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Audited Annual Report

JPMorgan Global Strategic Bond Fund

(ARSN 166 529 791)

30 June 2017

# **JPMorgan Global Strategic Bond Fund**

ARSN 166 529 791

**Annual report**  
**for the year ended 30 June 2017**

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ARSN 166 529 791

## Annual report for the year ended 30 June 2017

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

## Directors' report

The directors of Perpetual Trust Services Limited, (the "Responsible Entity") of JPMorgan Global Strategic Bond Fund (the "Fund"), present their report together with the financial statements, for the year ended 30 June 2017.

### Principal activities

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

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

The Fund did not have any employees during the year.

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

### Directors

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

Cannane, Andrew Vincent	(Alternate: Ellwood, Rodney Garth	Resigned 03/04/2017)
	(Alternate: Riggio, Vicki	Appointed 01/11/2016)
Vainauskas, Michael Henry	(Alternate: Mclver, Andrew	Appointed 13/01/2017)
Green, Christopher	(Alternate: Ellwood, Rodney Garth	Appointed 07/12/2015)
Foster, Glenn Stephen	(Alternate: Wesley, Neil	Appointed 13/01/2017)
	(Alternate: Wesley, Neil	Resigned 14/07/2017)
	(Alternate: Larkins, Gillian	Appointed 14/07/2017)

### Review of operations

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

#### *Unit Redemption Prices*

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

	Year ended	
	30 June 2017 \$'000	30 June 2016 \$'000
Redemption value of outstanding units	152,911	30,373
Adjustments for differences in valuation inputs	(36)	(68)
Net assets attributable to unitholders	152,875	30,305

## Directors' report (continued)

### Results

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

	Year ended	
	30 June 2017	30 June 2016
Operating profit before finance costs attributable to unitholders (\$'000)	<b>2,505</b>	1,378
<i>Distributions</i>		
Distribution paid and payable (\$'000)	<b>2,330</b>	1,214
Distribution (cents per unit)	<b>2.76</b>	4.16

### Significant changes in state of affairs

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

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

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

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

### Likely developments and expected results of operations

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

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

### Indemnity and insurance of officers and auditors

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

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

Fees paid to the Responsible Entity and its associates out of the Fund's property during the year are disclosed in Note 16 to the financial statements.

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

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are also disclosed in Note 16 to the financial statements.

## Directors' report (continued)

### Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 11 to the financial statements.

The value of the Fund's assets and liabilities is disclosed on the Balance sheet and derived using the basis set out in Note 2 to the financial statements.

### Environmental regulation

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

### Rounding of amounts to the nearest thousand dollars

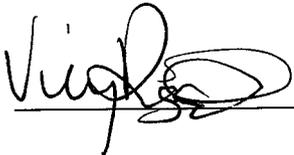
The Fund is a registered scheme of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and the financial statements have been rounded with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, unless otherwise indicated.

### Auditor's independence declaration

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

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

Director

  
\_\_\_\_\_

Sydney

18 September 2017



## Auditor's Independence Declaration

As lead auditor for the audit of JPMorgan Global Strategic Bond Fund for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'Chris Cooper', with a horizontal line underneath.

Chris Cooper  
Partner  
PricewaterhouseCoopers

Sydney  
18 September 2017

**JPMorgan Global Strategic Bond Fund**  
**Statement of comprehensive income**  
**For the year ended 30 June 2017**

**Statement of comprehensive income**

	Note	Year ended	
		30 June 2017 \$'000	30 June 2016 \$'000
<b>Investment and other income</b>			
Interest income		2,490	1,125
Net gains on financial instruments held at fair value through profit or loss	6	515	439
Management costs reimbursement	16	233	221
<b>Total net investment and other income</b>		<b>3,238</b>	<b>1,785</b>
<b>Expenses</b>			
Management costs	16	725	406
Transaction costs		8	1
<b>Total operating expenses</b>		<b>733</b>	<b>407</b>
<b>Operating profit</b>		<b>2,505</b>	<b>1,378</b>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	12	(2,330)	(1,214)
Increase in net assets attributable to unitholders	11	(175)	(164)
<b>Profit/(loss) for the year</b>		<b>-</b>	<b>-</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>

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

**Balance sheet**

		As at	
		30 June	30 June
		2017	2016
	Note	\$'000	\$'000
<b>Assets</b>			
Cash and cash equivalents	13	8,844	2,765
Margin accounts		1,007	88
Receivables		150	91
Accrued income		1,226	211
Due from brokers - receivable for securities sold		337	1,588
Financial assets held at fair value through profit or loss	7	<u>153,341</u>	<u>31,857</u>
<b>Total assets</b>		<u>164,905</u>	<u>36,600</u>
<b>Liabilities</b>			
Distribution payable	12	1,074	359
Payables		298	105
Due to brokers - payable for securities purchased		10,190	5,507
Financial liabilities held at fair value through profit or loss	8	<u>468</u>	<u>324</u>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>12,030</u>	<u>6,295</u>
<b>Net assets attributable to unitholders - liability</b>	11	<u>152,875</u>	<u>30,305</u>

