



## ASX Release

11 August 2022

### 360 Capital Enhanced Income Fund (ASX: TCF)

#### Appendix 4E for the year ended 30 June 2022

This Preliminary Financial Report is given to the ASX in accordance with Listing Rule 4.3A. This report should be read in conjunction with the Annual Report for the year ended 30 June 2022. It is also recommended that the Annual Report be considered together with any public announcements made by the Fund. Reference should also be made to the statement of significant accounting policies as outlined in the Financial Report. The Annual Report for the year ended 30 June 2022 is attached and forms part of this Appendix 4E.

#### Details of reporting period

Current reporting period: 1 July 2021 – 30 June 2022

Prior corresponding period: 1 July 2020 – 30 June 2021

#### Results for announcement to the market

	30 June 2022 \$'000	30 June 2021 \$'000	Movement \$'000	Movement %
Revenue and other income from ordinary activities	1,587	719	868	120.7
Profit for the year attributable to unitholders	1,378	459	919	200.2

	30 June 2022 Cents per unit	30 June 2021 Cents per unit	Movement Cents per unit	Movement %
Earnings per unit – Basic and diluted	36.2	15.9	20.3	127.7

#### Net tangible asset per unit

	30 June 2022 \$	30 June 2021 \$	Movement \$	Movement %
Net tangible assets per unit	5.94	5.94	Nil	Nil



## ASX Release

11 August 2022

### Distributions

Distribution period	Cents per unit	Total paid \$'000	Record date	Date of payment
July 2021	3.00	103	30 July 2021	6 August 2021
August 2021	3.00	104	31 August 2021	7 September 2021
September 2021	3.00	104	30 September 2021	7 October 2021
October 2021	3.00	104	29 October 2021	5 November 2021
November 2021	3.00	104	30 November 2021	7 December 2021
December 2021	3.00	112	31 December 2021	7 January 2022
January 2022	3.00	123	31 January 2022	7 February 2022
February 2022	3.00	124	28 February 2022	7 March 2022
March 2022	3.00	124	31 March 2022	7 April 2022
April 2022	3.00	124	29 April 2022	6 May 2022
May 2022	3.00	124	31 May 2022	7 June 2022
June 2022	3.00	124	30 June 2022	7 July 2022
<b>Total distribution for the year ended 30 June 2022</b>	<b>36.00</b>	<b>1,374</b>		
April 2021	3.00	103	30 April 2021	7 May 2021
May 2021	3.00	104	31 May 2021	7 June 2021
June 2021	3.00	104	30 June 2021	7 July 2021
<b>Total distribution for the year ended 30 June 2021</b>	<b>9.00</b>	<b>311</b>		

### Distribution Reinvestment Plans

The Fund does not have a distribution reinvestment plan in place.

360 Capital



# 360 CAPITAL ENHANCED INCOME FUND

(ASX:TCF)

ANNUAL REPORT

For the year ended 30 June 2022

## General information

360 Capital Enhanced Income Fund (ARSN 115 632 990) (Fund) is a listed managed investment fund, constituted and domiciled in Australia. Its registered office and principal place of business are:

Suite 3701, Level 37, 1 Macquarie Place, Sydney NSW 2000 Australia

A description of the nature of the Fund's operations and its principal activities are included in the Responsible Entity report, which is not part of the financial statements.

The financial statements are presented in Australian dollars, which is 360 Capital Enhanced Income Fund's functional and presentation currency.

The Fund is an entity of the kind referred to in Corporations 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 to the nearest thousand dollars, unless otherwise stated.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 11 August 2022.

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# 360 Capital Enhanced Income Fund

## Responsible Entity report

### For the year ended 30 June 2022

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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 statements of 360 Capital Enhanced Income Fund (ASX: TCF)(Fund) for the year ended 30 June 2022.

#### Directors

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

David van Aanholt (Deputy Chairman)

Tony Robert Pitt (Executive Chairman)

William John Ballhausen

Andrew Graeme Moffat

Anthony Gregory McGrath (appointed 1 March 2022)

#### Principal activities

Since the Responsible Entity was appointed as responsible entity of the Fund on 9 September 2020, a new investment strategy has been adopted. The strategy of the fund aims to invest in a range of private credit opportunities across Australia and New Zealand including:

- senior secured floating rate notes
- fixed rate securities
- subordinated securities
- unlisted private debt

#### Significant changes in the state of affairs

In December 2021 and January 2022, new units were issued in relation to a capital raise of \$4.0 million for the Fund. The Fund has deployed its available capital into assets in accordance with its credit strategy, with the objective of continuing to deliver consistent monthly income to investors.

On 17 June 2022 the Responsible Entity of the Fund announced a strategic review of the Fund following recent changes to the interest rate environment, impacting the ability to scale the Fund and resulting in poor liquidity and a continuing discount in its trading price compared to its Net Tangible Asset (NTA) per unit value. Following this review in August 2022 the Responsible Entity announced the findings of its strategic review, for further information refer to *Likely developments and expected results of operations*.

#### Review of operations

The Fund's profit attributable to unitholders for the year ended 30 June 2022 was \$1.4 million (30 June 2021: \$0.5 million) with earnings of 36.2 cents per unit (cpu) (30 June 2021: 15.9 cpu). The Fund's balance sheet as at 30 June 2022 had total assets of \$24.7 million (30 June 2021: \$20.6 million). The Fund's NTA per unit was \$5.94 (30 June 2021: \$5.94).

In March 2021 the Fund invested its capital in a loan to a diversified consumer group based in Sydney with national operations. The Fund initially provided the borrower with committed capital of \$20.4 million over a 48 month term to support its local and overseas expansionary aspirations. In April 2022, a further \$2.6 million was deployed under a variation to the existing facility with the borrower, under the same terms.

To further the growth and diversification of the Fund, the Fund has completed its second investment on 28 April 2022. The new investment was a \$1.5 million loan facility that was provided to a company associated with the original borrower to assist with a business acquisition and structuring. The terms of the loan are the same and matures on the same day as the existing facility. The loan is secured by a general security agreement over the assets of the company and all its subsidiaries, with the facility documentation containing appropriate risk controls in the form of financial and non-financial covenants. The borrower pays interest monthly and there is no capitalising component to the facility.

During the year, the Fund's existing loan investments have met all contractual payment obligations, and the underlying businesses continue to perform.

