christopher Green and Vicki Riggio on 6 July 2018.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

(i) the operations of the Fund in future financial years, or

(ii) the results of those operations in future financial years, or

(iii) the state of affairs of the Fund in future financial years.

**Likely developments and expected results of operations**

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

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

**Indemnity and insurance of officers and auditors**

No insurance premiums were paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Perpetual Trust Services Limited or the auditors of the Fund. So long as the officers of Perpetual Trust Services Limited act in accordance with the Fund Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

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

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in Note 14 to the financial statements.

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

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

## Directors' report (continued)

**Interests in the Fund**

The movement in units on issue in the Fund during the year is disclosed in Note 9 to the financial statements.

The value of the Fund's assets and liabilities is disclosed on the Balance sheet and derived using the basis set out in Note 1 to the financial statements.

**Environmental regulation**

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

**Auditor's independence declaration**

A copy of the Auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 4.

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

Director

Sydney

17 September 2018

# *Auditor's Independence Declaration*

As lead auditor for the audit of JPMorgan Global Research Enhanced Index Equity Fund (hedged) for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

Chris Cooper
Partner
PricewaterhouseCoopers

Sydney
17 September 2018

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## Statement of comprehensive income

| | Note | Year ended 30 June 2018 $ | 30 June 2017 $ |
|---|---|---|---|
| ***Investment and other income*** | | | |
| Interest income | | **438** | 71 |
| Distribution income | | **30,214** | 10,483 |
| Net gains on financial instruments held at fair value through profit or loss | 6 | **163,372** | 126,007 |
| Management costs reimbursement | 14 | **79,081** | 69,864 |
| ***Total net investment and other income*** | | **273,105** | 206,425 |
| ***Expenses*** | | | |
| Management costs | 14 | **84,941** | 71,767 |
| ***Total operating expenses*** | | **84,941** | 71,767 |
| ***Operating profit*** | | **188,164** | 134,658 |
| ***Finance costs attributable to unitholders**** | | | |
| Distributions to unitholders | 10 | **-** | (8,647) |
| Increase in net assets attributable to unitholders | 9 | **-** | (126,011) |
| ***Profit for the year*** | | **188,164** | - |
| Other comprehensive income | | **-** | - |
| ***Total comprehensive income for the year*** | | **188,164** | - |

* Distributions to unitholders were presented as finance cost in the Statement of comprehensive income for the year ended 30 June 2017, and recognised in the Statement of changes in equity for the year ended 30 June 2018 together with the changes in net assets attributable to unitholders. Refer to Note 1 for further detail.

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

## Balance sheet

| | Note | As at 30 June 2018 $ | 30 June 2017 $ |
|---|---|---|---|
| ***Assets*** | | | |
| Cash and cash equivalents | 11 | **17,798** | 6,828 |
| Receivables | | **32,159** | 30,829 |
| Accrued income | | **84** | 8 |
| Financial assets held at fair value through profit or loss | 7 | **4,269,889** | 1,092,734 |
| ***Total assets*** | | **4,319,930** | 1,130,399 |
| ***Liabilities*** | | | |
| Distribution payable | 10 | **184,776** | 8,647 |
| Payables | | **31,699** | 36,270 |
| Due to brokers - payable for securities purchased | | **15,634** | - |
| ***Total liabilities (30 June 2017: excluding net assets attributable to unitholders)*** | | **232,109** | 44,917 |
| ***Net assets attributable to unitholders - equity**** | 9 | **4,087,821** | - |
| ***Net assets attributable to unitholders - liability**** | 9 | **-** | 1,085,482 |

* Net assets attributable to unitholders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017. Refer to Note 1 for further details.

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

## Statement of changes in equity

| | Note | Year ended 30 June 2018 $ | 30 June 2017 $ |
|---|---|---|---|
| ***Total equity at the beginning of the year*** | | **-** | - |
| Reclassification due to AMIT tax regime implementation* | | **1,085,482** | - |
| ***Comprehensive income for the year*** | | | |
| Profit for the year | | **188,164** | - |
| Other comprehensive income | | **-** | - |
| ***Total comprehensive income for the year*** | | **188,164** | - |
| ***Transactions with unitholders*** | | | |
| Applications | | **4,119,124** | - |
| Redemptions | | **(1,124,727)** | - |
| Units issued upon reinvestment of distributions | | **4,554** | - |
| Distributions paid and payable | 10 | **(184,776)** | - |
| ***Total transactions with unitholders*** | 9 | **2,814,175** | - |
| ***Total equity at the end of the year**** | | **4,087,821** | - |

* Effective from 1 July 2017, the Fund's units have been reclassified from financial liability to equity. Refer to Note 1 for further detail. As a result, equity transactions, including distributions have been disclosed in the above statement for the year ended 30 June 2018.