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

**JPMorgan Global Strategic Bond Fund**  
**Statement of changes in equity**  
**For the year ended 30 June 2017**

**Statement of changes in equity**

	Year ended	
	30 June	30 June
	2017	2016
	\$'000	\$'000
<b><i>Total equity at the beginning of the financial year</i></b>	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
	<u>-</u>	<u>-</u>
<b><i>Total comprehensive income</i></b>	-	-
Transactions with owners in their capacity as owners	-	-
	<u>-</u>	<u>-</u>
<b><i>Total equity at the end of the financial year</i></b>	<u>-</u>	<u>-</u>

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result there was no equity at the start or end of the year

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

**JPMorgan Global Strategic Bond Fund**  
**Statement of cash flows**  
**For the year ended 30 June 2017**

**Statement of cash flows**

	Note	Year ended	
		30 June 2017 \$'000	30 June 2016 \$'000
<b>Cash flows from operating activities</b>			
Proceeds from sale of financial instruments held at fair value through profit or loss		181,442	71,864
Purchase of financial instruments held at fair value through profit or loss		(297,234)	(73,303)
Transaction costs of financial instruments held at fair value through profit or loss		(8)	(1)
Interest received		1,457	1,144
Management costs reimbursement received		174	172
Management costs paid		(510)	(353)
Payment of other expenses		(22)	(31)
<b>Net cash outflow from operating activities</b>	14(a)	<b>(114,701)</b>	<b>(508)</b>
<b>Cash flows from financing activities</b>			
Proceeds from applications by unitholders		143,867	8,954
Payments for redemptions by unitholders		(21,851)	(7,588)
Distributions paid from operating activities		(1,236)	(249)
<b>Net cash inflow from financing activities</b>		<b>120,780</b>	<b>1,117</b>
<b>Net increase in cash and cash equivalents</b>		<b>6,079</b>	<b>609</b>
Cash and cash equivalents at the beginning of the year		2,765	2,137
Effects of foreign currency exchange rate changes on cash and cash equivalents		-	19
<b>Cash and cash equivalents at the end of the year</b>	13	<b>8,844</b>	<b>2,765</b>
Non-cash financing activities	14(b)	<b>379</b>	<b>606</b>

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

## **1 General information**

These general purpose financial statements cover JPMorgan Global Strategic Bond Fund (the "Fund") as a registered managed investment scheme. The Fund was constituted on 29 October 2013.

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

The Fund invests the majority of its assets, either directly or through the use of financial derivative instruments, in debt securities, including debt securities issued by governments and their agencies, state and provincial governmental entities and supranational organisations, corporate debts securities, asset-backed securities and mortgage-backed securities and currencies. Issuers of these securities are located in any country, including emerging markets. The investment policy of the Fund continues to be in accordance with the provisions of the Fund's Constitution.

The financial statements were authorised for issue by the Directors on 18 September 2017. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

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

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

### **(a) Basis of preparation**

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

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

The Balance sheet is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non current. All material balances are expected to be recovered or settled within 12 months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled within 12 months after the end of each reporting period cannot be reliably determined.

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

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders. The units are classified as financial liabilities as the Fund is required to distribute its distributable income, in accordance with the Fund's constitution.

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

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

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

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2016 that have a material impact on the Fund.

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments

#### (i) Classification

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

- Financial instruments held for trading

Derivative financial instruments such as futures, forward currency contracts are included under this classification. The Fund does not designate any derivatives as hedges in a hedging relationship.

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

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold. These are investments in equity securities, listed unit trusts, unlisted unit trusts, fixed interest securities and money market securities.

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

#### (ii) Recognition / derecognition

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

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

#### (iii) Measurement

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

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

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

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

#### (iv) Offsetting financial instruments

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

### (c) Net assets attributable to unit holders

Units are redeemable at the unitholders' option and are classified as financial liabilities as the Fund is required to distribute its taxable income. However, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders. The units can be put back to the Fund at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to redeem units in the Fund. As the Fund's redemption unit price is based on different valuation principles to that applied in Financial Reporting, a valuation difference exists which is treated as a separate component of net assets attributable to unitholders. Changes in the value of this financial liability are recognised in the profit or loss as they arise.

### (d) Cash and cash equivalents

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

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

## 2 Summary of significant accounting policies (continued)

### (e) Margin accounts

Margin accounts comprise cash held as collateral for derivative transactions and short sales. The cash is held by the broker and is only available to meet margin calls.

### (f) Investment income

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

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Trust distributions are recognised on an entitlement basis.

### (g) Expenses

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

### (h) Income tax

Under current legislation, the Fund is not subject to income tax as unitholders are presently entitled to the income of the Fund.

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

### (i) Distributions

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

### (j) Increase/decrease in net asset attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the Statement of comprehensive income as finance costs.

### (k) Foreign currency translation

#### (i) Functional and presentation currency

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

#### (ii) Transactions and balances

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

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

## 2 Summary of significant accounting policies (continued)

### (l) Due from/to brokers

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

### (m) Receivables and accrued income

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

### (n) Payables

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

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

### (o) 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.

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

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

### (q) Comparative revisions

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

### (r) Use of estimates

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

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

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

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

## 2 Summary of significant accounting policies (continued)

### (s) New accounting standards and interpretations

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

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

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

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

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

The Fund has not yet decided when to adopt AASB 9.