#### Capital management

In December 2021, the Fund raised approximately \$1.7 million through its pro-rata non-renounceable entitlement offer of new ordinary units in the Fund. As announced to the ASX on Monday 25 October 2021, the Responsible Entity offered each eligible unitholder the opportunity to acquire new fully paid units at an offer price of \$5.94 per unit, being equal to the Fund's NTA. The entitlement offer also included an oversubscription facility and a residual shortfall facility, under which entitlements not taken up initially are made available to existing eligible investors as well as new institutional and sophisticated investors respectively.

In January 2022, the Fund raised an additional \$2.4 million through the residual shortfall facility. All new units issued under the entitlement offer (including the oversubscription and residual shortfall facilities) rank equally with existing units in all respects from date of issue. Capital raising costs are paid by 360 Capital Group and not paid out of the assets of the Fund.

360 Capital Enhanced Income Fund  
Responsible Entity report  
For the year ended 30 June 2022

**Likely developments and expected results of operations**

In June 2022, the Responsible Entity announced that it had commenced a strategic review of the Fund following recent changes to the interest rate environment which it believes will impact the ability to scale the Fund, resulting in poor trading liquidity and continuing discount in its trading price compared to its Net Tangible Asset (NTA) value.

The Fund's capital is fully deployed, and its loan investments continue to perform and the borrowers remain within their loan covenants. The Fund continues to trade at a discount to its NTA, however, has improved slightly since 30 June 2022. The loans are expected to continue to perform and the Fund to continue to pay a distribution of \$0.36 per unit, per annum.

The borrower's business continues to expand and may need expansion capital as part of its growth strategy. The Fund is currently not in a position to provide this growth capital and alternatively if the borrower seeks alternative capital this may result in the repayment of the Fund's loan.

The Responsible Entity has investigated the option of potentially selling the loans to distribute the capital back to unitholders. Given the current uncertain economic environment and potential future capital requirements of the borrowers business, this is problematic at this time.

The loans expire in March 2025 and the borrower has been informed that the Fund will not be extending these loans, however, for the reasons stated above, the loans may be repaid before this date.

The Responsible Entity intends to continue to operate the Fund until such time as these loans are repaid. 360 Capital Group is the largest unitholder in the Fund owning 16.4%.

Upon the loans being repaid, the Responsible Entity will consult with unitholders about the future direction of the Fund, taking into consideration the illiquidity of the Fund, and market conditions at this time. Until this time, it is intended to keep the Fund listed on the ASX providing unitholders the opportunity to liquidate their position if required or purchase further units.

**Impact of COVID-19 on the Fund**

The World Health Organization declared a global pandemic in March 2020 as a result of the novel coronavirus (COVID-19). The Fund has considered the impact of COVID-19 in preparing its financial report for the year. Although vaccination efforts are already underway, the effects of the pandemic are continuing to unfold, and the extent of future social, medical and economic impacts worldwide are unknown.

The immediate financial impact of COVID-19 on the Fund's holdings has been limited, as the Fund's current investment portfolio has been structured after the initial impact of COVID-19. The Fund considers risks associated with COVID-19 as part of its due diligence process and ongoing loan assessment program.

**Distributions**

Distributions paid or payable during the year were as follows:

<b>Distribution period</b>	<b>Date of payment</b>	<b>Cents per unit</b>	<b>Total paid \$'000</b>
July 2021	6 August 2021	3.00	103
August 2021	7 September 2021	3.00	104
September 2021	7 October 2021	3.00	104
October 2021	5 November 2021	3.00	104
November 2021	7 December 2021	3.00	104
December 2021	7 January 2022	3.00	112
January 2022	7 February 2022	3.00	123
February 2022	7 March 2022	3.00	124
March 2022	7 April 2022	3.00	124
April 2022	6 May 2022	3.00	124
May 2022	7 June 2022	3.00	124
June 2022	7 July 2022	3.00	124
<b>Total distribution for the year ended 30 June 2022</b>		<b>36.00</b>	<b>1,374</b>
April 2021	7 May 2021	3.00	103
May 2021	7 June 2021	3.00	104
June 2021	7 July 2021	3.00	104
<b>Total distribution for the year ended 30 June 2021</b>		<b>9.00</b>	<b>311</b>





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

On 17 June 2022 the Responsible Entity of the Fund announced a strategic review of the Fund following recent changes to the interest rate environment, impacting the ability to scale the Fund and resulting in poor liquidity and a continuing discount in its trading price compared to its NTA value. Following this review in August 2022 the Responsible Entity announced the findings of its strategic review, further information refer to *Likely developments and expected results of operations*.

No other matter or circumstance, other than as disclosed in this report, has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Fund's operations, the results of those operations, or the Fund's state of affairs in future financial years.

**Environmental regulation**

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

**Indemnity and insurance of 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. Insurance premiums are paid out of 360 Capital Group and not out of the assets of the Fund. 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.

**Indemnity and insurance of auditor**

To the extent permitted by law, the Responsible Entity 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.

**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 15 to the financial statements. The number of interests held in the Fund by the responsible entity, its associates, or directors is detailed in Note 15 to the financial statements.

**Number of units on issue**

As at 30 June 2022 the number of units on issue in the Fund was 4,131,427 (30 June 2021: 3,455,021), and 676,406 units were issued at \$5.94 per unit (30 June 2021: 2,042,663 at \$5.94 per unit).

**Unit buy-back**

As detailed in the Fund constitution, the Responsible Entity may, but is not under obligation to, buy back, purchase or redeem units from unitholders. During the year, there were no redemption of units in the Fund (30 June 2021: 1,892,857 at average price of \$5.94 per unit).

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this Responsible Entity report.

Disclosed in Note 13 'Remuneration of auditors' were 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.

**Rounding of amounts**

The Fund is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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

On behalf of the directors



David van Aanholt  
Deputy Chairman



Tony Robert Pitt  
Executive Chairman

11 August 2022



**Building a better  
working world**

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## **Auditor's Independence Declaration to the Directors of 360 Capital FM Limited as Responsible Entity for 360 Capital Enhanced Income Fund**

As lead auditor for the audit of the financial report of 360 Capital Enhanced Income Fund for the financial year ended 30 June 2022, 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;
- b. No contraventions of any applicable code of professional conduct in relation to the audit; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads "Ernst &amp; Young" with a stylized flourish at the end.

Ernst & Young

A handwritten signature in black ink that reads "Douglas Bain" with a long horizontal flourish extending to the right.

