



360 CAPITAL TOTAL RETURN ACTIVE FUND **ARSN 602 303 613**

Financial Report **For the year ended 30 June 2019**

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360 Capital Total Return Active Fund
Responsible Entity report
For the year ended 30 June 2019

The Directors of 360 Capital FM Limited (CFML) (ABN 15 090 664 396) (AFSL No 221474), the Responsible Entity, present their report together with the financial report of 360 Capital Total Return Active Fund ARSN 602 303 613 (Fund) (Active Fund) for the year ended 30 June 2019.

The Active Fund forms part of the stapled entity, 360 Capital Total Return Fund (Stapled Fund) (ASX: TOT) comprising 360 Capital Total Return Passive Fund (Passive Fund) (Parent Entity) ARSN 602 304 432 and its controlled entities and 360 Capital Total Return Active Fund.

Directors

The following persons were Directors of 360 Capital FM Limited during the year up to the date of this report, unless otherwise stated:

David van Aanholt (Chairman)
Tony Robert Pitt
William John Ballhausen
Graham Ephraim Lenzner
Andrew Graeme Moffat

Principal activities

The Stapled Fund listed on the Australian Stock Exchange (ASX) in April 2015 as a unique, opportunistic fund investing in various forms of Australian real estate assets. The Fund's objective is to deliver a total return of 12.0% plus per annum through disciplined investment in a broad range of real estate opportunities. The Fund is currently focused on the real estate debt sector.

Wide Real Estate Mandate

- repositioning assets
- investing in investment properties
- underwriting potential capital raisings including syndicates and both unlisted and listed funds
- strategic positions in unlisted funds
- capitalising on mispriced trading opportunities AREIT sector
- participating in mergers and acquisition activities
- special situations within markets including distressed sales, investments with restructuring potential, and providing loans.

Where is TOT Investing?

- TOT has been investing in real estate debt for the past two years as the Banking Royal Commission and changes to prudential regulation created a significant non-bank lending opportunity
- TOT has recommenced investing in equity through its investment in URB Investments (ASX: URB) at a discount to its Net Tangible Assets

Operating and financial review

The Fund's statutory net profit attributable to unitholders for the year ended 30 June 2019 was \$295,273 (2018: \$390,898).

The Fund's statutory balance sheet as at 30 June 2019 had total assets of \$15.3 million (2018: \$12.0 million).

360 Capital Total Return Active Fund
Responsible Entity report
For the year ended 30 June 2019

Operating and financial review (continued)

Debt origination and management joint venture

The Fund holds a 50% stake in AMF Finance Pty Limited (AMF). AMF originates alternative lending and structured financing solutions to Australian real estate investors and developers and receives all establishment fees on development transactions written by 360 Capital Group entities, including TOT.

AMF has begun to establish itself as a major non-bank real estate debt originator. AMF has built strong relationships with the Australian banks and over 100 accredited brokers, and these relationships have delivered a strong track record to-date and are providing a robust and growing pipeline of transaction opportunities over time. This revenue stream will add to the Fund's active earnings.

URB Investment

During the year, TOT recommenced investing in equity through its investment in URB Investments (ASX: URB) at a discount to its Net Tangible Asset value. At the balance date, TOT had acquired a 6.3% stake in URB for \$4.5 million and subsequent to balance date had invested a further \$4.0 million and increased its stake to 11.3%¹.

Outlook

The Fund's strategy remains focused on identifying unique real estate based investment opportunity with a target total return hurdle of 12% per annum. The Fund has a deliberately broad mandate to enable it to pursue attractive investments across all sectors of real estate across debt and equity investments in direct and indirect property assets.

Distributions

The Fund did not declare any distributions during the year.

Significant changes in state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of 360 Capital Total Return Active Fund that occurred during the year under review other than those listed above or elsewhere in the Responsible Entity's report.

Likely developments and expected results of operations

The Fund will continue to invest in real estate based activities and actively manage a diversified portfolio of investments as outlined in the Stapled Fund's Product Disclosure Statement (PDS) dated 17 March 2015.

Events subsequent to balance date

Subsequent to balance date the Fund had invested a further \$4.0 million into its investment in URB and increased its stake to 11.3%¹.

No other circumstances have arisen since the end of the year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

Environmental Issues

The Fund complied with all environmental regulations during the course of the financial year.

Buy back arrangements

As detailed in the Fund constitution, the Responsible Entity is not under any obligation to buy back, purchase or redeem units from stapled securityholders. During the year ended 30 June 2019 the Fund did not buy back and cancel any units (2018: 71,133).

¹ Based on TOT's holding on 20 August 2019

360 Capital Total Return Active Fund
Responsible Entity report
For the year ended 30 June 2019

Distribution Reinvestment Plan

During the year the Fund introduced a Distribution Reinvestment Plan (DRP) which was activated from the September 2018 quarterly distribution to the March 2019 quarterly distribution. The Fund issued 4.4 million securities and raised a total of \$5.2 million under the DRP during the year. Securities were issued at a 1.5% discount to the Fund's 10 day weighted average trading price as per the Fund's DRP policy.

Units issued in the Fund

During the year the Fund issued 4,371,752 new units under the Distribution Reinvestment Plan (DRP) (2018: Nil).

Number of interests on issue

As at 30 June 2019 the number of units on issue in the Fund was 70,225,399 (2018: 65,853,647).

Fees, commissions or other charges by the Responsible Entity or Related Parties of the Responsible Entity

All fees payable to the Responsible Entity or its related parties are detailed in Note 17 to the financial statements.

Units held by the Responsible Entity or Related Parties of the Responsible Entity

As at 30 June 2019 related parties of the Responsible Entity held units in the Fund, as detailed in Note 17 to the financial statements.

Indemnification and insurance of Directors and Officers

During or since the end of the financial year, the Responsible Entity has paid insurance premiums to insure each of the aforementioned Directors as well as Officers of the Responsible Entity of the Fund against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in their capacity of the Responsible Entity, other than conduct involving a wilful breach of duty in relation to the Responsible Entity.