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

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

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

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

### (t) Rounding of amounts

The Fund is a registered scheme of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and the financial statements have been rounded in accordance with ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191, unless otherwise indicated.

### 3 Financial risk management

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

The Fund's overall risk management programme focuses on ensuring compliance with the governing documents of the Fund and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. The Fund uses derivative financial instruments to moderate and create certain risk exposures. Financial risk management is carried out by the Investment Manager.

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

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

#### (a) Market risk

##### (i) Price risk

The Fund is exposed to debt securities and derivative price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Where non-monetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates.

At 30 June, the Fund's overall exposure to securities which are subject to price risk including notional exposure on derivative contracts was as follows:

	<b>30 June 2017</b>	30 June 2016
	<b>\$'000</b>	\$'000
Net physical securities (designated at fair value through profit or loss)	<b>152,873</b>	31,533
Net notional exposure derivatives	<b>(6,827)</b>	19,481
Total exposure to price risk	<b><u>146,046</u></b>	<u>51,014</u>

The table presented in Note 3(b) summarises the impact on operating profit before finance costs attributable to unitholders and liabilities attributable to unitholders from possible changes in market prices that were reasonably based on the risk that the Fund was exposed to at reporting date.

The sensitivity rate used for calculating price risk as at 30 June 2016 has been changed to reflect current year assessment.

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (ii) Foreign exchange risk

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

The Fund has exposure to foreign assets and holds both monetary and non monetary assets denominated in currencies other than the Australian dollar. Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates. The risk is measured using sensitivity analysis.

The tables below summarise the Fund's assets and liabilities that are denominated in a currency other than the Australian dollar.

	US Dollars \$'000	Euros \$'000	British Pounds \$'000	Japanese Yen \$'000	Other Currencies \$'000
<b>30 June 2017</b>					
<b>Assets</b>					
Cash and cash equivalents	4,250	128	9	23	-
Margin accounts	1,056	-	-	-	-
Receivables	-	26	12	-	-
Accrued income	832	102	8	1	279
Due from brokers - receivable for securities sold	338	-	-	-	-
Financial assets held at fair value through profit or loss	108,304	7,490	477	10,293	11,124
<b>Total assets</b>	<b>114,780</b>	<b>7,746</b>	<b>506</b>	<b>10,317</b>	<b>11,403</b>
<b>Liabilities</b>					
Margin accounts	-	(48)	-	-	-
Due to brokers - payable for securities purchased	(9,859)	(330)	-	-	-
Financial liabilities held at fair value through profit or loss	(402)	(45)	-	(1)	(20)
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>(10,261)</b>	<b>(423)</b>	<b>-</b>	<b>(1)</b>	<b>(20)</b>
Net increase/(decrease) in exposure from foreign currency derivatives					
- Buy foreign currency	11,406	827	-	31	2,971
- Sell foreign currency	(126,305)	(8,032)	(483)	(10,407)	(4,355)
<b>Net exposure including foreign currency derivatives</b>	<b>(10,380)</b>	<b>118</b>	<b>23</b>	<b>(60)</b>	<b>9,999</b>

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (ii) Foreign exchange risk (continued)

	US Dollars \$'000	Euros \$'000	British Pounds \$'000	Other Currencies \$'000
30 June 2016				
<b>Assets</b>				
Cash and cash equivalent	1,083	3	-	-
Margin accounts	88	-	-	-
Receivables	-	25	11	-
Accrued income	130	61	17	-
Due from brokers - receivable for securities sold	1,588	-	-	-
Financial assets held at fair value through profit or loss	19,090	3,891	2,068	37
<b>Total assets</b>	<u>21,979</u>	<u>3,980</u>	<u>2,096</u>	<u>37</u>
<b>Liabilities</b>				
Due to brokers - payable for securities purchased	(5,428)	-	(79)	-
Financial liabilities held at fair value through profit or loss	(107)	-	-	(80)
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<u>(5,535)</u>	<u>-</u>	<u>(79)</u>	<u>(80)</u>
Net increase/(decrease) in exposure from foreign currency forward contracts				
- Buy foreign currency	1,569	2,903	7	-
- Sell foreign currency	(18,066)	(6,832)	(1984)	-
<b>Net exposure including foreign currency forward contracts</b>	<u>(53)</u>	<u>51</u>	<u>40</u>	<u>(43)</u>

As at 30 June 2017, the Fund held forward currency contracts with a notional exposure of \$134,346,428 (2016: \$22,361,106).

The table in Note 3(b) summaries the sensitivities of the Fund's monetary assets and liabilities to foreign exchange risk based on the Investment Manager's best estimate of a reasonably possible shift in the foreign exchange rates, having regard to historical volatility of those rates.

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

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

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk.

The Fund's interest bearing financial assets and financial liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

The table below summarises the Fund's exposure to interest rate risk. It includes the Fund's assets and liabilities at fair value.