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

## Statement of cash flows

| | Note | Year ended 30 June 2018 $ | 30 June 2017 $ |
|---|---|---|---|
| ***Cash flows from operating activities*** | | | |
| Proceeds from sale of financial instruments held at fair value through profit or loss | | **1,049,245** | 2,000 |
| Purchase of financial instruments held at fair value through profit or loss | | **(4,017,180)** | (487,504) |
| Interest received | | **362** | 71 |
| Management costs reimbursement received | | **77,751** | 64,371 |
| Management costs paid | | **(89,512)** | (60,373) |
| ***Net cash outflow from operating activities*** | 12(a) | **(2,979,334)** | (481,435) |
| ***Cash flows from financing activities*** | | | |
| Proceeds from applications by unitholders | | **4,119,124** | 487,289 |
| Payments for redemptions by unitholders | | **(1,124,727)** | - |
| Distributions paid from operating activities | | **(4,093)** | - |
| ***Net cash inflow from financing activities*** | | **2,990,304** | 487,289 |
| ***Net increase in cash and cash equivalents*** | | **10,970** | 5,854 |
| Cash and cash equivalents at the beginning of the year | | **6,828** | 974 |
| ***Cash and cash equivalents at the end of the year*** | 11 | **17,798** | 6,828 |
| Non-cash financing activities | 12(b) | **4,554** | 714 |

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

## 1 General information

These financial statements cover JPMorgan Global Research Enhanced Index Equity Fund (Hedged) (the "Fund") as a registered managed scheme. The Fund was constituted on 13 November 2013.

The Responsible Entity of the Fund is Perpetual Trust Services Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 18, 123 Pitt Street, Sydney, NSW 2000. The financial statements are presented in the Australian currency.

The Investment Manager of the Fund is JPMorgan Asset Management (Australia) Limited, ABN 55 143 832 080 AFSL 376919 (the "Investment Manager"). The Investment Manager's registered office is Level 31, 101 Collins Street, Melbourne, VIC 3000.

The Fund invests substantially in the underlying sub-fund with a majority of its assets invested in equity securities of companies globally. Issuers of these securities are located in any country, including emerging markets. The investment policy of the Fund continues to be in accordance with the governing documents of the Fund and the provisions of the Fund's Constitution.

The financial statements were authorised for issue by the directors on 17 September 2018. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

***Reclassification of units from financial liability to equity***

On 5 May 2016, a new tax regime applying to Managed Investment Trusts ("MITs") was established under the Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016. The Attribution Managed Investment Trust ("AMIT") regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. In order to allow the Fund to elect into the AMIT tax regime, the Fund's constitution has been amended and the other conditions to adopt the AMIT tax regime have been met effective 1 July 2017. The Responsible Entity is therefore no longer contractually obligated to pay distributions. Consequently the units in the Fund have been reclassified from a financial liability to equity on 1 July 2017, see note 9 for further information.

## 2 Summary of significant accounting policies

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

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001* in Australia. The Fund is a for-profit unit trust for the purpose of preparing the financial statements.

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

The Balance sheet is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for financial assets at fair value through profit or loss and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months in relation to these balances cannot be reliably determined.

The Fund manages financial assets at fair value through profit or loss based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within 12 months, however, an estimate of that amount cannot be determined as at balance sheet date.

In the case of net assets attributable to unitholders, the units are redeemed on demand at the unitholders' option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within 12 months cannot be reliably determined.

*(i) Compliance with International Financial Reporting Standards*

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

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

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2017 that have a material impact on the Fund.

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments

*(i) Classification*

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

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

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold. These are investments in unlisted unit trusts.

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

*(ii) Recognition/derecognition*

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

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

*(iii) Measurement*

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

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of comprehensive income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of comprehensive income within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise.