The Responsible Entity has not otherwise, during or since the end of the financial year indemnified or agreed to indemnify an officer of the Responsible Entity.

Indemnification of auditors

To the extent permitted by law, the Fund has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Non-audit services

Disclosed in Note 15 are the non-audit services provided by the Fund's auditors. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Auditor's independence declaration

The auditor's independence declaration required under Section 307C of the Corporations Act 2001 is set out on page 6 and forms part of the Responsible Entity's report for the year ended 30 June 2019.

Rounding of amounts

360 Capital Total Return Active Fund is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC). In accordance with that Instrument, amounts in the annual financial report and Responsible Entity report have been rounded to the nearest thousand dollars, unless otherwise stated.

360 Capital Total Return Active Fund
Responsible Entity report
For the year ended 30 June 2019

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



David van Aanholt
Chairman

Sydney
21 August 2019



Tony Robert Pitt
Managing Director

Auditor's Independence Declaration to the Directors of 360 Capital FM Limited as Responsible Entity for 360 Capital Total Return Active Fund

As lead auditor for the audit of the financial report of 360 Capital Total Return Active Fund for the financial year ended 30 June 2019, I declare 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.



Ernst & Young



Mark Conroy
Partner
21 August 2019

360 Capital Total Return Active Fund
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019

| | | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
|--|-------------|------------------------------------|------------------------------------|
| | Note | | |
| Revenue from continuing operations | | | |
| Finance revenue | | 99 | 105 |
| Total revenue from continuing operations | | 99 | 105 |
| Other income | | | |
| Share of equity accounted profits | | 45 | 352 |
| Net gain on fair value of financial assets | 4 | 270 | - |
| Other income | | 139 | - |
| Total other income | | 454 | 352 |
| Total revenue from continuing operations and other income | | 553 | 457 |
| Management fees | 17 | 89 | 80 |
| Administration expenses | | 100 | 97 |
| Transaction costs | | 9 | - |
| Profit from continuing operations before tax | | 355 | 280 |
| Income tax expense/(benefit) | 2 | 60 | (111) |
| Profit for the year | | 295 | 391 |
| Total comprehensive income for the year | | 295 | 391 |

Earnings per unit for continuing operations
attributable to the unitholders of 360 Capital Total Return Active
Fund

| | | cents | cents |
|-----------------------------------|----|--------------|--------------|
| Basic and diluted profit per unit | 16 | 0.4 | 0.6 |

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

360 Capital Total Return Active Fund
Statement of financial position
As at 30 June 2019

| | | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
|---|-------------|------------------------------------|------------------------------------|
| | Note | | |
| Current assets | | | |
| Cash and cash equivalents | 9 | 9,530 | 10,609 |
| Receivables | 3 | 472 | 952 |
| Total current assets | | 10,002 | 11,561 |
| Non-current assets | | | |
| Investments equity accounted | 5 | 397 | 352 |
| Deferred tax assets | 6 | 51 | 111 |
| Financial assets at fair value through profit or loss | 4 | 4,819 | - |
| Total non-current assets | | 5,267 | 463 |
| Total assets | | 15,269 | 12,024 |
| Current liabilities | | | |
| Trade and other payables | 7 | 2,178 | 34 |
| Total current liabilities | | 2,178 | 34 |
| Total liabilities | | 2,178 | 34 |
| Net assets | | 13,091 | 11,990 |
| Equity | | | |
| Issued capital – ordinary units | 8 | 12,755 | 11,949 |
| Retained earnings | | 336 | 41 |
| Total equity | | 13,091 | 11,990 |

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

360 Capital Total Return Active Fund
Statement of changes in equity
For the year ended 30 June 2019

| | Note | Issued capital \$ | Retained earnings \$ | Total equity \$ |
|---|-------------|----------------------------------|-------------------------------------|----------------------------|
| Balance at 1 July 2018 | | 11,949 | 41 | 11,990 |
| Total comprehensive income for the year | | - | 295 | 295 |
| Transactions with unitholders in their capacity as unitholders | | | | |
| Issued units - DRP | 8 | 811 | - | 811 |
| Equity raising transaction costs | 8 | (5) | - | (5) |
| | | 806 | - | 806 |
| Balance at 30 June 2019 | | 12,755 | 336 | 13,091 |
| | | | | |
| Balance at 1 July 2017 | | 11,975 | (350) | 11,625 |
| Total comprehensive income for the year | | - | 391 | 391 |
| Transactions with unitholders in their capacity as unitholders | | | | |
| Unit buy back | 8 | (12) | - | (12) |
| Equity raising transaction costs | 8 | (14) | - | (14) |
| | | (26) | - | (26) |
| Balance at 30 June 2018 | | 11,949 | 41 | 11,990 |

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

360 Capital Total Return Active Fund
Statement of cash flows
For the year ended 30 June 2019

| | | 30 June | 30 June |
|--|-------------|----------------|----------------|
| | | 2019 | 2018 |
| | Note | \$ | \$ |
| Cash flows from operating activities | | | |
| Cash receipts from customers (inclusive of GST) | | 102 | - |
| Cash payments to suppliers (inclusive of GST) | | (192) | (169) |
| Finance revenue | | 99 | 105 |
| Net cash inflows/(outflows) from operating activities | 9 | 9 | (64) |
| Cash flows from investing activities | | | |
| Payments for other financial assets | | (2,423) | - |
| Net cash outflows from investing activities | | (2,423) | - |
| Cash flows from financing activities | | | |
| Proceeds from issue of capital | | 811 | - |
| Payment of transaction costs to issue capital | | (5) | (10) |
| Payments for buy back of units | | - | (12) |
| Proceeds from loan to related party | | 529 | 4,280 |
| Net cash inflows from financing activities | | 1,335 | 4,258 |
| Net (decrease)/increase in cash and cash equivalents | | (1,079) | 4,194 |
| Cash and cash equivalents at the beginning of the year | | 10,609 | 6,415 |
| Cash and cash equivalents at the end of the year | 9 | 9,530 | 10,609 |

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

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

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360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Financial Information

This section provides additional information about those individual line items in the financial statements that the directors consider most relevant in the context of the operations of the Fund.