30 June 2017	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>Financial assets</b>				
Cash and cash equivalents	8,844	-	-	8,844
Margin accounts	1,007	-	-	1,007
Receivables	-	-	150	150
Accrued income	-	-	1,226	1,226
Due from brokers - receivables for securities sold	-	-	337	337
Financial assets held at fair value through profit or loss	7,212	125,914	20,215	153,341
<b>Total Assets</b>	<b>17,063</b>	<b>125,914</b>	<b>21,928</b>	<b>164,905</b>
<b>Financial liabilities</b>				
Distribution payable	-	-	1,074	1,074
Payables	-	-	298	298
Due to brokers - payable for securities purchased	-	-	10,190	10,190
Financial liabilities held at fair value through profit or loss	84	120	264	468
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>84</b>	<b>120</b>	<b>11,826</b>	<b>12,030</b>
<b>Net assets attributable to unitholders - liability</b>	<b>16,979</b>	<b>125,794</b>	<b>10,102</b>	<b>152,875</b>
Net increase/(decrease) in exposure from International fixed interest futures	-	(49,637)	-	(49,637)
Net increase/(decrease) in exposure from International money market futures	-	(91,536)	-	(91,536)
<b>Net exposure</b>	<b>16,979</b>	<b>(15,379)</b>	<b>10,102</b>	<b>11,702</b>

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

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

30 June 2016	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>Financial assets</b>				
Cash and cash equivalents	2,765	-	-	2,765
Margin accounts	88	-	-	88
Receivables	-	-	91	91
Accrued income	-	-	211	211
Due from brokers - receivables for securities sold	-	-	1,588	1,588
Deferred tax asset	-	-	-	-
Financial assets held at fair value through profit or loss	6,196	18,861	6,800	31,857
<b>Total Assets</b>	<u>9,049</u>	<u>18,861</u>	<u>8,690</u>	<u>36,600</u>
<b>Financial liabilities</b>				
Distribution payable	-	-	359	359
Payables	7	-	98	105
Due to brokers - payable for securities purchased	-	-	5,507	5,507
Financial liabilities held at fair value through profit or loss	-	84	240	324
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<u>7</u>	<u>84</u>	<u>6,204</u>	<u>6,295</u>
<i>Net assets attributable to unitholders - liability</i>	<u>9,042</u>	<u>18,777</u>	<u>2,486</u>	<u>30,305</u>
<b>Net increase/(decrease) in exposure from International money market futures</b>				
	-	(2,880)	-	(2,880)
<b>Net exposure</b>	<u>9,042</u>	<u>15,897</u>	<u>2,486</u>	<u>27,425</u>

An analysis of financial liabilities by maturities is provided in Note 3(d)

### 3 Financial risk management (continued)

#### (b) Summarised sensitivity analysis

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

#### Impact on operating profit and net assets attributable to unitholders

	As at			
	30 June		30 June	
	+5%	-5%	+5%	-5%
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Price risk</b>	7,302	(7,302)	2,551	(2,551)

	As at			
	30 June		30 June	
	+50 bps	-50 bps	+50bps	-50 bps
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Interest rate risk</b>	1,076	(1,076)	(552)	552

#### As at 30 June 2017

Foreign exchange risk	Impact on operating profit and net assets attributable to unitholders			
	Change in currency rate		Change in currency rate	
	Increase	Decrease	Increase	Decrease
	%	%	\$'000	\$'000
<b>USD</b>	+10	-10	(1,038)	1,038
<b>EUR</b>	+10	-10	12	(12)
<b>GBP</b>	+10	-10	2	(2)
<b>JPY</b>	+10	-10	(6)	6
<b>Other currencies</b>	+10	-10	999	(999)

#### As at 30 June 2016

Foreign exchange risk	Impact on operating profit and net assets attributable to unitholders			
	Change in currency rate		Change in currency rate	
	Increase	Decrease	Increase	Decrease
	%	%	\$'000	\$'000
<b>USD</b>	+10.00	-10.00	(5)	5
<b>EUR</b>	+10.00	-10.00	5	(5)
<b>GBP</b>	+15.00	-15.00	6	(6)

### 3 Financial risk management (continued)

#### (c) Credit risk

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

The Fund invests in fixed interest securities and money market securities which have credit ratings as rated by well known rating agencies. For unrated fixed interest securities a rating is assigned by the investment manager using an approach that is consistent with the approach used by rating agencies.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. An analysis of directly held fixed interest securities by rating is set out in the table below:

	30 June 2017	30 June 2016
	\$'000	\$'000
<b>Rating</b>		
AAA	31,049	4,328
AA+	879	1,944
AA	737	175
AA-	503	29
A+	11,517	415
A	3,698	553
A-	2,800	433
BBB+	6,713	951
BBB	6,584	1,365
BBB-	12,557	508
BB+	7,704	1,365
BB	6,560	1,717
BB-	5,050	1,210
B+	6,140	1,691
B	6,409	1,238
B-	4,483	1,010
CCC+	1,809	589
CCC	2,319	603
CCC-	115	2
CC	21	106
Not Rated	13,222	8,221
<b>Total</b>	<b>130,869</b>	<b>24,669</b>

### 3 Financial risk management (continued)

#### (d) Liquidity risk

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

The Fund is exposed to daily cash redemptions of redeemable units. The Fund primarily holds investments that are traded in active markets and can be readily disposed. Only a limited proportion of its assets are held in investments not actively traded on a stock exchange.