For further details on how the fair values of financial instruments are determined please see Note 5 to the financial statements.

*(iv) Offsetting financial instruments*

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

### (c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders.

The units can be put back to the Fund at any time for cash based on the redemption price.

The units are carried at the redemption amount that is payable at balance sheet date if the holder exercises the right to put the unit back to the Fund. This amount represents the expected cash flows on redemption of these units.

Units are classified as equity when they satisfy the following criteria under AASB 132 *Financial instruments: Presentation:*

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Fund's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavorable conditions to the Fund, and it is not a contract settled in the Fund's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

As at 30 June 2017, net assets attributable to unitholders are classified as a financial liability. Effective from 1 July 2017, the Fund's units have been reclassified from financial liability to equity as they satisfied all the above criteria.

## 2 Summary of significant accounting policies (continued)

### (d) Cash and cash equivalents

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

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

### (e) Investment income

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

Trust distribution income is recognised on an entitlement basis.

### (f) Expenses

All expenses covered by management costs, including fees payable to the Responsible Entity and the Investment Manager, are recognised in the Statement of comprehensive income on an accruals basis.

### (g) Income tax

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

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

### (h) Distributions

In accordance with the Fund's Constitution, the Fund distributes income adjusted for amounts determined by the Responsible Entity and the Investment Manager, to unitholders by cash or reinvestment. The distributions are recognised in the Statement of changes in equity.

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

Income not distributed is included in net assets attributable to unitholders. Where the fund's units are classified as liabilities, movements in net assets attributable to unitholders are recognised in the Statement of comprehensive income as finance costs.

### (j) Foreign currency translation

*(i) Functional and presentation currency*

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

*(ii) Transactions and balances*

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

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

## 2 Summary of significant accounting policies (continued)

### (k) Due from/to brokers

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

### (l) Receivables and accrued income

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

### (m) Payables

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

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the Balance sheet when unitholders are presently entitled to the distributable income under the Fund's Constitution.

Distributions declared effective 30 June in relation to unitholders who have previously elected to reinvest distributions are recognised as reinvested effective 1 July of the following financial year.

### (n) Applications and redemptions

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

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

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services and investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of 55% or 75%; hence investment management fees, custodial fees and other expenses have been recognised in the Statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Balance sheet. Cash flows relating to GST are included in the Statement of cash flows on a gross basis.

### (p) Comparative revisions

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

### (q) Use of estimates

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

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

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

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to short term nature of these financial instruments.

## 2 Summary of significant accounting policies (continued)

**(r) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Fund. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

*(i) AASB 9 Financial Instruments ( effective 1 January 2018 )*

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The fund will be required to apply this standard from 1 July 2018.

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

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

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

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

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

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

## 3 Financial risk management

**(a) Overview**

The Fund's activities expose it to a variety of financial risks. The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Product Disclosure Statement. It also seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance. The management of these risks is conducted by the Fund's Investment Manager who manages the Fund's assets in accordance with its investment objective.

The Investment Manager of the Fund is aware of the risks associated with the business of investment management. A financial risk management framework has been established by the Fund's Investment Manager who conducts regular assessment processes in order to ensure that procedures and controls are adequately managing the risks arising from the Fund's investment activities.

This framework includes:

- Integrated computer systems and processes with checks and balances,
- Policies and procedures covering operations,
- Post trade investment compliance monitoring,
- Segregation of the dealing and investment management function from the administration and settlement function,
- An independent service provider for the valuation of securities, and
- A compliance function within the Investment Manager with a separate reporting line from the portfolio management team.

Compliance is integrated into the day to day operations of the Responsible Entity Services team, a Perpetual Corporate Trust (CT) business unit.

The Responsible Entity also has in place a framework to identify, control, report and manage compliance and business obligations, and to ensure that the interests of unitholders in the Fund are protected.

This framework includes:

- Policies and procedures,
- Committee and board reporting,
- Staff training,
- Formal service provider agreements,
- Compliance reporting by the Investment Manager, Investment Administrator and Custodian (the "Service Providers"),
- Regular reviews of Service Providers, and
- Monitoring of Responsible Entity Services compliance in accordance with Control Self-Assessment methodology.