Note 1: Distributions

The Fund did not declare or pay any distributions during the year.

Note 2: Income tax expense

The Fund calculates income tax expense using the tax rate applicable to the expected total annual earnings. The major components of income tax expense during the year are:

| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
|--|---------------------------|---------------------------|
| Profit before tax attributable to stapled securityholders | 355 | 391 |
| Income tax expense at the effective corporate rate of 27.5% | 98 | 108 |
| <u>Increase/(decrease) in income tax expense due to:</u> | | |
| Equity raising costs | (30) | (29) |
| Transaction costs | 2 | - |
| Equity accounted profits | (12) | (97) |
| Other tax adjustments | 2 | (29) |
| Income tax expense | 60 | - |
| Adjustment for current tax of prior years | - | (64) |
| Income tax expense/(benefit) recognised in the statement of profit or loss | 60 | (111) |

In the prior year, the Active Fund recognised \$64,401 of tax losses from the year ended 30 June 2017 which had previously not been recognised, in addition to recognising \$46,460 in tax losses for the year ended 30 June 2018. In prior years, the Active Fund and Passive Fund were not liable for income tax as their taxable income and taxable capital gains were fully distributed to securityholder each year. The Active Fund commenced trading activities through its investment in AMF and as a result is likely to be liable to pay income tax in the future.

Note 3: Receivables

| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
|-------------------------------|---------------------------|---------------------------|
| Current | | |
| Trade receivables | 50 | - |
| GST receivable | - | 1 |
| Related party loan receivable | 422 | 951 |
| | 472 | 952 |

a) Fair values

The receivables are carried at amounts that approximate their fair value. There are no receivables where the fair value would be materially different from the carrying value.

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Note 3: Receivables (continued)

b) Credit risk

There is a limited amount of credit risk - refer to Note 12 for more information on the risk management policy of the Fund.

Note 4: Financial assets at fair value through the profit or loss

| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
|--------------------------------------|------------------------------------|------------------------------------|
| Non-current | | |
| Units in listed investment companies | 4,819 | - |
| | 4,819 | - |
| Total | 4,819 | - |

Movements in the carrying value during the year are as follows:

| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
|---|------------------------------------|------------------------------------|
| Balance at 1 July | - | - |
| Financial assets acquired – on market | 4,549 | - |
| Fair value adjustment of financial assets | 270 | - |
| Closing balance | 4,819 | - |

Note 5: Investments equity accounted

| | 30 June 2019 % | 30 June 2018 % | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
|-------------------------|-------------------------------|-------------------------------|------------------------------------|------------------------------------|
| Joint venture | | | | |
| AMF Finance Pty Limited | 50 | 50 | 397 | 352 |

The Fund holds a 50% stake in AMF Finance Pty Limited (AMF). AMF originates alternative lending and structured financing solutions to Australian real estate investors and developers and receives all establishment fees on development transactions written by 360 Capital Group entities, including TOT and other private client development funding. The other 50% stake is held by 360 Capital Group.

Reconciliation of movements in equity accounted investments for the year are as follows:

| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
|--------------------------------------|------------------------------------|------------------------------------|
| AMF Finance Pty Limited | | |
| Opening balance – 1 July | 352 | - |
| Equity accounted profit for the year | 45 | 352 |
| Closing Balance | 397 | 352 |

| | Assets \$'000 | Liabilities \$'000 | Revenues \$'000 | Profit/(loss) \$'000 |
|----------------------------------|--------------------------|-------------------------------|----------------------------|---------------------------------|
| AMF Finance Joint Venture | | | | |
| Year Ended 30 June 2019 | 866 | 73 | 877 | 90 |
| Year Ended 30 June 2018 | 1,081 | 378 | 1,373 | 703 |

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Note 6: Deferred tax assets and liabilities

| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
|--|------------------------------------|------------------------------------|
| Deferred tax assets comprises temporary differences attributable to: | | |
| Tax losses | 125 | 111 |
| | 125 | 111 |
| Deferred tax liabilities comprises temporary differences attributable to: | | |
| Unrealised gain on investment | 74 | - |
| | 74 | - |
| Net deferred tax assets | 51 | 111 |

A reconciliation of the carrying amount of deferred tax assets and liabilities movements during the year is set out below:

| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
|---|------------------------------------|------------------------------------|
| Balance at 1 July | 111 | - |
| Recognition of prior year tax losses not brought to account | - | 64 |
| Recognition of timing differences | (74) | - |
| Tax losses | 14 | 47 |
| Closing balance | 51 | 111 |
| Net deferred tax assets expected to reverse within 12 months | 125 | 111 |
| Net deferred tax assets expected to reverse after more than 12 months | (74) | - |
| | 51 | 111 |

For further information on recognition of deferred tax balances refer to Note 2.

Note 7: Trade and other payables

| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
|-----------------------------|------------------------------------|------------------------------------|
| Trade payables and accruals | 2,178 | 92 |
| | 2,178 | 92 |

Included in trade payables is a \$2.1 million contract note relating to the purchase of URB shares on 28 June 2019. All trade and other payables are expected to be settled within 12 months.