The Responsible Entity and the Investment Manager monitor liquidity of the Fund on a daily basis. In order to manage the Fund's overall liquidity, the Fund has the ability to suspend unit pricing and hence suspend redemption requests. The Fund did not reject or suspend redemptions during 2017 or 2016.

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

<b>30 June 2017</b>	<b>Less than 1 month \$'000</b>	<b>1 - 6 months \$'000</b>	<b>6 - 12 months \$'000</b>	<b>Over 12 months \$'000</b>	<b>Total \$'000</b>
Net settled derivatives	263	121	-	84	468
Distribution payable	1,074	-	-	-	1,074
Payables	298	-	-	-	298
Due to brokers - payable for securities purchased	10,190	-	-	-	10,190
Net assets attributable to unitholders	152,875	-	-	-	152,875
<b>Total</b>	<b>164,699</b>	<b>121</b>	<b>-</b>	<b>84</b>	<b>164,905</b>

30 June 2016	Less than 1 month \$'000	1 - 6 months \$'000	6 - 12 months \$'000	Over 12 months \$'000	Total \$'000
Net settled derivatives	240	84	-	-	324
Due to brokers – payable for securities purchased	5,507	-	-	-	5,507
Distribution payable	359	-	-	-	359
Payables	105	-	-	-	105
Net assets attributable to unitholders	30,305	-	-	-	30,305
<b>Total</b>	<b>36,516</b>	<b>84</b>	<b>-</b>	<b>-</b>	<b>36,600</b>

#### 4 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the Balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the balance sheet are disclosed in the first three columns of the tables below.

	Effects of offsetting on the balance sheet			Related amounts not offset		
	Gross amounts of financial assets \$'000	Gross amounts set off in the balance sheet \$'000	Net amount of financial assets presented in the balance sheet \$'000	Amount subject to enforceable netting arrangements \$'000	Cash collateral \$'000	Net amount \$'000
<b>30 June 2017</b>						
<b>Financial assets</b>						
Derivatives financial instruments	4,699	-	4,699	(264)	-	4,435
Margin accounts	1,055	(48)	1,007	-	(204)	803
<b>Total</b>	<b>5,754</b>	<b>(48)</b>	<b>5,706</b>	<b>(264)</b>	<b>(204)</b>	<b>5,238</b>
<b>Financial liabilities</b>						
Derivatives financial instruments	468	-	468	(468)	-	-
Margin accounts	48	(48)	-	-	-	-
<b>Total</b>	<b>516</b>	<b>(48)</b>	<b>468</b>	<b>(468)</b>	<b>-</b>	<b>-</b>

	Effects of offsetting on the balance sheet			Related amounts not offset		
	Gross amounts of financial assets \$'000	Gross amounts set off in the balance sheet \$'000	Net amount of financial assets presented in the balance sheet \$'000	Amount subject to enforceable netting arrangements \$'000	Cash collateral \$'000	Net amount \$'000
<b>30 June 2016</b>						
<b>Financial assets</b>						
Derivatives financial instruments	746	-	746	(127)	-	619
Margin Accounts	88	-	88	-	(84)	4
<b>Total</b>	<b>834</b>	<b>-</b>	<b>834</b>	<b>(127)</b>	<b>(84)</b>	<b>623</b>
<b>Financial liabilities</b>						
Derivatives financial instruments	324	-	324	(204)	-	120
Payables	7	-	7	-	(7)	-
<b>Total</b>	<b>331</b>	<b>-</b>	<b>331</b>	<b>(204)</b>	<b>(7)</b>	<b>120</b>

## 4 Offsetting financial assets and financial liabilities (continued)

### (i) Master netting arrangement not currently enforceable

Agreements with derivative counterparties are based on the International Swap and Derivatives Association Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Fund does not presently have a legally enforceable right of set off, these amounts have not been offset in the balance sheet, but have been presented separately in the above table.

## 5 Fair value measurement

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

- Financial assets / liabilities designated at fair value through profit or loss (FVPL) (see Note 7 and 8)
- Financial assets / liabilities held for trading (see Note 7 and 8)
- Derivative financial instruments (see Note 9)

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

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

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- (c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

### (i) *Fair value in an active market*

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

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

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

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

### (ii) *Fair value in an inactive or unquoted market*

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

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

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

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date.

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

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

## 5 Fair value measurement (continued)

(ii) *Fair value in an inactive or unquoted market (continued)*

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

(iii) *Fair value hierarchy*

*Classification of financial assets and financial liabilities*

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

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

The tables below set out the Fund's financial assets and financial liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2017 and 30 June 2016.