Douglas Bain  
Partner  
11 August 2022

360 Capital Enhanced Income Fund  
Statement of profit or loss and other comprehensive income  
For the year ended 30 June 2022

	Note	30 June 2022 \$'000	30 June 2021 \$'000
<b>Revenue</b>			
Investment Income	3	1,587	416
Net gain on financial assets held at fair value through profit or loss		-	303
Total revenue and other income from ordinary activities		1,587	719
Management fees	15	(134)	(82)
Administration expenses		(75)	(178)
<b>Profit before finance costs attributable to unitholders</b>		1,378	459
<b>Finance costs attributable to unitholders</b>			
Increase in net asset attributable to unitholders		-	(159)
<b>Profit for the year attributable to the unitholders of 360 Capital Enhanced Income Fund</b>		1,378	300
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year attributable to the unitholders of 360 Capital Enhanced Income Fund</b>		1,378	300
		cents	cents
Basic earnings per unit	14	36.2	15.9
Diluted earnings per unit	14	36.2	15.9

Net assets attributable to unitholders were reclassified from liabilities to equity on 27 October 2020. Refer to Note 7 'Basis of preparation' for further details. Accordingly, effective from 27 October 2020, distributions to unitholders and increase in net assets attributable to unitholders are no longer presented as finance costs in the statement of profit or loss and other comprehensive income. Total comprehensive income is presented in the statement of changes in equity.

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

360 Capital Enhanced Income Fund  
Statement of financial position  
As at 30 June 2022

	Note	30 June 2022 \$'000	30 June 2021 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		171	217
Trade and other receivables		6	26
<b>Total current assets</b>		<b>177</b>	<b>243</b>
<b>Non-current assets</b>			
Financial assets at fair value through other comprehensive income	4	24,500	20,400
<b>Total non-current assets</b>		<b>24,500</b>	<b>20,400</b>
<b>Total assets</b>		<b>24,677</b>	<b>20,643</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		24	33
Provision for distributions	2	124	104
<b>Total current liabilities</b>		<b>148</b>	<b>137</b>
<b>Total liabilities</b>		<b>148</b>	<b>137</b>
<b>Net assets attributable to unitholders</b>		<b>24,529</b>	<b>20,506</b>
<b>Equity</b>			
Issued capital	5	37,217	33,198
Accumulated losses		(12,688)	(12,692)
<b>Total equity</b>		<b>24,529</b>	<b>20,506</b>

Net assets attributable to unitholders were reclassified from liabilities to equity on 27 October 2020. Refer to Note 7 'Basis of preparation' for further details. Accordingly, effective from 27 October 2020, distributions to unitholders and increase in net assets attributable to unitholders are no longer presented as finance costs in the Statement of Profit or loss. Total comprehensive income is presented in the Statement of Changes in Equity.

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

360 Capital Enhanced Income Fund  
Statement of changes in equity  
For the year ended 30 June 2022

	Note	Issued capital \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2020		-	-	-
Reclassification of net assets attributable to unitholders from liabilities to equity - transfer in on 27 October 2020		21,154	(12,681)	8,473
Total comprehensive income for the year		-	300	300
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Issue of units	5	12,133	-	12,133
Redemption of units	5	(89)	-	(89)
Distributions paid	2	-	(311)	(311)
<b>Balance at 30 June 2021</b>		<b>33,198</b>	<b>(12,692)</b>	<b>20,506</b>
		Issued capital \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2021		33,198	(12,692)	20,506
Total comprehensive income for the year		-	1,378	1,378
<i>Transactions with unitholders in their capacity as unitholders:</i>				
Issue of units	5	4,019	-	4,019
Distributions paid	2	-	(1,374)	(1,374)
<b>Balance at 30 June 2022</b>		<b>37,217</b>	<b>(12,688)</b>	<b>24,529</b>

Net assets attributable to unitholders were reclassified from liabilities to equity on 27 October 2020. Refer to Note 7 'Basis of preparation' for further details. Accordingly, effective from 27 October 2020, distributions to unitholders and increase in net assets attributable to unitholders are no longer presented as finance costs in the statement of profit or loss and other comprehensive income. Total comprehensive income is presented in the statement of changes in equity. As a result, an amount has been disclosed as accumulated losses which relates to operations under the previous responsible entity; accumulated losses as at 30 June 2020 would have been \$12.8 million if disclosed under equity classification.

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

360 Capital Enhanced Income Fund  
Statement of cash flows  
For the year ended 30 June 2022

	Note	30 June 2022 \$'000	30 June 2021 \$'000
<b>Cash flows from operating activities</b>			
Proceeds from the sale of securities		-	20,483
Purchase of securities		-	(934)
Payments to suppliers		(198)	(405)
Dividends and distributions received		-	22
Interest received		1,587	400
<b>Net cash from operating activities</b>	<b>6</b>	<b>1,389</b>	<b>19,566</b>
<b>Cash flows from investing activities</b>			
Payments for investments		(4,100)	(20,400)
<b>Net cash used in investing activities</b>		<b>(4,100)</b>	<b>(20,400)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of units		4,019	12,133
Payments for redemptions		-	(11,248)
Distributions paid	2	(1,354)	(401)
<b>Net cash from financing activities</b>		<b>2,665</b>	<b>484</b>
Net decrease in cash and cash equivalents		(46)	(350)
Cash and cash equivalents at the beginning of the financial year		217	567
<b>Cash and cash equivalents at the end of the financial year</b>		<b>171</b>	<b>217</b>

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

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360 Capital Enhanced Income Fund  
Notes to the financial statements  
For the year ended 30 June 2022

**Note 1. Operating segments**

The Chief Operating Decision Maker, being the Executive Chairman 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.

**Note 2. Distributions**

Distributions paid or payable during the year were as follows:

<b>Distribution period</b>	<b>Date of payment</b>	<b>Cents per unit</b>	<b>Total paid \$'000</b>
July 2021	6 August 2021	3.00	103
August 2021	7 September 2021	3.00	104
September 2021	7 October 2021	3.00	104
October 2021	5 November 2021	3.00	104
November 2021	7 December 2021	3.00	104
December 2021	7 January 2022	3.00	112
January 2022	7 February 2022	3.00	123
February 2022	7 March 2022	3.00	124
March 2022	7 April 2022	3.00	124
April 2022	6 May 2022	3.00	124
May 2022	7 June 2022	3.00	124
June 2022	7 July 2022	3.00	124
<b>Total distribution for the year ended 30 June 2022</b>		<b>36.00</b>	<b>1,374</b>
April 2021	7 May 2021	3.00	103
May 2021	7 June 2021	3.00	104
June 2021	7 July 2021	3.00	104
<b>Total distribution for the year ended 30 June 2021</b>		<b>9.00</b>	<b>311</b>

**Note 3. Investment income**

Investment income includes:

	<b>30 June 2022 \$'000</b>	<b>30 June 2021 \$'000</b>
Interest - Cash at bank	3	15
Interest - Investments	1,584	386
Dividends and distributions	-	15
	<b>1,587</b>	<b>416</b>

Net gain from financial assets held at fair value through profit or loss includes:

	<b>30 June 2022 \$'000</b>	<b>30 June 2021 \$'000</b>
Realised gain on financial assets held at fair value through profit or loss	-	303



**Note 4. Financial assets at fair value through other comprehensive income**

	30 June 2022 \$'000	30 June 2021 \$'000
<i>Non-current assets</i>		
Non-current loans receivable	24,500	20,400
<i>Reconciliation</i>		
Reconciliation of the fair values at the beginning and end of the current and previous financial year are set out below:		
Opening fair value	20,400	-
Additions	4,100	20,400
Closing fair value	24,500	20,400

Refer to note 10 for further information on fair value measurement.