Responsible Entity Services team is ultimately responsible for compliance monitoring. The Responsible Entity Services team includes the roles of Head of Responsible Entity Services, Senior Risk Manager, Senior Manager - Corporate Clients, Client Manager - Corporate Clients. Responsible Entity Services undertakes monitoring visits of the Fund's Service Providers, focusing on the general control environment and investment management, administration and custodial functions as provided to the Responsible Entity of the Fund. This is conducted to ensure that the Service Providers continue to satisfy their obligations as detailed within the relevant service agreement entered into with the Responsible Entity.

The discussion in this note relates to the risks of the Fund on the basis of the Fund's direct investments and not on a look-through basis to investments held via interposed investment funds.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ratings analysis for credit risk.

## 3 Financial risk management (continued)

**(b) Market risk**

*(i) Price risk*

The Fund invests substantially in units that correspond to the JPMorgan Funds - Global Research Enhanced Index Equity Fund (Hedged) (the "underlying Sub-Fund"). The Fund is directly exposed to equity securities price risk which arises from the investment in the underlying Sub-Fund for which the unit price in the future is uncertain. The underlying Sub-Fund invests in equity securities and derivatives. Any indirect exposure the Fund may have to the market risks of the investments made by the underlying Sub-Fund is captured within the price risk sensitivity analysis which is based on the Fund's direct investment in the underlying Sub-Fund.

The Fund has a significant concentration of risk arising from its exclusive investment in the underlying Sub-Fund. As at 30 June 2018, the Fund's investment in the underlying Sub-Fund represents 100% of the Fund's financial assets held at fair value through profit or loss.

The market risk in the underlying Sub-Fund is managed by JPMorgan Asset Management (UK) Limited taking into account the asset allocation of each holding of the underlying Sub-Fund in order to minimise the risk associated with particular countries or sectors while continuing to follow their respective investment objective, it achieves this primarily through the diversification of investments across investment types, industries and regions.

At 30 June, the fair value of equities exposed to price risk were as follows:

| | **As at** | |
|---|---|---|
| | **30 June 2018** | 30 June 2017 |
| | **$** | $ |
| Unlisted unit trusts designated at fair value through profit or loss | **4,269,889** | 1,092,734 |
| **Net Total** | **4,269,889** | 1,092,734 |

The table presented in Note 3(b) summarises the impact of an increase/decrease of 20% (2017: 20%) in the MSCI World Index (Total Return Net) Hedged to AUD (the "benchmark") on the Fund's net assets attributable to unitholders. The analysis is based on assumptions that the index increased/decreased by 20% (2017: 20%) with all other variables held constant and that the fair value of the Fund's portfolio held in the underlying Sub-Fund moved according to the historical returns with the benchmark index. The impact mainly arises from the reasonably possible changes in the fair value of the underlying Sub-Fund.

*(ii) Foreign exchange risk*

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

The Fund does not have any direct exposure to foreign exchange risk. Sensitivity analysis is not applicable.

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

The Fund does not have any exposure to interest rate risk, except for financial assets classified as cash and cash equivalents, which are at floating interest rate. The Fund also does not hold any investments in financial instruments with fixed or variable interest rates which would expose the Fund to fair value interest rate risk.

## 3 Financial risk management (continued)

**(c) Summarised sensitivity analysis**

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical correlation and/or high/low returns of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market movements resulting from changes in the performance of and/or correlation between the performances of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

| | Impact on operating profit and net assets attributable to unitholders | | | |
|---|---|---|---|---|
| | As at | | | |
| | **30 June 2018** | | 30 June 2017 | |
| | **+20%** | **-20%** | +20% | -20% |
| | **$** | **$** | $ | $ |
| **Price risk** | **853,978** | **(853,978)** | 218,547 | (218,547) |

**(d) Credit risk**

The Fund is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due.

The assets of the Fund principally consist of financial instruments which comprise investments in unlisted unit trusts with counterparties which have no direct credit ratings.

The main concentration of credit risk, to which the Fund is exposed, arise from the Fund's investment in the underlying Sub-Fund. The Fund is also exposed to counterparty credit risk on cash and cash equivalents and other receivables.