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Note 8: Equity

(a) Issued capital

| | 30 June 2019 000's | 30 June 2018 000's |
|--|-----------------------------------|-----------------------------------|
| 360 Capital Total Return Active Fund - Ordinary units issued | 70,225 | 65,854 |
| | \$'000 | \$'000 |
| 360 Capital Total Return Active Fund - Ordinary units issued | 12,755 | 11,949 |
| Total issued capital | 12,755 | 11,949 |

(b) Movements in issued capital

Movement during the year in the number of issued units of the Fund was as follows:

| | 30 June 2019 000's | 30 June 2018 000's |
|------------------------|-----------------------------------|-----------------------------------|
| Opening balance | 65,854 | 65,925 |
| Unit buy back | - | (71) |
| Issue of units – DRP | 4,371 | - |
| Closing balance | 70,225 | 65,854 |

Movement during the year in the value of issued units of the Fund was as follows:

| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
|---|------------------------------------|------------------------------------|
| Opening balance | 11,949 | 11,975 |
| Unit buy back | - | (12) |
| Issue of units – DRP | 811 | - |
| Transaction costs incurred in issuing capital | (5) | (14) |
| Closing balance | 12,755 | 11,949 |

Note 9: Cash flow information

(a) Reconciliation of cash and cash equivalents

| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
|---|------------------------------------|------------------------------------|
| Cash at bank | 9,530 | 10,609 |
| Cash and cash equivalents in the statement of cash flows | 9,530 | 10,609 |

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Note 9: Cash flow information (continued)

(b) Reconciliation of net profit to net cash inflows from operating activities

| | 30 June | 30 June |
|--|----------------|----------------|
| | 2019 | 2018 |
| | \$'000 | \$'000 |
| Net income for the year | 295 | 391 |
| <u>Adjustment for:</u> | | |
| Net gain on fair value of financial assets | (270) | - |
| Tax effect of net gain on fair value of financial assets | 74 | - |
| Net increase in equity accounted investments | (45) | (352) |
| Transaction costs | 9 | - |
| <u>Change in assets and liabilities</u> | | |
| Increase in receivables | (63) | (107) |
| Increase in payables | 9 | 4 |
| Net cash outflows from operating activities | 9 | (64) |

Risk

This section of the notes discusses the Funds' exposure to various risks and shows how these could affect the consolidated entity's financial position and performance.

Note 10: Basis of preparation

a) Reporting entity

The Active Fund forms part of the stapled entity, 360 Capital Total Return Fund (ASX: TOT) comprising 360 Capital Total Return Passive Fund and its controlled entities and 360 Capital Total Return Active Fund.

The Responsible Entity of the Fund is 360 Capital FM Limited. The registered office and the principal place of business is Level 8, 56 Pitt Street, Sydney NSW 2000 Australia. The nature of operations and principal activities of the Fund are disclosed in the Responsible Entity's report.

The financial report was authorised for issue by the Board on 21 August 2019.

The principal accounting policies adopted in the preparation of the financial report are set out below.

b) Statement of compliance

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001.

International Financial Reporting Standards (IFRS) form the basis of Australian Accounting Standards (including Australian Interpretations) adopted by the AASB. The financial report complies with IFRS and interpretations adopted by the International Accounting Standards Board.

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Note 10: Basis of preparation (continued)

c) Basis of preparation

Basis of preparation

360 Capital Total Return Active Fund is a for-profit entity for the purpose of preparing the financial report.

The financial report has been prepared on accruals basis and on the historical cost basis except for financial assets, which are stated at their fair value. The accounting policies set out in Note 18 have been applied consistently to all periods presented in this financial report except for the new accounting standards AASB 9 *Financial Instruments* and AASB 15 *Revenue from Contracts with Customers*. For more detail on the impact of the adoption of these standards refer to Note 18(a).

The financial report is presented in Australian dollars.

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

d) Critical judgements and significant accounting estimates

Critical accounting estimates, judgements and assumptions

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities are:

Income taxes

In circumstances where the Fund becomes subject to income taxes in Australia there are transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain.

The Fund recognises liabilities based on the Fund's current understanding of the tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realised.

Certain new or amended Australian Accounting Standards have been published that are not mandatory for this reporting period. Based on management's assessment, the recently issued or amended Accounting Standards are not expected to have a significant impact on the amounts recognised or disclosures made in this financial report when restated for the application of the new or amended Accounting Standards.

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Note 10: Basis of preparation (continued)

e) Changes in accounting policies and disclosures

The Fund applied AASB 9 and AASB 15 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described in Note 17(a). Several other amendments and interpretations apply for the first time in 2019 but do not have a material impact on the financial statements of the Fund.

Note 11: Capital Management

Under the direction of the Board, the Fund manages its capital structure to safeguard the ability of the Fund to continue as a going concern while maximising the return to unitholders through the optimisation of net debt and total equity balances.

In order to maintain or adjust the capital structure, the Fund may adjust the amount of distributions paid to unitholders, return capital to unitholders, issue new units, purchase the Fund's own units, or sell assets to reduce debt. During the year the Fund issued 4.4 million securities under the Fund's Distribution Reinvestment Plan (DRP), refer to Note 8: Equity for further information.

There were no changes in the Fund's approach to capital management during the year.

Note 12: Other financial assets and liabilities

Overview

The Fund's activities expose it to various types of financial risks including credit risk, liquidity risk, and market risk. The Board of Directors of the Responsible Entity has responsibility for the establishment and oversight of the risk management framework ensuring the effective management of risk.

The Board has established risk management principles and policies and monitor their implementation. Policies are established to identify and analyse the financial risks faced by the Fund, to set appropriate risk limits and controls, and monitor the risks and adherence to limits. The Board meets regularly to review risk management policies and systems and ensure they reflect changes in market conditions and the Fund's activities.

The nature and extent of the financial instruments and the risk management policies employed by the Fund are discussed in this section.

Credit risk

Credit risk is the risk of financial loss to the Fund if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Fund is exposed to credit risk through the financial assets listed in the table below. The table also details the maximum exposure to credit risk for each class of financial instrument.

| | 30 June 2019 \$'000 | 30 June 2018 \$'000 |
|---------------------------|------------------------------------|------------------------------------|
| Cash and cash equivalents | 9,530 | 10,609 |
| Receivables | 472 | 952 |
| Total | 10,002 | 11,561 |

The Fund manages credit risk and the losses which could arise from default by ensuring that parties to contractual arrangements are of an appropriate credit rating, or do not show a history of defaults. At reporting date, there are no issues with the credit quality of financial assets that are neither past due nor impaired, and all amounts are expected to be received in full.