The Fund invests in corporate loans with long dated maturities that give rise to repayments of principal and interest on specific dates, however in order to actively manage a long term diversified portfolio, the Fund may from time to time, sell part or all of its loan investments to recycle capital from loan investments that may be more suitable to the Fund's strategy, objectives or return profile.

In March 2021 the Fund invested its capital in a loan to a diversified consumer group based in Sydney with national operations. The Fund provided the borrower with committed capital of \$20.4 million over a 48 month term to support its local and overseas expansionary aspirations. In April 2022, a further \$2.6 million was deployed under a variation to the existing facility with the borrower, under the same terms.

To further the growth and diversification of the Fund, the Fund has completed its second investment on 28 April 2022. The new investment was a \$1.5 million loan facility that was provided to a company associated with the original borrower to assist with a business acquisition and structuring. The terms of the loan are the same and matures on the same day as the existing facility. The loan is secured by a general security agreement over the assets of the company and all its subsidiaries, with the facility documentation containing appropriate risk controls in the form of financial and non-financial covenants. The borrower pays interest monthly and there is no capitalising component to the facility.

During the year, the Fund's existing loan investments have met all contractual payment obligations, and the underlying businesses continue to perform.

As the credit risk of the loan has not changed since inception, expected loss is measured over a 12 month period. An expected credit loss has not been recognised in relation to the loan given the loan collateral of business assets and shares over which the Fund has a registered exclusive interest as a creditor. The Fund expects that it will be able to recover the full value of the loan in the event of default through liquidation of collateralised assets.

**Note 5. Issued capital**

**Ordinary units**

Ordinary units of the Fund are listed on the Australian Securities Exchange (ASX); there are no separate classes of units and each unit in the Fund has the same rights attaching to it as all other units of Fund. Each ordinary unit confers upon the unitholder an equal interest in the Fund and is of equal value to other units in the Fund. A unit does not confer upon the holder any interest in any particular asset or investment of the Fund. The rights of unitholders are contained in the Fund's Constitution and include:

- The right to receive a distribution determined in accordance with the provisions of the Fund's Constitution, which states that unitholders are presently entitled to the distributable income of the Fund as determined by the responsible entity;
- The right to attend and vote at meetings of unitholders; and
- The right to participate in the termination and winding up of the Fund.

Redemption of units is not a right granted by the Constitution but may be performed at the discretion of the responsible entity.

**Note 5. Issued capital (continued)**

**Equity classification**

Units are classified as equity. The Responsible Entity considers the units to meet the requirements for equity classification within AASB 132.16C-D based on the rights granted by the units.

Units were classified as a liability up until 26 October 2020. They were subsequently reclassified as equity. Transactions before 26 October 2020 occurred while units were classified as liabilities.

**Issued units**

	30 June 2022 Units	30 June 2021 Units	30 June 2022 \$'000	30 June 2021 \$'000
Issued capital	4,131,427	3,455,021	37,217	33,198

*Movements in the number and value of units of issued capital of the Fund were as follows*

Details	Date	Units '000	Unit price	\$'000
Balance	1 July 2020	3,305		32,313
Units redeemed	16 July 2020	(89)	\$5.88	(525)
Units redeemed	9 September 2020	(1,519)	\$5.95	(9,031)
Units redeemed	16 October 2020	(206)	\$5.94	(1,224)
Units redeemed	26 October 2020	(64)	\$5.96	(379)
Units redeemed	24 November 2020	(15)	\$5.95	(89)
Capital raised	17 December 2020	2,043	\$5.94	12,133
Balance	30 June 2021	3,455		33,198
Capital raised	9 December 2021	280	\$5.94	1,663
Capital raised	4 January 2022	396	\$5.94	2,356
Balance	30 June 2022	4,131		37,217

**Equity raising**

During the year, the Fund issued 676,406 (2021: 2,042,663) new units at \$5.94 (2021: \$5.94) per unit to investors raising \$4.0 million (2021: \$12.1 million). The new units rank equally with existing units on issue. The proceeds have since been invested in accordance with the Fund's private credit investment strategy. Costs associated with the equity issue have been paid by 360 Capital Group on behalf of the Fund. The Responsible Entity has elected not to have the equity issue costs recharged to the Fund, therefore the Fund did not bear any costs in relation to the equity issue.

**Unit buy-back**

As detailed in the Fund constitution, the Responsible Entity may, but is not under obligation to, buy back, purchase or redeem units from unitholders. During the year, there were no redemption of units in the Fund (30 June 2021: 1,892,857 at average price of \$5.94 per unit).

**Note 6. Reconciliation of profit to net cash from operating activities**

	30 June 2022 \$'000	30 June 2021 \$'000
Profit for the year	1,378	459
Adjustments for:		
Receipts from sale of investments	-	19,602
Payments for investments	-	(737)
Change in operating assets and liabilities:		
Decrease in trade and other receivables	20	388
Decrease in trade and other payables	(9)	(146)
<b>Net cash from operating activities</b>	<b>1,389</b>	<b>19,566</b>

**Note 7. Basis of preparation**

**Reporting Entity**

360 Capital Enhanced Income Fund is a listed managed investment scheme, constituted and domiciled in Australia. Its registered office and principal place of business are:

Suite 3701, Level 37, 1 Macquarie Place, Sydney NSW 2000 Australia

The financial statements are presented in Australian dollars, which is the Fund's functional and presentation currency.

On 9 September 2020, unitholders of the Fund passed a resolution to change the Responsible Entity from Elstree Investment Management Limited to 360 Capital FM Limited. The change in Responsible Entity was effective from this date, subsequently the name and ASX symbol of the Fund were updated from Australian Enhanced Income Fund (ASX: AYF) to 360 Capital Enhanced Income Fund (ASX: TCF).