<b>30 June 2017</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>				
Financial assets held for trading:				
Derivatives				
Forward currency contracts	–	4,505	–	4,505
Fixed interest futures	194	–	–	194
Financial assets designated at fair value through profit or loss:				
Fixed interest securities	–	130,866	–	130,866
Unlisted unit trusts	–	15,651	–	15,651
Convertible notes	–	2,125	–	2,125
<b>Total</b>	<b>194</b>	<b>153,147</b>	<b>–</b>	<b>153,341</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading:				
Derivatives				
Forward currency contracts	–	264	–	264
Fixed interest futures	120	–	–	120
Money market futures	84	–	–	84
<b>Total</b>	<b>204</b>	<b>264</b>	<b>–</b>	<b>468</b>

## 5 Fair value measurement (continued)

(iii) *Fair value hierarchy (continued)*

	Level 1	Level 2	Level 3	Total
30 June 2016	\$'000	\$'000	\$'000	\$'000
Financial assets				
Financial assets held for trading:				
Derivatives	73	673	-	746
Financial assets designated at fair value through profit or loss:				
Convertible notes	-	315	-	315
Fixed interest securities	-	24,675	-	24,675
Unlisted unit trusts	-	6,121	-	6,121
Total	<u>73</u>	<u>31,784</u>	<u>-</u>	<u>31,857</u>
Financial liabilities				
Financial liabilities held for trading:				
Derivatives				
Forward currency contracts	-	240	-	240
Fixed interest futures	84	-	-	84
Total	<u>84</u>	<u>240</u>	<u>-</u>	<u>324</u>

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed unit trusts, active equity securities and exchanged traded derivatives.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non transferability, which are generally based on available market information.

Investments in unlisted unit trusts and unlisted cash unit trusts are classified as level 2 as they are not traded on an active market.

Investments classified within level 3 have significant unobservable inputs, as they are infrequently traded.

The Fund did not hold any level 3 instruments during the year ended 30 June 2017 (30 June 2016: Nil).

(i) *Transfers between levels*

There have been no transfers between levels for the year ended 30 June 2017 (30 June 2016: Nil).

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

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	<b>Year ended</b>	
	<b>30 June 2017 \$'000</b>	<b>30 June 2016 \$'000</b>
Net unrealised gains on financial instruments held for trading	<b>3,806</b>	993
Net unrealised losses on financial instruments designated at fair value through profit or loss	<b>(1,674)</b>	(459)
Net realised losses on financial instruments held for trading	<b>(1,468)</b>	(1,159)
Net realised gains/(losses) on financial instruments designated at fair value through profit or loss	<b>(149)</b>	1,064
Total net gains on financial instruments held at fair value through profit or loss	<b><u>515</u></b>	<u>439</u>

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

	<b>30 June</b>	<b>As at</b>
	<b>2017</b>	<b>30 June</b>
	<b>\$'000</b>	<b>2016</b>
		<b>\$'000</b>
<b>Held for trading</b>		
Derivatives	4,699	746
Total held for trading	<u>4,699</u>	<u>746</u>
<b>Designated at fair value through profit or loss</b>		
Fixed interest securities	130,866	24,675
Unlisted unit trusts	15,651	6,121
Convertible notes	2,125	315
Total designated at fair value through profit or loss	<u>148,642</u>	<u>31,111</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u><b>153,341</b></u>	<u><b>31,857</b></u>
<b>Comprising:</b>		
<b>Derivatives</b>		
Forward currency contracts	4,505	673
Australian fixed interest futures	-	15
International fixed interest futures	194	58
Total derivatives	<u>4,699</u>	<u>746</u>
<b>Fixed interest securities</b>		
International government bonds	36,597	1,771
International other public sector bonds	82	-
International corporate bonds	53,963	10,126
International commercial mortgages	33,072	11,796
International floating rate notes	7,212	976
Total fixed interest securities	<u>130,926</u>	<u>24,669</u>
International unlisted trusts	15,651	6,121
Total unlisted unit trusts	<u>15,651</u>	<u>6,121</u>
<b>Money market securities</b>		
<b>Convertible notes</b>		
International convertible notes	2,065	321
Total convertible notes	<u>2,065</u>	<u>321</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u><b>153,341</b></u>	<u><b>31,857</b></u>

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

## 8 Financial liabilities held at fair value through profit or loss

	<b>30 June 2017</b>	<b>As at 30 June 2016</b>
	<b>Fair value \$'000</b>	<b>Fair value \$'000</b>
<b>Held for trading</b>		
Derivatives	<u>468</u>	<u>324</u>
Total held for trading	<u>468</u>	<u>324</u>
<b>Total financial liabilities held at fair value through profit or loss</b>	<u><b>468</b></u>	<u><b>324</b></u>
<b>Comprising:</b>		
<b>Derivatives</b>		
Forward currency contracts	264	240
International fixed interest futures	120	84
International money market futures	84	–
Total derivatives	<u>468</u>	<u>324</u>
<b>Total financial liabilities held at fair value through profit or loss</b>	<u><b>468</b></u>	<u><b>324</b></u>

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

## 9 Derivative financial instruments

In the normal course of business the Fund enters into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date whose value changes in response to a change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include many different instruments such as forwards, futures and options. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Fund's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Fund against a fluctuation in market values or to reduce volatility.
- a substitution for trading of physical securities.
- adjusting asset exposures within the parameters set in the investment strategy, and/or adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Fund.

## 9 Derivative financial instruments (continued)

The Fund holds the following derivative financial instruments:

### Forward currency contracts

Forward currency contracts are primarily used by the Fund to manage against foreign currency risks on its investments. The Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing bid price at the end of each reporting period. The Fund recognises a gain or loss equal to the change in fair value at the end of each reporting period.

### Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts values are usually settled net daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

### Swaps

A swap is a derivative in which two counterparties agree to exchange one stream of cash flow against another stream.