The Fund has a significant concentration of credit risk that arises from its exposure to a single counterparty in relation to its investments in unlisted international equity securities. The risk is managed by the Underlying Fund Manager and mitigated through investment diversification. The Underlying Fund Manager monitors investment diversification parameters as specified in the underlying Sub-Fund's governing documents.

The carrying amount of financial assets included in the Balance sheet represents the Fund's maximum exposure to credit risk in relation to these assets as at 30 June 2018 and 30 June 2017.

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of A or higher.

## 3 Financial risk management (continued)

**(e) Liquidity risk**

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions of redeemable units. The Fund primarily holds investments that are not traded in active markets.

Investments in unlisted unit trusts expose the Fund to the risk that the Responsible Entity or the Investment Manager or those trusts may be unwilling or unable to fulfill the redemption requests within the timeframe requested by the Fund. In order to manage the Fund's overall liquidity, the Responsible Entity has the discretion to reject an application for units and to defer or adjust redemption of units if the exercise of such discretion is in the best interests of unitholders. The Fund did not reject or withhold any redemption during 2018 or 2017.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period. The amounts in the table are contractual undiscounted cash flows. Units are redeemed on demand, at the unitholder's option. However, the directors do not envisage that the contractual maturity disclosed in the table will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

| **30 June 2018** | **Less than 1 month** | **1-6 months** | **6-12 months** | **Over 12 months** | **Total** |
|---|---|---|---|---|---|
| | **$** | **$** | **$** | **$** | **$** |
| Distribution payable | **184,776** | **-** | **-** | **-** | **184,776** |
| Payables | **31,699** | **-** | **-** | **-** | **31,699** |
| Due to brokers - payable for securities purchased | **15,634** | **-** | **-** | **-** | **15,634** |
| **Total** | **232,109** | **-** | **-** | **-** | **232,109** |

| 30 June 2017 | Less than 1 month | 1-6 months | 6-12 months | Over 12 months | Total |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| Distribution payable | 8,647 | - | - | - | 8,647 |
| Payables | 36,270 | - | - | - | 36,270 |
| Net assets attributable to unitholders | 1,085,482 | - | - | - | 1,085,482 |
| Total | 1,130,399 | - | - | - | 1,130,399 |

## 4 Offsetting financial assets and financial liabilities

Financial assets and liabilities are reported on a gross basis in the Balance sheet. The Fund did not hold any derivative instruments during the year ended 30 June 2018 (30 June 2017: Nil).

## 5 Fair value measurement

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

- Financial assets / liabilities designated at fair value through profit or loss (see Note 7)

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

AASB 13 requires disclosure of fair value measurements by level of the following fair value hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

*(i) Fair value in an active market (level 1)*

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in Note 2. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Fund holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm’s length basis.

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

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm’s length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

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

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

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

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

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

## 5 Fair value measurement (continued)

*Recognised fair value measurement*

The table below sets out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2018 and 30 June 2017.

| **30 June 2018** | **Level 1** | **Level 2** | **Level 3** | **Total** |
|---|---|---|---|---|
| | **$** | **$** | **$** | **$** |
| **Financial assets** | | | | |
| Financial assets designated at fair value through profit or loss: | | | | |
| Unlisted unit trusts | **-** | **4,269,889** | **-** | **4,269,889** |
| **Total** | **-** | **4,269,889** | **-** | **4,269,889** |

| 30 June 2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Financial assets | | | | |
| Financial assets designated at fair value through profit or loss: | | | | |
| Unlisted unit trusts | - | 1,092,734 | - | 1,092,734 |
| Total | - | 1,092,734 | - | 1,092,734 |

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

*Transfers between levels*

There have been no transfers between levels for the year ended 30 June 2018 (30 June 2017: Nil).

## 6 Net gains on financial instruments held at fair value through profit or loss

Net gains recognised in relation to financial assets held at fair value through profit or loss:

| | **Year ended** | |
|---|---|---|
| | **30 June 2018** | 30 June 2017 |
| | **$** | $ |
| **Financial assets** | | |
| Net unrealised gains on financial instruments designated at fair value through profit or loss | **86,258** | 125,888 |
| Net realised gains on financial instruments designated at fair value through profit or loss | **77,114** | 119 |
| **Total net gains on financial instruments held at fair value through profit or loss** | **163,372** | 126,007 |