A description of the nature of the fund's operations and its principal activities are included in the Responsible Entity report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 11 August 2022.

The principal accounting policies adopted in the preparation of the financial report are set out below and in Note 16 'Significant accounting policies'.

**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.

The financial report complies with International Financial Reporting Standards as issued and interpretations adopted by the International Accounting Standards Board.

**Basis of preparation**

360 Capital Enhanced Income 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 certain financial assets, which are stated at their fair value. The accounting policies set out in Note 16 'Significant accounting policies' have been applied consistently to all periods presented in this financial report.

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.

## **Note 7. Basis of preparation (continued)**

### **Critical judgements and significant accounting estimates**

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 critical accounting estimates, judgements and assumptions have required additional analysis due to the COVID-19 pandemic. Given the effects of the COVID-19 global pandemic continue to unfold and the ultimate impact is still unknown, changes to estimates and assumptions used to measure assets and liabilities may arise in the future. Other than adjusting events which provide evidence of conditions which existed at the reporting date, the impact of events that arise subsequent to the reporting date will be accounted for in future reporting periods.

Following recent changes in the interest rate environment caused by amongst other things high inflationary pressures in the Australian economy, borrowing costs have increased significantly. An increasing interest rate environment requires enhanced consideration in relation to judgements and estimates relating to the valuation of the funds loan assets at reporting date and may impact the fair value of the Funds loan portfolio in future periods. Refer Note 9. Other financial assets and liabilities for further details regarding market risk.

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:

### **Financial assets at fair value through other comprehensive income**

The fair value of investments which are not traded in an active market is determined by using valuation techniques. The Fund uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each statement of financial position date. The fair value assessment of these assets include the best estimate of the impacts of the COVID-19 pandemic using information available at the balance date.

### **Classification of issued units as equity instruments**

Net assets attributable to unitholders comprises units on issue and undistributed reserves. On 27 October 2020, an amendment to the Fund's Constitution was executed by member approval in an Extraordinary Meeting. Prior to 27 October 2020, net assets attributable to unitholders were classified as liabilities. Subsequent to the change in the Fund's Constitution, the Fund's net assets attributable to unitholders have been reclassified to equity in accordance with AASB 132 Financial Instruments: Presentation.

The amounts payable on redemption of units were determined based on the net tangible asset value of the Fund as calculated in accordance with the redemption price formula set out in the Fund's previous Constitution.

## **Note 8. 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 accordance with the Fund's Product Disclosure Statement issued in October 2020, the Fund's use of borrowings will be predominantly for short term working capital and liquidity purposes, including the support of investment activity.

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, redeem units, purchase the Fund's own units, or sell assets. During the year, there were no redemption of units (30 June 2021: 1,892,857 at average price of \$5.94), and 676,406 units were issued at \$5.94 per unit (30 June 2021: 2,042,663 at \$5.94 per unit), see Note 5 'Issued capital' for further information.

## **Note 9. 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.

**Note 9. Other financial assets and liabilities (continued)**

**Credit risk**

Credit risk is the risk of financial loss to the Fund if a 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.

	30 June 2022 \$'000	30 June 2021 \$'000
Cash and cash equivalents	171	217
Trade and other receivables	6	26
Financial assets at fair value through other comprehensive income	24,500	20,400
	24,677	20,643

The Fund manages credit risk in a number of ways with an independent credit committee to opine on the credit risk the Fund holds. An example of how the Fund manages credit risk is detailed below:

*Due diligence*

Prior to completion of a transaction with a borrower, the Fund undertakes a detailed due diligence process to assess the credit risk of a counterparty. The due diligence process is conducted in line with the Fund's risk appetite statement and provides a research framework to the Funds investment committee reports. Due diligence is conducted on an internal basis and in many cases will involve the Fund engaging with third party independent experts to support the Fund credit risk analysis. External due diligence providers may, from time to time, provide reports across financial, tax and legal due diligence, environmental, operational or valuation reports dependent on the requirements of the underlying structure and each transaction. Prior to entering a transaction with a borrower, each transaction must receive approval from the Fund's independent credit committee and investment committee.

*Portfolio monitoring*

It is customary for loan documentation in many corporate senior and mezzanine loans to contain financial and non-financial undertakings that often includes financial reporting and covenants. Loan exposures within the portfolio are monitored monthly with quarterly reports provided to the Investment Committee outlining an overview of each transaction and its ongoing compliance with covenants and other non-financial undertakings. The portfolio management team has primary responsibility for the reconciliation of interest and fees under each loan, engages with borrowers on a regular basis and prepares financial analysis and ongoing diligence on each transaction on a periodic basis.

*Ratings*

Transactions are rated by the Fund utilising third party risk analytics models that are customary in loan markets. These risk models utilise both quantitative and qualitative data, in conjunction with broader industry and industry data to determine an effective rating for each borrower. Borrower ratings are completed prior to the completion of a transaction and form an integral part of the due diligence process, particularly in determining price and valuation of an exposure. The Fund, through its portfolio management, conducts regular risk ratings on a periodic basis.

*Independent Review*

From time to time the Fund may engage with external consultants to review and undertake an independent assessment of a sample of the Fund's exposures to determine appropriateness of loan pricing and valuation.

At reporting date, there has been no significant deterioration in the credit risk of financial assets and nothing is credit impaired, and all amounts are expected to be received in full. A significant deterioration is assessed as a reduction in the credit rating determined for the counterparty.

**Concentration risk**

Concentration risk is risk arising from a portfolio's exposure to a single counterparty, economic industry or geographic location. As the Fund is operating in its early stages, concentration risk exists and is expected to reduce over time as the Fund grows its assets. The current market and economic conditions which aren't conducive to raising capital and growing the fund, may delay the ability for the Fund to reduce concentration risk through growing its assets.

**Price risk**

Price risk is the risk that the fair value of investments will change as a result of changes in market prices, whether those changes are caused by factors specific to the individual security or factors affecting all instruments in the market. The Fund reviews the carrying value of assets in the Fund on a regular basis using market prices of transactions in the market where there are similar characteristics, including tenure, credit profile and structure. Any change in fair value is reflected in the income of the Fund.

**Note 9. Other financial assets and liabilities (continued)**

**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 risk by ensuring that there is sufficient cash on hand to meet the contractual obligations of financial liabilities as they fall due.

The maturities of financial liabilities at reporting date based on the contractual terms of each liability in place at reporting date have been disclosed in a table below. There are no financial liabilities where the fair value would be materially different from the amortised cost. The amounts disclosed are based on undiscounted cash flows.