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Note 12: Other financial assets and liabilities (continued)

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Fund's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Fund's market risk is managed in accordance with the investment guidelines as outlined in the Fund's Product Disclosure Statement.

Interest rate risk

The Fund's interest rate risk arises from cash balances. The potential impact of a change in interest rates by +/-1% on profit and equity has been disclosed in a table below.

The Fund's exposure to interest rate risk by maturity period is:

| | Floating interest rate \$'000 | Fixed interest maturing in 1 year or less \$'000 | Fixed interest maturing in 1 to 5 years \$'000 | Fixed interest maturing in more than 5 years \$'000 | Non-interest bearing \$'000 | Total \$'000 |
|------------------------------|-------------------------------------|--|--|--|-----------------------------------|-----------------|
| 30 June 2019 | | | | | | |
| <u>Financial assets</u> | | | | | | |
| Cash and cash equivalents | 9,530 | - | - | - | - | 9,530 |
| Receivables | - | - | - | - | 472 | 472 |
| Total financial assets | 9,530 | - | - | - | 472 | 10,002 |
| <u>Financial liabilities</u> | | | | | | |
| Trade and other payables | - | - | - | - | 2,178 | 2,178 |
| Total financial liabilities | - | - | - | - | 2,178 | 2,178 |
| Net financial assets | 9,530 | - | - | - | (1,706) | 7,824 |
| 30 June 2018 | | | | | | |
| <u>Financial assets</u> | | | | | | |
| Cash and cash equivalents | 10,609 | - | - | - | - | 10,609 |
| Receivables | - | - | - | - | 952 | 952 |
| Total financial assets | 10,609 | - | - | - | 952 | 11,561 |
| <u>Financial liabilities</u> | | | | | | |
| Trade and other payables | - | - | - | - | 34 | 34 |
| Total financial liabilities | - | - | - | - | 34 | 34 |
| Net financial assets | 10,609 | - | - | - | 918 | 11,527 |

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Note 12: Other financial assets and liabilities (continued)

Summarised interest rate sensitivity analysis

The table below illustrates the potential impact a change in interest rates by +/-1% would have had on the Fund's profit:

| | | Change in interest rate | |
|---------------------------|--------------------|-------------------------|--------|
| | | -1% | 1% |
| | Carrying amount | Profit | Profit |
| | \$'000 | \$'000 | \$'000 |
| 30 June 2019 | | | |
| <u>Financial assets</u> | | | |
| Cash and cash equivalents | 9,530 | (95) | 95 |
| Total increase/(decrease) | | (95) | 95 |
| 30 June 2018 | | | |
| <u>Financial assets</u> | | | |
| Cash and cash equivalents | 10,609 | (106) | 106 |
| Total increase/(decrease) | | (106) | 106 |

Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Board has a policy of prudent liquidity risk management ensuring that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund monitors its exposure to liquidity by ensuring that there is sufficient cash on hand to meet the contractual obligations of financial liabilities as they fall due.

The following are contractual maturities of financial liabilities, including estimated interest payments (using existing variable interest rates):

| | Carrying amount \$'000 | Contractual cash flow \$'000 | Less than 1 Year \$'000 | Between 1- 5 Years \$'000 | Over 5 Years \$'000 |
|--------------------------|------------------------------|------------------------------------|-------------------------------|---------------------------------|---------------------------|
| 30 June 2019 | | | | | |
| Trade and other payables | 2,178 | 2,178 | 2,178 | - | - |
| | 2,178 | 2,178 | 2,178 | - | - |
| 30 June 2018 | | | | | |
| Trade and other payables | 34 | 34 | 34 | - | - |
| | 34 | 34 | 34 | - | - |

Other markets risk

The Fund does not have any material exposure to any other market risks such as currency risk.

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Note 12: Other financial assets and liabilities (continued)

Fair values

The fair value of the Fund's financial assets and liabilities are approximately equal to that of their carrying values as at 30 June 2019. The fair values of receivables and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, described as follows and based on the lowest level input that is significant to the fair value measurements as a whole:

Level 1 – Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities

Level 2 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)

Level 3 – Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

For financial instruments that are recognised at fair value on a recurring basis, the Fund determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

At the balance date, the Fund held the following classes of financial instruments measured at fair value:

| | Total | Level 1 | Level 2 | Level 3 |
|--|---------------|----------------|----------------|----------------|
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Financial assets measured at fair value | | | | |
| Financial assets at fair value through profit or loss as at 30 June 2019 | 4,819 | 4,819 | - | - |
| Financial assets at fair value through profit or loss as at 30 June 2018 | - | - | - | - |

There were no transfers between Level 1 and Level 2 fair value measurements, and no other transfers into or out of Level 3 fair value measurements. Fair value hierarchy levels are reviewed on an annual basis unless there is a significant change in circumstances indicating that the classification may have changed.

Valuation techniques

Fair value profit or loss financial assets

For fair value profit or loss financial assets, the Fund invests in listed investments. The value of the investments in the listed market is stated at unit price as quoted on the ASX at each statement of financial position date. As such, listed investments are categorised as Level 1 instruments.

Unrecognised Items

This section of the notes provides information about items that are not recognised in the financial statements as they do not (yet) satisfy the recognition criteria.

Note 13: Capital commitments and contingencies

Capital commitments

As at 30 June 2019 the Fund had no capital commitments (2018: Nil).

Contingencies

There are no contingent liabilities as at 30 June 2019 (2018: Nil).

Note 14: Events subsequent to balance date

Subsequent to balance date the Fund had invested a further \$4.0 million into its investment in URB and increased its stake to 11.3%².

No other circumstances have arisen since the end of the year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years.

² Based on TOT's holding on 20 August 2019

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Other Information

This section of the notes includes information that must be disclosed to comply with prescribed accounting standards and other pronouncements, but that are not immediately related to individual line items in the financial statements.