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

| | As at | |
|---|---|---|
| | **30 June 2018** | 30 June 2017 |
| | **$** | $ |
| **Designated at fair value through profit or loss** | | |
| Unlisted unit trusts | **4,269,889** | 1,092,734 |
| Total designated at fair value through profit or loss | **4,269,889** | 1,092,734 |
| **Total financial assets held at fair value through profit or loss** | **4,269,889** | 1,092,734 |
| **Comprising:** | | |
| **Unlisted unit trusts** | | |
| International unlisted unit trusts | **4,269,889** | 1,092,734 |
| Total unlisted unit trusts | **4,269,889** | 1,092,734 |
| **Total financial assets held at fair value through profit or loss** | **4,269,889** | 1,092,734 |

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

## 8 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual arrangements.

An interest in a structured entity is any form of contractual or non-contractual arrangement with an entity which creates variability in returns from the performance of the arrangement for the Fund.

The Fund may invest in related and unrelated managed funds and considers these underlying fund investments to be interests in structured entities. The Fund generally has no involvement with these structured entities other than the securities it holds as part of its investments. The maximum exposure to loss on investments in structured entities is restricted to the carrying value of the asset.

The exposure to investments in related investment funds are summarised in Note 14. These investments are managed in accordance with financial risk management practices as set out in Note 3.

## 9 Net assets attributable to unitholders

Under AASB 132 Financial instruments: Presentation, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Fund shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

Prior to 1 July 2017 the fund classified its net assets attributable to unitholders as liabilities in accordance with AASB 132. On 1 July 2017, the Fund has elected into the AMIT tax regime. The Fund's constitution has been amended on the same date and it no longer has a contractual obligation to pay distributions to unitholders. Therefore the net assets attributable to unitholders of the Fund meet the criteria set out under AASB 132 and are classified as equity from 1 July 2017 onwards.

As a result of the reclassification of net assets attributable to unitholders from liabilities to equity, the Fund’s distributions are no longer classified as finance cost in the statement of comprehensive income, but rather as distributions paid in the statement of changes in equity.

## 9 Net assets attributable to unitholders (continued)

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

| | **As at** | | | |
|---|---|---|---|---|
| | **30 June 2018** | 30 June 2017 | **30 June 2018** | 30 June 2017 |
| | **No.** | No. | **$** | $ |
| Opening balance* | **956,336** | 502,844 | **1,085,482** | 471,469 |
| Applications | **3,333,085** | 452,731 | **4,119,124** | 487,288 |
| Redemptions | **(913,911)** | - | **(1,124,727)** | - |
| Units issued upon reinvestment of distributions | **4,012** | 761 | **4,554** | 714 |
| Profit for the year | **-** | - | **188,164** | - |
| Distributions paid and payable | **-** | - | **(184,776)** | - |
| Increase in net assets attributable to unitholders | **-** | - | **-** | 126,011 |
| **Closing balance*** | **3,379,522** | 956,336 | **4,087,821** | 1,085,482 |

*Net assets attributable to unitholders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017. Refer to Note 1 for further details.

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

**Capital risk management**

The Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Responsible Entity and the Investment Manager. Under the terms of the Fund Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

## 10 Distributions to unitholders

The distributions for the year were as follows:

| | **Year ended** | | | |
|---|---|---|---|---|
| | **30 June 2018** | | 30 June 2017 | |
| | **$** | **CPU** | $ | CPU |
| Distributions payable | | | | |
| – 30 June | **184,776** | **5.47** | 8,647 | 0.90 |
| | **184,776** | | 8,647 | |

## 11 Cash and cash equivalents

| | As at | |
|---|---|---|
| | **30 June 2018** | 30 June 2017 |
| | **$** | $ |
| Domestic cash at bank | **17,798** | 6,828 |
| **Total cash and cash equivalents** | **17,798** | 6,828 |