	Carrying amount \$'000	Contractual cash flow \$'000	Less than 1 year \$'000	Between 1-5 years \$'000	Over 5 years \$'000
<b>30 June 2022</b>					
Trade and other payables	24	24	24	-	-
Distribution payable	124	124	124	-	-
	148	148	148	-	-
<b>30 June 2021</b>					
Trade and other payables	33	33	33	-	-
Distribution payable	104	104	104	-	-
	137	137	137	-	-

**Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and 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 Fund's 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**

Interest rate risk is the risk that an investment's value will fluctuate as a result of changes in the market interest rate. The Fund invests in fixed and floating rate loan corporate loans that may, from time to time, be affected by changes to market interest rates. The Fund currently has fixed rate investments with predictability in the income received from the underlying investment.

The table below summarises the overall impact of an increase/decrease of interest rates on the Fund's net profit and net assets from a change in interest rates of +100/-50 basis points. The sensitivity is based on management's best estimate of a reasonable possible movement in interest rates and includes the net impact of changes to the Fund's contractual cash flows and fair value adjustments of financial assets held at fair value through other comprehensive income.

	Net profit		Net Assets	
	30 June 2022	30 June 2021	30 June 2022	30 June 2021
	\$'000	\$'000	\$'000	\$'000
+1% (100 basis points)	2	2	(596)	2
-0.5% (50 basis points)	(1)	(1)	304	(1)

**Other markets risk**

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

**Note 10. Fair value measurement**

*Fair value hierarchy*

The following tables detail the Fund's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

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

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

Level 3: Unobservable inputs for the asset or liability

<b>30 June 2022</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Financial assets at fair value through other comprehensive income	-	-	24,500	24,500
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>24,500</b>	<b>24,500</b>

<b>30 June 2021</b>	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<i>Assets</i>				
Financial assets at fair value through other comprehensive income	-	-	20,400	20,400
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>20,400</b>	<b>20,400</b>

There were no transfers between levels during the financial year.

Included within Level 1 of the hierarchy are listed investments. The fair values of these financial assets have been based on the closing quoted bid prices at reporting date, excluding transaction costs.

In valuing the unlisted investments held in the prior financial year included in Level 2 of the hierarchy, valuation techniques including valuation of the security by banks and brokers has been adopted to determine the fair value for this investment.

The Fund's Level 3 assets represented its private credit loan portfolio of \$24.5 million (2021: \$20.4 million). The value of this investment is held at fair value through other comprehensive income as the objective of the investment is achieved by both collecting the contractual cash flows and selling the financial asset as deemed necessary in order to manage the overall portfolio. By its nature as a private credit transaction, the investment has been classified as a Level 3 Asset as its valuation depends on inputs which are not directly or indirectly observable in active markets; the assessment of the investment's performance and valuation is performed at regular intervals as detailed in Note 9 'Other financial assets and liabilities'. Inputs used to determine fair value include amongst other factors comparable market interest rates, risk profile of the borrower and performance of the borrower. The Fund has determined that the fair value of the loans has not changed since the loans were originated.

**Note 11. Capital commitments and contingencies**

Loan facilities provided by the Fund to borrowers have been fully drawn, there are no capital commitments as at 30 June 2022 which have not been disclosed in the balance sheet (2021: nil).

**Note 12. Events after the reporting period**

In June 2022, the Responsible Entity announced that it had commenced a strategic review of the Fund following recent changes to the interest rate environment which it believes will impact the ability to scale the Fund, resulting in poor trading liquidity and continuing discount in its trading price compared to its NTA value.

The Fund's capital is fully deployed, and its loan investments continue to perform and the borrowers remain within their loan covenants. The Fund continues to trade at a discount to its NTA, however, has improved slightly since 30 June 2022. The loans are expected to continue to perform and the Fund to continue to pay a distribution of \$0.36 per unit, per annum.

The borrower's business continues to expand and may need expansion capital as part of its growth strategy. The Fund is currently not in a position to provide this growth capital and alternatively if the borrower seeks alternative capital this may result in the repayment of the Fund's loan.

The Responsible Entity has investigated the option of potentially selling the loans to distribute the capital back to unitholders. Given the current uncertain economic environment and potential future capital requirements of the borrowers business, this is problematic at this time.

The loans expire in March 2025 and the borrower has been informed that the Fund will not be extending these loans, however, for the reasons stated above, the loans may be repaid before this date.

The Responsible Entity intends to continue to operate the Fund until such time as these loans are repaid. 360 Capital Group is the largest unitholder in the Fund owning 16.4%.

Upon the loans being repaid, the Responsible Entity will consult with unitholders about the future direction of the Fund, taking into consideration the illiquidity of the Fund, and market conditions at this time. Until this time, it is intended to keep the Fund listed on the ASX providing unitholders the opportunity to liquidate their position if required or purchase further units.

No other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Fund's operations, the results of those operations, or the Fund's state of affairs in future financial years.

**Note 13. Remuneration of auditors**

During the financial year the following fees were paid or payable to the auditor of the Fund, Ernst & Young (2021: Ernst & Young) for services provided:

	30 June 2022	30 June 2021
	\$	\$
<i>Audit services - Ernst &amp; Young</i>		
Audit of the financial statements	33,313	32,500
<i>Other services - Ernst &amp; Young</i>		
Taxation compliance services	2,300	2,300
	35,613	34,800
<i>Audit services - BDO</i>		
Audit of the financial statements	-	3,450



**Note 14. Earnings per unit**

	30 June 2022 cents	30 June 2021 cents
Basic and diluted earnings per unit	36.2	15.9
	30 June 2022 \$'000	30 June 2021 \$'000
Profit attributable to unitholders of the Fund used in calculating earnings per unit	1,378	459
	30 June 2022 000's	30 June 2021 000's
Weighted average number of units - basic and diluted	3,803	2,890

**Note 15. Related party transactions**

**Responsible entity**

The responsible entity of the Fund is 360 Capital FM Limited (CFML) (ABN 15 090 664 396) (AFSL No 221474).

On 9 September 2020, unitholders of the Fund passed a resolution to change the responsible entity from Elstree Investment Management Limited (EIML) to 360 Capital FM Limited (CFML). The change in responsible entity was effective from this date.

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

Suite 3701, Level 37, 1 Macquarie Place, Sydney NSW 2000 Australia

**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. At its discretion, CFML has waived part of its management fees. Management fees paid/payable during the year are as follows:

	30 June 2022 \$	30 June 2021 \$
<b>Fees paid/payable by the Fund:</b>		
Management fees - CFML	134,543	54,405
Management fees - EIML	-	27,816
	134,543	82,221

*Management fee:* The Responsible Entity is entitled to a Management Fee of 0.85% p.a. of the total assets of the Fund during the relevant year for its role in managing and administering the Fund. During the year, the Responsible Entity waived Management Fee of \$60,151 (2021: \$63,728).