A credit default swap is an agreement between two parties whereby one party pays the other a fixed periodic coupon for the specified term of the agreement. The other party makes no payments unless a specified credit event occurs.

The Fund's derivative financial instruments at year end are detailed below:

	30 June 2017			30 June 2016		
	Contract/ Notional \$'000	Fair Values		Contract/ Notional \$'000	Fair Values	
		Assets \$'000	Liabilities \$'000		Assets \$'000	Liabilities \$'000
Forward currency contracts	134,346	4,505	264	22,361	673	240
Australian fixed interest futures	-	-	-	1,078	15	-
International fixed interest futures	(49,637)	194	120	(3,958)	58	84
International money market futures	(91,536)	-	84	-	-	-
	<u>(6,827)</u>	<u>4,699</u>	<u>468</u>	<u>19,481</u>	<u>746</u>	<u>324</u>

### Risk exposures and fair value measurements

Information about the Fund's exposure to credit risk, foreign exchange risk, and interest rate risk and about the methods and assumptions used in determining fair values is provided in Note 3 to the financial statements. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial instruments disclosed above.

## 10 Structured entities

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

The Fund considers all investments in managed investment schemes (funds) to be structured entities. The Fund invests in related managed funds for the purpose of capital appreciation and / or earning investment income.

The investee funds' objectives range from achieving medium to long term capital growth and whose investment strategy does not include the use of leverage. The investee funds finance their operations by issuing redeemable units which are redeemable at the holder's option and entitles the holder to a proportional stake in the respective fund's net assets.

The Fund holds redeemable units in each of the funds it invests in.

The fair value of financial assets is included in financial assets at fair value through profit or loss in the Balance sheet.

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

The exposure to investments in related investment funds are summarised in Note 16. These investments are managed in accordance with financial risk management practices as set out in Note 3.

## 11 Net assets attributable to unitholders

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

	<b>As at</b>			
	<b>30 June</b>	30 June	<b>30 June</b>	30 June
	<b>2017</b>	2016	<b>2017</b>	2016
	<b>No. '000</b>	No. '000	<b>\$'000</b>	\$'000
Opening balance	<b>29,712</b>	27,777	<b>30,305</b>	28,169
Applications	<b>137,978</b>	8,769	<b>143,867</b>	8,954
Redemptions	<b>(21,042)</b>	(7,435)	<b>(21,851)</b>	(7,588)
Units issued upon reinvestment of distributions	<b>368</b>	601	<b>379</b>	606
Increase in net assets attributable to unitholders	-	-	<b>175</b>	164
Closing balance	<b>147,016</b>	29,712	<b>152,875</b>	30,305

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

### Capital risk management

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

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

The Fund's investment strategy remains unchanged and it continues to hold direct investments which provide exposure to liquid assets including equity securities, income securities, interest earnings and cash equivalent securities. As such, the Fund will meet any capital requirements from the liquidation of liquid assets, which include cash and cash equivalents.

## 12 Distributions to unitholders

The distributions during the year were as follows:

	Year ended			
	30 June 2017		30 June 2016	
	\$'000	CPU	\$'000	CPU
Distributions paid				
- 30 September	238	0.7937	195	0.69
- 31 December	353	0.6047	319	1.12
- 31 March	665	0.6312	341	1.14
Distributions payable				
- 30 June	1,074	0.7304	359	1.21
	<u>2,330</u>		<u>1,214</u>	

## 13 Cash and cash equivalents

	As at	
	30 June 2017	30 June 2016
	\$'000	\$'000
Domestic cash at bank	4,433	1,679
Foreign cash at bank	4,411	1,086
<b>Total cash and cash equivalents</b>	<u>8,844</u>	<u>2,765</u>

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

	Year ended	
	30 June 2017	30 June 2016
	\$'000	\$'000
<b>(a) Reconciliation of operating profit to net cash outflow from operating activities</b>		
Operating profit for the year	2,505	1,378
Net gains on financial instruments held at fair value through profit or loss	(515)	(439)
Proceeds from sale of financial instruments held at fair value through profit or loss	181,442	71,864
Purchase of financial instruments held at fair value through profit or loss	(297,234)	(73,303)
Net change in accrued income and receivables	(1,092)	(61)
Net change in payables	193	53
Net cash inflow/(outflow) from operating activities	<b>(114,701)</b>	<b>(508)</b>
 <b>(b) Non-cash financing and investing activities</b>		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	<b>379</b>	<b>606</b>

## 15 Remuneration of auditors

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

	Year ended	
	30 June 2017	30 June 2016
	\$	\$
<b>PricewaterhouseCoopers</b>		
Audit and other assurance services		
Audit of financial statements	22,488	22,066
Audit of compliance plan	3,968	3,890
Total remuneration for audit and other assurance services	<b>26,456</b>	<b>25,956</b>

## 16 Related party transactions

### Responsible Entity

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

### Key management personnel

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

Cannane, Andrew Vincent	(Alternate: Ellwood, Rodney Garth (Alternate: Riggio, Vicki	Resigned 03/04/2017) Appointed 01/11/2016)
Vainauskas, Michael Henry	(Alternate: Andrew, McIver	Appointed 13/01/2017)
Green, Christopher	(Alternate: Ellwood, Rodney Garth	Appointed 07/12/2015)
Foster, Glenn Stephen	(Alternate: Wesley, Neil (Alternate: Wesley, Neil (Alternate: Larkins, Gillian	Appointed 13/01/2017) Resigned 14/07/2017) Appointed 14/07/2017)