## 12 Reconciliation of operating profit to net cash outflow from operating activities

| | Year ended | |
|---|---|---|
| | **30 June 2018** | 30 June 2017 |
| | **$** | $ |
| **(a) Reconciliation of operating profit to net cash outflow from operating activities** | | |
| Operating profit for the year | **188,164** | 134,658 |
| Net gains on financial instruments held at fair value through profit or loss | **(163,372)** | (126,007) |
| Proceeds from sale of financial instruments held at fair value through profit or loss | **1,049,245** | 2,000 |
| Purchase of financial instruments held at fair value through profit or loss | **(4,017,180)** | (487,504) |
| Net change in accrued income and receivables | **(1,406)** | (4,468) |
| Net change in payables | **(4,571)** | 10,369 |
| Trust Distributions reinvested | **(30,214)** | (10,483) |
| ***Net cash outflow from operating activities*** | **(2,979,334)** | (481,435) |
| **(b) Non-cash financing and investing activities** | | |
| During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan | **4,554** | 714 |

## 13 Remuneration of auditors

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

| | Year ended | |
|---|---|---|
| | **30 June 2018** | 30 June 2017 |
| | **$** | $ |
| **PricewaterhouseCoopers** | | |
| Audit and other assurance services | | |
| Audit of financial statements | **8,500** | 8,323 |
| Audit of compliance plan | **2,135** | 3,968 |
| Total remuneration for audit and other assurance services | **10,635** | 12,291 |

All audit fees are borne by the Fund and included in its management costs.

## 14 Related party transactions

**Responsible Entity**

The Responsible Entity of the Fund is Perpetual Trust Services Limited (ABN 48 000 142 049).

**Key management personnel**

Key management personnel includes persons who were directors of Perpetual Trust Services Limited at any time during the financial year as follows:

| | |
|---|---|
| Andrew Cannane | Resigned as Director on 23 February 2018 |
| Glenn Foster | |
| Christopher Green | |
| Michael Vainauskas | |
| Andrew McIver | Alternate Director for Michael Vainauskas |
| Vicki Riggio | Appointed as Alternate Director for Christopher Green on 1 December 2017 |
| | Resigned as Alternate Director for Andrew Cannane on 23 February 2018 |
| | Resigned as Alternate Director for Christopher Green on 20 April 2018 |
| | Appointed as Director on 20 April 2018 |
| Rodney Ellwood | Resigned as Alternate Director for Christopher Green on 1 December 2017 |
| Gillian Larkins | Appointed as Alternate Director for Glenn Foster on 14 July 2017 |
| Neil Wesley | Resigned as Alternate Director for Glenn Foster on 14 July 2017 |
| Phillip Blackmore | Appointed as Alternate Director for Christopher Green and Vicki Riggio on 6 July 2018 |

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

**Management costs and other transactions**

Under the terms of the Fund Constitution, the management costs comprise of the management fees payable to the Responsible Entity and the Investment Manager as well as the expenses of the Fund such as costs associated with custody and administration of the Fund, costs associated with the provision of legal and tax services for the Fund and any incidental expenses.

The management costs are capped at 0.25% (2017: 0.25%) per annum of the net asset value of the Fund, accruing daily and payable in arrears. Where actual expenses result in the management costs exceeding 0.25% (2017: 0.25%) of the net asset value of the Fund for the year, such expenses will be paid out of the assets of the Fund and the difference reimbursed back to the Fund by the Investment Manager. The costs are inclusive of GST and net of any applicable input tax credits and reduced input tax credit.

During the year the Investment Manager reimbursed $49,255 (2017: $41,172) into the Fund and $29,826 (2017: $28,962) as reimbursement receivable will be paid when the invoices are due to ensure the management cost cap was not exceeded.

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

| | **Year ended** | |
|---|---|---|
| | **30 June 2018** | 30 June 2017 |
| | **$** | $ |
| Management costs for the year | **84,941** | 71,767 |
| Management costs reimbursements for the year | **79,081** | 69,864 |
| Net management costs for the year | **5,860** | 1,903 |

## 14 Related party transactions (continued)

**Key management personnel unitholdings**

As at 30 June 2018 and 30 June 2017, no key management personnel held units in the Fund.

**Key management personnel remuneration**

Key management personnel are paid by Responsible Entity. Payments made from the Fund do not include any amounts directly attributable to key management personnel remuneration.