*Recoverable expenses:* The Responsible Entity is entitled to recover all expenses properly incurred in managing and administering the Fund. During the year, \$53,034 (2021: \$4,256) was recovered by the Responsible Entity. The Responsible Entity paid for equity raising costs on behalf of the Fund, at its discretion the Responsible Entity elected not to recover these expenses from the Fund.

*Indirect costs:* The Responsible Entity is entitled to recover indirect costs, being any amounts that directly or indirectly reduce the returns on the units of the Fund, or the amount of income or assets of the Fund.

**Note 15. Related party transactions (continued)**

**Unitholdings**

The Responsible Entity or other funds managed by and related to the Responsible Entity held units in the Fund as follows:

	30 June 2022 %	30 June 2022 units	30 June 2021 %	30 June 2021 units
<i>360 Capital Diversified Property Fund</i>				
Units held	16.4%	676,974	19.3%	667,333

**Distributions**

Distributions paid by the Fund to entities related to the Responsible Entity are as follows:

	30 June 2022 \$	30 June 2021 \$
<i>360 Capital Diversified Property Fund</i>		
Distributions paid/payable by the Fund	241,412	58,013

**Key management personnel**

The Fund does not employ personnel in its own right. However, it has an appointed responsible entity to manage the activities of the Fund. The Directors and key management personnel of the responsible entity are detailed below.

Payments made by the Fund to the responsible entity do not specifically include any amounts attributable to the compensation of directors or key management personnel of the responsible entity.

The following persons were directors of the Responsible Entity up to the date of this report:

- David van Aanholt (Deputy Chairman)
- Tony Robert Pitt (Executive Chairman)
- William John Ballhausen
- Andrew Graeme Moffat
- Anthony Gregory McGrath (appointed 1 March 2022)

The Fund did not grant any units, options, or loans to directors or key management personnel through the year (2021: nil).

The number of securities held directly or indirectly by directors and their related parties as at 30 June 2022 are as follows:

Name	Position	30 June 2021			30 June 2022
		Units held	Acquisitions	Disposals	Units held
David Van Aanholt	Director	10,000	10,000	-	20,000

**Receivable from and payable to related parties**

The following balances are outstanding at the reporting date in relation to transactions with the responsible entity at that date:

	30 June 2022 \$	30 June 2021 \$
<i>Current payables</i>		
Trade and other payables	18,011	13,747

**Note 15. Related party transactions (continued)**

**Indemnity and insurance of officers**

During the financial year, the Responsible Entity has paid insurance premiums to insure each of its 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 willful breach of duty in relation to the Responsible Entity. Insurance premiums are paid out of 360 Capital Group and not out of the assets of the Fund. 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.

**Note 16. Significant accounting policies**

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

**New or amended Accounting Standards and Interpretations adopted**

The Fund has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to its operations and effective for an accounting period that begins on or after 1 July 2021.

These new and revised Standards and Interpretations had no impact on the financial statements of the Fund.

New and revised Standards and amendments thereof and Interpretations effective for the current year that are relevant to the Fund include:

- AASB 2020-8 *Amendments to Australian Accounting Standards - Interest Rate Benchmark Reform - Phase 2*

**Income recognition**

The Fund recognises income as follows:

*Interest*

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.

**Income tax**

Under current legislation, the Fund is not subject to income tax provided it distributes the entirety of its taxable income, including realised capital gains, to its unitholders.

**Current and non-current classification**

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the Fund's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the Fund's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

**Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Note 16. Significant accounting policies (continued)**

**Trade and other receivables**

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The Fund has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

**Investments and other financial assets**

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the Fund has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

*Financial assets at fair value through other comprehensive income*

The Fund classifies its investment loan portfolio based on its business model for managing financial assets and its objectives in investments. The Fund invests in corporate loans with long dated maturities that give rise to repayments of principal and interest on specific dates, however in order to actively manage a long term diversified portfolio, the Fund may from time to time, sell part or all of its loan investments to recycle capital from loan investments that may be more suitable to the Funds strategy, objectives or return profile. Consequently, the Responsible Entity has determined that the business model of the Fund is to collect and sell its contractual cash flows and therefore loan assets meet the criteria of financial assets being classified mandatorily at fair value through other comprehensive income.

*Financial assets at fair value through profit or loss*

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss

*Impairment of financial assets*

The Fund recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the Fund's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

The expected credit loss for debt instruments measured at fair value through other comprehensive income do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in other comprehensive income as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in other comprehensive income is recycled to the profit and loss upon derecognition of the assets.

**Trade and other payables**

These amounts represent liabilities for goods and services provided to the Fund prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

**Fair value measurement**

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

**Note 16. Significant accounting policies (continued)**

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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

**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.

**Goods and Services Tax ('GST') and other similar taxes**

Income, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as 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 tax authority is included in other receivables or other 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 tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

**New Accounting Standards and Interpretations not yet mandatory or early adopted**

At the date of authorisation of the financial statements, the Fund has not applied or early adopted the following new and revised Australian Accounting Standards, Interpretations and amendments that have been issued but are not yet effective:

- AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments* (application 1 January 2022)
- AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-Current* (application 1 January 2023)
- AASB 2020-6 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current – Deferral of Effective Date* (application 1 January 2023)
- AASB 2021-2 *Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates* (application 1 January 2023)

360 Capital Enhanced Income Fund  
Directors' declaration  
For the year ended 30 June 2022

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

- (1) The attached financial statements and notes 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 2022 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards, the *Corporations regulations 2001* and other mandatory professional reporting requirements; and
  - (iii) the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 7 'Basis of preparation' to the financial statements.
- (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.

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



David van Aanholt  
Deputy Chairman



Tony Robert Pitt  
Executive Chairman

11 August 2022



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## **Independent auditor's report to the unitholders of 360 Capital Enhanced Income Fund**

### **Report on the audit of the financial report**

#### **Opinion**

We have audited the financial report of 360 Capital Enhanced Income Fund (the Fund), which comprises the statement of financial position as at 30 June 2022, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a. Giving a true and fair view of the Fund's financial position as at 30 June 2022 and of its 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 (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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 each 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 matters below, provide the basis for our audit opinion on the accompanying financial report.