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

### Management Costs and other transactions

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

The management costs are capped at 0.7% (2016: 0.7%) per annum of the net asset value of the Fund, accruing daily and payable in arrears. Where actual expenses result in the management costs exceeding 0.7% (2016: 0.7%) of the net asset value of the Fund for the year, such expenses will be paid out of the assets of the Fund and the difference reimbursed back to the Fund by the Investment Manager. The costs are inclusive of GST and net of any applicable input tax credits and reduced input tax credit.

During the year the Investment Manager reimbursed \$142,603 (2016: \$150,060) into the Fund and \$91,061 (2016: \$49,957) as reimbursement receivable will be paid when the invoices are due to ensure the management cost cap was not exceeded.

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

	Year ended	
	30 June 2017	30 June 2016
	\$	\$
Management cost for the year	724,755	405,769
Management cost reimbursements for the year	233,664	200,017
Net Management cost for the year	491,091	205,752

### Key management personnel unitholdings

As at 30 June 2017 and 30 June 2016, no key management personnel held units in the Fund.

### Key management personnel remuneration

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

### Key management personnel loan disclosures

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

## 16 Related party transactions (continued)

### Key management personnel loan disclosures (continued)

#### Related party unitholdings

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

30 June 2017	Number of units held opening	Number of units held closing	Fair value of investments \$	Interest held %	Number of units acquired Units	Number of units disposed Units	Distribution paid/payable by the Fund \$
Unitholder	Units	Units	\$	%	Units	Units	\$
JPMorgan Asset Management (Australia) Limited	15,157,269	-	-	-	252,779	15,410,048	76,368

30 June 2016	Number of units held opening	Number of units held closing	Fair value of investments \$	Interest held %	Number of units acquired Units	Number of units disposed Units	Distribution paid/payable by the Fund \$
Unitholder	Units	Units	\$	%	Units	Units	\$
JPMorgan Asset Management (Australia) Limited	20,688,305	15,157,269	15,652,912	51.01	585,173	6,116,209	773,059

#### Investments

The Fund held investments in the following schemes which were also managed by Responsible Entity or its related parties:

30 June 2017	Fair value of investment \$	Interest held %	Distribution received/ receivable \$	Number of units acquired Units	Number of units disposed Units
Unitholder					
JPMorgan Liquidity Funds – Australian Dollar Liquidity X (acc)	15,651,431	1.89	-	5,745	4,869
	<u>15,651,431</u>		<u>-</u>	<u>5,745</u>	<u>4,869</u>

30 June 2016	Fair value of investment \$	Interest held %	Distribution received/ receivable \$	Number of units acquired Units	Number of units disposed Units
Unitholder					
JPMorgan Liquidity Funds – Australian Dollar Liquidity X (acc)	6,121,127	1.12	-	583	770
	<u>6,121,127</u>		<u>-</u>	<u>583</u>	<u>770</u>

The fair value of financial assets \$15,651,431 (2016: \$6,121,127) is included in financial assets at fair value through profit or loss in the balance sheet.

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

## **16 Related party transactions (continued)**

### **Investments (continued)**

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

The Fund did not hold any investments in the Responsible Entity during the year (30 June 2016: Nil).

### **Other transactions within the Fund**

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

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

## **17 Events occurring after the reporting period**

No significant events have occurred since the end of the reporting date which would impact on the financial position of the Fund disclosed in the Balance sheet as at 30 June 2017 or on the results and cash flows of the Fund for the year ended on that date.

## **18 Contingent assets, liabilities and commitments**

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2017 (30 June 2016: Nil).

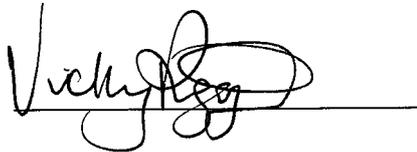
## **Directors' declaration**

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 5 to 35 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, *the Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2017 and of its performance for the financial year ended on that date;
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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

Director

A handwritten signature in black ink, appearing to be 'Vicki Hogg', is written over a horizontal line. The signature is stylized and cursive.

Sydney

18 September 2017



## *Independent auditor's report*

To the unitholders of JPMorgan Global Strategic Bond Fund

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### *Our opinion*

In our opinion:

The accompanying financial report of JPMorgan Global Strategic Bond Fund (the Registered Scheme) is in accordance with the *Corporations Act 2001*, including:

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

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

The financial report comprises:

- the balance sheet as at 30 June 2017
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors of the Responsible Entity's declaration.

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### *Basis for opinion*

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

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

### ***Independence***

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

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### *Other information*

The Directors of the Responsible Entity are responsible for the other information. The other information obtained at the date of this auditor's report comprises the Directors' Report included in the 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 identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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

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

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

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

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



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

*PricewaterhouseCoopers*

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Chris Cooper', with a horizontal line underneath the name.

Chris Cooper  
Partner

Sydney  
18 September 2017

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

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