Note 15: Auditors' remuneration

| | 30 June 2019 \$ | 30 June 2018 \$ |
|------------------------------|-----------------------|-----------------------|
| <u>Audit services</u> | | |
| Audit services | 28,250 | 25,000 |
| Audit of compliance plan | 8,350 | 7,468 |
| | 36,600 | 32,468 |
| <u>Non-audit services</u> | | |
| Taxation compliance services | 2,800 | 2,800 |
| | 39,400 | 35,268 |

Note 16: Earnings per unit

| | 30 June 2019 ¢ | 30 June 2018 ¢ |
|-------------------------------------|----------------------|----------------------|
| Basic and diluted earnings per unit | 0.4 | 0.6 |

| | \$'000 | \$'000 |
|--|--------|--------|
| Basic and diluted profit | | |
| Profit attributable to unitholders of 360 Capital Total Return Active Fund | | |
| used in calculating earnings per unit | 295 | 391 |

| | 000's | 000's |
|---|--------|--------|
| Weighted average number of units used as a denominator | | |
| Weighted average number of units – basic and diluted | 67,880 | 65,873 |

Note 17: Related party transactions

Responsible Entity

The Responsible Entity of the Fund is 360 Capital FM Limited. The immediate parent entity of the Responsible Entity is 360 Capital Property Limited (ABN 46 146 484 433), and its ultimate parent entity is 360 Capital Group Limited (ABN 18 113 569 136).

The registered office and the principal place of business of the Responsible Entity is:

360 Capital FM Limited
Level 8, 56 Pitt Street
Sydney, NSW 2000

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Note 17: Related party transactions (continued)

Responsible Entity's fees and other transactions

Under the terms of the constitution, the Responsible Entity is entitled to receive fees in accordance with the product disclosure statement.

| | 30 June 2019 \$ | 30 June 2018 \$ |
|--|--------------------------------|--------------------------------|
| Fees for the year paid/payable by the Fund: | | |
| Management of the Fund | 85,923 | 76,847 |
| Fund recoveries | 3,434 | 3,543 |
| | 89,357 | 80,390 |

Management Fee: The Responsible Entity is entitled to a Management Fee of 0.65% p.a. of the gross value of the assets of the Fund during the relevant year for its role in managing and administering the Fund.

Performance Fee: The Responsible Entity is entitled to a Performance Fee of 20% of any total return in excess of 12% p.a. The calculation of total return is based on actual distributions paid to Stapled Unitholders during the relevant financial year plus any increase in the trading price of Stapled Units in the relevant financial year. The Performance Fee is payable yearly in arrears after the end of the relevant financial year.

Acquisition Fee: The Responsible Entity will be entitled to an acquisition fee of up to 1.0% of the total purchase price of an investment of the Fund. The acquisition fee is payable upon the completion of the relevant acquisition.

Disposal Fee: The Responsible Entity will be entitled to a disposal fee of up to 1.0% of the total sale price of an investment sold by the Fund. The disposal fee is payable upon the completion of the relevant sale.

During the year, the Responsible Entity was entitled acquisition fees of \$45,495 relating to the Funds investment in URB however no fees were charged.

Unitholdings

Units held by the Responsible Entity and other Funds managed by and related to the Responsible Entity held units in the Fund as follows:

| | 30 June 2019 | 30 June 2018 |
|---|-------------------------|-------------------------|
| 360 Capital Property Limited | | |
| Number of units held | 18,465,165 | 15,621,124 |
| Interest % held | 26.3% | 23.7% |
| Distributions paid/payable by the Fund (\$) | - | - |

Related Party Loans

The Fund has a loan with the Passive Fund which relates to the charging of shared costs between the two stapled entities. The balance of the loan at 30 June 2019 is \$421,861 (2018: \$950,652). This loan is non-interest bearing and at call.

Interest in Joint venture

The Fund holds a 50% stake in AMF Finance Pty Limited (AMF or AMF Finance). AMF provides alternative lending and structured financing solutions to Australian real estate investors and developers and receives all establishment fees on development transactions written by 360 Capital Group entities, including TOT and other private client development funding. The other 50% stake is held by 360 Capital Group. During the year the Fund received fees from AMF of \$138,803 relating to its role in the origination of two loans.

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Note 17: Related party transactions (continued)

Key management personnel

The Fund does not employ personnel in its own right. However, it has an incorporated Responsible Entity, 360 Capital FM Limited, to manage the activities of the Fund. The directors and key management personnel of the Responsible Entity are detailed below. No compensation is paid directly by the Fund to directors or to any of the key management personnel of the Responsible Entity.

Payments made by the Fund to the Responsible Entity do not specifically include any amounts attributable to the compensation of key management personnel.

Directors

David van Aanholt (Chairman)
 Tony Robert Pitt
 William John Ballhausen
 Graham Ephraim Lenzner
 Andrew Graeme Moffat

Management personnel unitholdings

The number of units held directly or indirectly by Directors, Key Management Personnel and their related parties as at 30 June 2019 are as follows:

| Name | Position | 30 June 2018 | Acquisitions | 30 June 2019 |
|---------------------------|----------|-----------------|--------------|-----------------|
| | | Equity Holding | | Equity Holding |
| David van Aanholt | Director | Nil | 26,016 | 26,016 |
| Tony Robert Pitt | Director | 796,300 | 39,848 | 836,148 |
| William John Ballhausen | Director | 120,000 | - | 120,000 |
| Graham Ephraim Lenzner | Director | 100,000 | 53,907 | 153,907 |
| Andrew Graeme Moffat | Director | 400,000 | 30,956 | 430,956 |
| Glenn Butterworth | KMP | 19,642 | 10,000 | 29,642 |
| James Storey ¹ | KMP | Nil | 9,000 | 9,000 |

¹ On 1 September 2018, James Storey became a KMP of the Stapled entity. Accordingly this number represents his interest in the Fund held at this date.