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## Recoverability of Loans Receivable

Why significant	How our audit addressed the key audit matter
<p>At 30 June 2022 the Fund’s statement of financial position includes loans receivable with a carrying value of \$24.5m, representing 99% of total assets.</p> <p>The directors of the Responsible Entity have assessed the fair value of the loans at 30 June 2022. As disclosed within note 10 to the financial statements, the assessment of the fair value of the loans incorporated significant judgments and estimates, based upon conditions that existed at 30 June 2022, specifically forecast cashflows, market interest rates, and the credit rating of the borrower.</p> <p>The significant assumptions used in the fair value assessment referred to above are inherently subjective.</p> <p>The disclosures in the financial report provide important information about the assumptions made in the fair value assessment and the market conditions at 30 June 2022. As a result, we considered the fair value assessment and the related disclosures in the financial report to be particularly significant to our audit.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>▶ Evaluated the process that management and the directors have undertaken to assess the fair value of the loans receivable.</li> <li>▶ Reperformed the fair value calculation with involvement from our valuation specialists.</li> <li>▶ Evaluated the appropriateness of the forecast cashflows, market interest rates, and credit rating used in the fair value assessment with the involvement from our valuation specialists</li> <li>▶ Assessed the adequacy of the financial report disclosures contained in note 10.</li> </ul>

### Information other than the financial report and auditor’s report thereon

The directors are responsible for the other information. The other information comprises the information included in the Fund’s 2022 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 Fund 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.





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In preparing the financial report, the directors 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.
- ▶ 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 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.



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We also provide the directors 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, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, 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.

A handwritten signature in black ink that reads "Ernst &amp; Young" with a period at the end.

Ernst & Young

A handwritten signature in black ink that reads "Douglas Bain" with a long horizontal line extending to the right.

Douglas Bain  
Partner  
Sydney  
11 August 2022

360 Capital Enhanced Income Fund  
 Unitholder information for the year ended  
 30 June 2022

The information below was prepared as at 1 August 2022.

**a) Top 20 registered unitholders**

Unitholder Name	Units held	% of issued units
360 CAPITAL FM LIMITED <360 CAP DIV PROP FUND A/C>	600,808	14.54
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	168,070	4.07
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	163,681	3.96
360 CAPITAL FM LIMITED <360 CAP DIV PROP FUND A/C>	66,525	1.61
VENUSAPPHIRE HOLDINGS PTY LTD <HOGODT INVESTMENT A/C>	60,537	1.47
CAPRICORN INVESTMENT PARTNERS (NOMINEES) PTY LTD <POSTNECK S/F A/C>	42,878	1.04
CAPRICORN INVESTMENT PARTNERS NOMINEES PTY LTD <KAREN BOYLAND SF AC>	34,511	0.84
BT PORTFOLIO SERVICES LIMITED <H & G EULENSTEIN S/F A/C>	34,443	0.83
MSC WONG PTY LTD <MSC WONG FAMILY A/C>	33,670	0.81
CAPRICORN INVESTMENT PARTNERS (NOMINEES) PTY LTD <MJ & PM CRANNY S/F A/C>	33,420	0.81
CAPRICORN INVESTMENT PARTNERS (NOMINEES) PTY LTD <LESLEY F HARRINGTON A/C>	32,996	0.80
BT PORTFOLIO SERVICES LIMITED <RJ BISHOP & SON S/F A/C>	30,000	0.73
BT PORTFOLIO SERVICES LIMITED <BLENHEIM INVESTMENT A/C>	30,000	0.73
BT PORTFOLIO SERVICES LIMITED <THE WJ & PA INGRAM S/F A/C>	30,000	0.73
CAPRICORN INVESTMENT PARTNERS (NOMINEES) PTY LTD <PAUL & LYNETTE RACKEMANN S/F A/C>	29,461	0.71
CELLAR STOCKS PTY LTD <CELLAR INVESTMENT A/C>	26,000	0.63
OTWAY INVESTMENTS NO3 PTY LTD <NJ AND KA OCONNOR S/F A/C>	26,000	0.63
SAFETYFIRST PTY LTD <MALONEY FAMILY S/F A/C>	25,000	0.61
BOND STREET CUSTODIANS LIMITED <DARGOL - D73993 A/C>	25,000	0.61
COLE WHITEHURST PTY LTD <COLE WHITEHURST SUPER A/C>	24,218	0.59
<b>Total units held by top 20 unitholders</b>	<b>1,517,218</b>	<b>36.72</b>
<b>Total units on issue</b>	<b>4,131,427</b>	<b>100.00</b>

**b) Distribution of unitholders by holding size**

Number of units held by unitholders	Number of holders	Units held	% of issued units
1 to 1,000	143	66,853	1.62
1,001 to 5,000	283	820,543	19.86
5,001 to 10,000	112	798,164	19.32
10,001 to 100,000	76	1,513,308	36.63
100,001 and over	3	932,559	22.57
<b>Totals</b>	<b>617</b>	<b>4,131,427</b>	<b>100.00</b>

The total number of unitholders with less than a marketable parcel was 71 and they hold 9,964 units.

**c) Substantial unitholder notices**

Unitholder Name	Date of notice	Units held	% of issued units
360 CAPITAL FM LIMITED <360 CAP DIV PROP FUND A/C>	27/6/2022	676,974	16.39

**d) Voting rights:**

Subject to the Constitution of 360 Capital Enhanced Income Fund and to any rights or restrictions for the time being attached to any units:

- on a show of hands, each unitholder present in person or by proxy, attorney, or representative has one vote; and
- on a poll, each unitholder has one vote for each unit in 360 Capital Enhanced Income Fund held.

**Directors & Officers**

Non-Executive Directors

David van Aanholt (Deputy Chairman)  
William John Ballhausen  
Andrew Graeme Moffat  
Anthony Gregory McGrath (appointed 1 March 2022)

Executive Director

Tony Robert Pitt (Executive Chairman)

Officers

Glenn Butterworth – Chief Financial Officer and Joint Company Secretary  
Kimberley Child – Joint Company Secretary

**Responsible Entity**

360 Capital FM Limited  
ACN 090 664 396  
AFSL 221 474  
Suite 3701, Level 37, 1 Macquarie Place, Sydney NSW 2000 Australia  
Telephone 02 8405 8860  
Email: investor.relations@360capital.com.au

**Unit Registry**

Boardroom Pty Limited  
ACN 003 209 836  
Grosvenor Place, Level 12, 255 George Street Sydney NSW 2000  
Telephone 1300 082 130  
Email: enquiries@boardroomlimited.com.au

**Auditor**

Ernst & Young  
200 George Street Sydney NSW 2000

**Website**

[www.360capital.com.au](http://www.360capital.com.au)

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