**Key management personnel loan disclosures**

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

**Related party unitholdings**

Parties related to the Fund including Perpetual Trust Services Limited or the Investment Manager, JPMorgan Asset Management (Australia) Limited, their affiliates or other funds managed by these entity's held units in the Fund as follows:

| **30 June 2018** | **Number of units held opening** | **Number of units held closing** | **Fair value of investments** | **Interest held** | **Number of units acquired** | **Number of units disposed** | **Distribution paid/payable by the Fund** |
|---|---|---|---|---|---|---|---|
| **Unitholder** | **Units** | **Units** | **$** | **%** | **Units** | **Units** | **$** |
| JPMorgan Asset Management (Australia) Limited | **503,605** | **-** | **-** | **-** | **4,012** | **(507,617)** | **-** |

| 30 June 2017 | Number of units held opening | Number of units held closing | Fair value of investments | Interest held | Number of units acquired | Number of units disposed | Distribution paid/payable by the Fund |
|---|---|---|---|---|---|---|---|
| Unitholder | Units | Units | $ | % | Units | Units | $ |
| JPMorgan Asset Management (Australia) Limited | 502,844 | 503,605 | 571,592 | 53.00 | 761 | - | 4,554 |

**Related party investments**

The Fund held investments in the following funds which were also managed by the Investment Manager, JPMorgan Asset Management (Australia) Limited or its related parties:

| **30 June 2018** | **Fair value of Investment** | **Interest Held** | **Distribution received/ receivable** | **Number of units acquired** | **Number of units disposed** |
|---|---|---|---|---|---|
| **Investment** | **$** | **%** | **$** | **Units** | **Units** |
| JPM Global Research Enhanced Index Equity X (dist) – AUD (hedged) | **4,269,889** | **0.57** | **30,214** | **335,519** | **(87,319)** |
| | **4,269,889** | | **30,214** | **335,519** | **(87,319)** |

| 30 June 2017 | Fair value of Investment | Interest Held | Distribution received/ receivable | Number of units acquired | Number of units disposed |
|---|---|---|---|---|---|
| Investment | $ | % | $ | Units | Units |
| JPM Global Research Enhanced Index Equity X (dist) – AUD (hedged) | 1,092,734 | 0.16 | 10,483 | 46,972 | (189) |
| | 1,092,734 | | 10,483 | 46,972 | (189) |

## 14 Related party transactions (continued)

**Related party investments (continued)**

The fair value of financial assets $4,269,889 (2017: $1,092,734) is included in financial assets at fair value through profit or loss in the balance sheet.

The proportion of ownership interest is equal to the proportion of the voting power held.

The Fund's maximum exposure to loss from its interest in investee funds is equal to the total fair value of its investments in the investee funds as there are no off balance sheet exposure relating to any of the investee funds. Once the fund has disposed of its shares in an investee fund, it ceases to be exposed to any risk from that investee fund.

The Fund did not hold any investments in the Responsible Entity during the year.

**Other transactions within the Fund**

Apart from those details disclosed in this Note, no directors have entered into a material contract with the Fund during the financial year and there were no material contracts involving director's interests subsisting at year end 30 June 2018 (30 June 2017: Nil).

JPMorgan Chase Bank, N.A., Sydney Branch provides Custody, Fund Administration and Registry Services to the Fund.

## 15 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the Balance sheet as at 30 June 2018 or on the results and cash flows of the Fund for the year ended on that date.

## 16 Contingent assets, liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2018 (30 June 2017: Nil).

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 5 to 25 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, *the Corporations Regulations 2001* and other mandatory professional reporting requirements; and

   (ii) giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its performance for the financial year ended on that date;

(b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and

(c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

Director

Sydney
17 September 2018

# *Independent auditor's report*

To the unitholders of JPMorgan Global Research Enhanced Index Equity Fund (hedged)

## *Our opinion*

In our opinion:

The accompanying financial report of JPMorgan Global Research Enhanced Index Equity Fund (hedged) (the Registered Scheme) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Registered Scheme's financial position as at 30 June 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001.*

### *What we have audited*

The financial report comprises:

- the balance sheet as at 30 June 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the cash flow statement for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors of the Responsible Entity's declaration.

## *Basis for opinion*

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

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

### *Independence*

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

## *Other information*

The Directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Annual report for the year ended 30 June 2018, including the Directors' report, but does not include the financial report and our auditor's report thereon.

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

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

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

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

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

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

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

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Chris Cooper
Partner

Sydney
17 September 2018

For further information concerning J.P. Morgan Funds, please contact the J.P. Morgan Funds Team:

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