Note 18: Statement of significant accounting policies

a) Changes in accounting policy

The Fund applied AASB 9 and AASB 15 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

AASB 9 Financial Instruments

AASB 9 *Financial instruments* (AASB 9) replaces IAS 39 *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after 1 January 2018. AASB 9 makes changes to the classification and measurement of financial instruments, introduces a new expected credit loss (ECL) model when recognising and calculating impairment on financial assets, and also introduces new general hedge accounting requirements.

The Fund has adopted AASB 9 and related amendments from 1 July 2018. Comparative results are not restated as permitted by the standard. The impact of the adoption of AASB 9 is detailed below:

Note 18: Statement of significant accounting policies (continued)

a) Changes in accounting policy

i) Classification and measurement

The classification and measurement requirements of AASB 9 did not have a significant impact on the Fund. Financial assets previously held at fair value continue to be measured at fair value. Trade and other receivables and loans receivable are held to collect contractual cash flows and these contractual cash flows are SPPI. These receivables continue to be measured at amortised cost.

Under AASB 9, the accounting for the modification of a financial liability that has not resulted in derecognition, requires an adjustment to the amortised cost of the liability (due to discounting using the original effective interest rate), with any gain or loss being recognised immediately in the income statement. Under the previous standard AASB 139, the gain or loss was recognised over the remaining life of the borrowing by adjusting the effective interest rate. The group has determined that there is no impact of the adoption of AASB 9.

From 1 July 2018, the Fund classifies its financial assets as follows:

- Cash and cash equivalents & trade and other receivables are held at amortised cost. These are held to collect contractual cash flows and these contractual cash flows are solely payments of principal and interest (SPPI).
- Financial assets that do not meet the SPPI criterion are measured at fair value through profit and loss (FVTPL).

At initial recognition, the Fund measures a financial assets and financial liabilities (other than trade receivables, loan receivables and cash) at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets at FVTPL are subsequently measured at fair value. Financial assets at amortised cost are subsequently measured at amortised cost using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

ii) Impairment

The adoption of AASB 9 has changed the Fund's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. AASB 9 requires the Fund to recognise an allowance for ECLs for all financial assets not held at fair value through profit or loss.

Upon the adoption of AASB 9, the Fund did not recognise any initial loss allowance. There was previously no impairment provision recognised under IAS 39.

AASB 15 Revenue from Contracts with Customers

AASB 15 *Revenue from Contracts with Customers* (AASB 15) establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers.

The Fund has adopted AASB 15 using the modified retrospective method and as a result no adjustments have been required to the financial statements.

There were no other changes to the Fund's accounting policies for the financial reporting year commencing 1 July 2018. The remaining policies of the Fund are consistent with the prior year.

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Note 18: Statement of significant accounting policies (continued)

b) Basis of consolidation

Stapling

On 21 April 2015, 360 Capital Total Return Fund was formed by stapling together the units of the 360 Capital Total Return Passive Fund and the units of 360 Capital Total Return Active Fund. Equity holders of the Stapled Fund are entitled to an equal interest in each stapled entity.

The Constitutions of the Passive Fund and the Active Fund ensure that, for so long as these entities remain jointly listed, the number of units in the Passive Fund and the number of units in the Active Fund shall be equal and that unitholders in both funds be identical. Both the Responsible Entity of the Passive Fund and the Active Fund must at all times act in the best interest of consolidated entity.

The stapling arrangement will cease upon the earlier of the winding up of any of the stapled entities, or any of the entities terminating the stapling arrangement.

Investments in associates and joint ventures

Investments in associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Fund's share of net assets of the associate or joint venture since the acquisition date.

The Fund's share of net profit or loss is recognised in the statement of profit or loss from the date joint control commences until the date joint control ceases. Other movements in reserves are recognised directly in the consolidated reserves.

c) Segment reporting

The Fund invests solely in the property sector within Australia.

The Chief Operating Decision Maker being, the Managing Director of the Responsible Entity, monitors the performance and results of the Fund at a total Fund level. As a result, the Fund has only one segment.

d) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of GST paid. Revenue is recognised for the major business activities as follows:

Distributions from property funds

Distribution income from investments is recognised when the unitholder's right to receive payment has been established, provided that it is probable that the economic benefits will flow to the unitholder and the amount of income can be measured reliably.

Finance revenue

Interest income is recognised on a time proportion basis using the effective interest method. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

Other income

Other income is recognised when the right to receive the revenue has been established.

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Note 18: Statement of significant accounting policies (continued)

e) Finance expenses

Finance expenses which include interest and amortised borrowing costs are recognised using the effective interest rate applicable to the financial liability.

f) Income tax

Under current Australian income tax legislation, the Funds are generally not liable for income tax provided their taxable income and taxable capital gains are fully distributed to unitholders each year. In the circumstances if a managed investment trust undertakes certain trading activities that trust may be liable to pay income tax.

Active Fund

Income tax expense or benefit for the year is the tax payable on the current year's taxable income based on the national income tax rate for each jurisdiction and deferred tax expense calculated by reference to changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Deferred income tax is provided in full, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Fund has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

g) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

i) Receivables

Receivables and Loans receivable, previously classified as *Loans and receivables* under AASB 139 are now classified and measured as *Financial assets at amortised cost* under AASB 9 *Financial Instruments*. Receivables are recognised initially at fair value and subsequently at amortised cost. The payment terms are usually 30 days after the invoice is raised. They are classified as current assets except where the maturity is greater than 12 months after the reporting date in which case they are classified as non-current.

Note 18: Statement of significant accounting policies (continued)

i) Receivables (continued)

The Fund assesses expected credit losses upon initial recognition of the financial asset with a forward-looking expected credit loss (ECL) approach. For trade and other receivables, the Fund applies the simplified approach permitted by the standard, which requires expected lifetime losses to be recognized from initial recognition of the receivables. In prior periods, amounts not recoverable were assessed at each reporting date under AASB 139. Indicators that an amount was not recoverable include where there was objective evidence of significant financial difficulties, debtor bankruptcy, financial reorganisation or default in payment. Any allowances for non-recoverable receivables were recognised in a separate allowance account. Any bad debts which had previously been provided for were eliminated against the allowance account. In all other cases bad debts were written off directly to the statement of profit or loss.

j) Financial instruments

Financial assets and financial liabilities are recognised when a Fund entity becomes a party to the contractual provisions of the instrument. At initial recognition, the Fund measures a financial assets and financial liabilities (other than trade receivables, loan receivables and cash) at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss. Financial assets are classified into the following specified categories: "Financial assets at amortised cost" and "Financial assets at fair value through profit or loss". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial assets at fair value through profit or loss

Financial assets designated at fair value through profit or loss comprises investments in unlisted and listed funds. Upon initial recognition, the investments are designated at fair value through profit or loss in accordance with AASB 9 *Financial Instruments*.

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

Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the statement of profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Fund has transferred substantially all the risk and rewards of ownership.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the statement of profit or loss within income or expenses in the period in which they arise. Dividend/distribution income from financial assets at fair value through profit and loss is recognised in the statement of profit or loss as part of revenue from continuing operations when the Fund's right to receive payments is established.

Financial assets at amortised cost

Refer to Note 17 (i).

Financial liabilities and equity

Financial liabilities and equity instruments issued by the Fund are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

Impairment

Under AASB 9, the Fund's accounting for impairment losses for financial assets has changed, by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss (ECL) approach. The Fund has applied the simplified approach and recorded lifetime expected losses on trade and other receivables. The ECL on trade and other receivables is immaterial.

360 Capital Total Return Active Fund
Notes to the financial report
For the year ended 30 June 2019

Note 18: Statement of significant accounting policies (continued)

k) Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Fund prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

l) Provisions

A provision is recognised in the statement of financial position when the Fund has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate which reflects current market assessments of the time value of money and, where appropriate the risks specific to the liability.

Distributions

A provision for distributions payable is recognised in the reporting period in which the distributions are declared, determined, or publicly recommended by the Directors on or before the end of the financial period, but not distributed at balance date.

m) Issued capital

Issued capital represents the amount of consideration received for stapled securities issued by the Fund. Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax benefit.

n) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

o) Accounting standards issued but not yet effective

The following new accounting standards, amendments to standards and interpretations have been issued, but are not mandatory as at 30 June 2019. They are available for early adoption, but have not been applied in preparing these financial statements. The Fund plans to adopt these standards on the effective date. The impact of these new standards and interpretations are as follows:

- AASB 16 – *Leases (Effective 1 January 2019)*. This standard establishes the enhanced reporting requirements of the Lessee and lessor when entering into Leases. This is not expected to materially impact the Fund's financial statements as the Fund does not currently have any lease arrangement in place.

In addition to those above, the following amendments have been issued due to amendments of related standards and the annual improvements cycles:

- AASB 2018-1 Annual Improvements 2015-2017 Cycle (Effective January 1, 2019)
- AASB Interpretation 23 *Uncertainty over Income Tax Treatments*

The recently issued amendments are not expected to have a significant impact on the amounts recognised in the financial statements at the effective date.

360 Capital Total Return Active Fund
Directors' declaration
For the year ended 30 June 2019

In the opinion of the Directors of 360 Capital FM Limited, the Responsible Entity:

- 1) The financial statements and notes that are set out on pages 7 to 30, are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Fund's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- 2) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
- 3) The Directors have given the declarations required by Section 295A of the *Corporations Act 2001* from the Managing Director and Chief Financial Officer for the financial year ended 30 June 2019.
- 4) The Directors draw attention to Note 10(b) to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

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



David van Aanholt
Chairman

Sydney
21 August 2019



Tony Robert Pitt
Managing Director

Independent Auditor's Report to the unitholders of 360 Capital Total Return Active Fund

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of 360 Capital Total Return Active Fund (the Fund) which comprises the statement of financial position as at 30 June 2019, the statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the declaration of directors of 360 Capital FM Limited, the Responsible Entity of the Fund.

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

- a) giving a true and fair view of the consolidated financial position of the Fund as at 30 June 2019 and of its consolidated financial performance for the year ended on that date; and
- b) 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 Fund 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial report.

1. Acquisition of URB Investments Limited (URB) securities

| Why significant | How our audit addressed the key audit matter |
|--|--|
| <p>During the year, the Fund acquired 4.6 million units in URB for consideration of \$4.5 million. These securities have been classified as <i>financial assets at fair value</i> in accordance with AASB 9 and the carrying value at 30 June 2019 reflects a positive valuation adjustment of \$269k when compared to initial cost.</p> <p>The units are classified as non-current assets on the basis that management does not intend on realizing the assets within 12 months after the reporting period.</p> <p>Given the significance of the acquisition to the balance sheet of the Fund, we considered this to be a key audit matter. Disclosure of the financial assets at fair value is included in note 4 of the financial report.</p> | <p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> ▶ We agreed the acquisition of the URB units to acquisition documents and bank statement. ▶ We considered the appropriateness of the classification as a financial asset at fair value through profit or loss in light of the Fund's ownership interest and other factors which impact the degree of influence the Fund has over the operations of the investee. ▶ We obtained confirmation of the number of securities held at 30 June. ▶ We tested the mathematical accuracy of the \$269k revaluation adjustment using the ASX share price at 30 June 2019. ▶ We assessed the adequacy of the Group's disclosure with respect to the acquisition. |

Information Other than the Financial Report and Auditor's Report

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Fund's 2019 Annual 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 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 Responsible Entity 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 of the Responsible Entity are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Responsible Entity.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the Responsible Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors of the Responsible Entity with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors of the Responsible Entity, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Ernst & Young



Mark Conroy
Partner
Sydney
21 August 2019