

Spheria Australian Smaller Companies Fund

ARSN 117 083 762

**Interim report - for the half-year ended
31 December 2016**

Spheria Australian Smaller Companies Fund

ARSN 117 083 762

Interim report - for the half-year ended 31 December 2016

Contents	Page
Directors' report	2
Auditor's independence declaration	5
Statement of comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	10
Directors' declaration	15
Independent auditor's report to the unitholders of the Spheria Australian Smaller Companies Fund	16

The interim financial statements do not include all the notes of the type normally included in the annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2016 and any public announcements made in respect of the Spheria Australian Smaller Companies Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

These interim financial statements cover the Spheria Australian Smaller Companies Fund as an individual entity.

The Responsible Entity of the Spheria Australian Smaller Companies Fund is Pinnacle Fund Services Limited (ABN 29 082 494 362). The Responsible Entity's registered office is Level 19, 307 Queen Street, Brisbane, QLD, 4000.

Directors' report

The directors of Pinnacle Fund Services Limited, the responsible entity ("Responsible Entity") of the Spheria Australian Smaller Companies Fund ("the Fund"), present their report together with the financial statements of the Fund for the half-year ended 31 December 2016.

Principal activities

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

The Fund aims to provide a total investment return after fees that exceeds the return of the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term by investing in Australian and New Zealand equities, and cash.

Spheria Asset Management Pty Limited is the Investment Manager of the Fund.

The Fund did not have any employees during the half-year.

Directors

The following persons held office as directors of Pinnacle Fund Services Limited during the half-year or since the end of the half-year and up to the date of this report:

Mr I Macoun
 Mr A Ihlenfeldt
 Mr A Findlay
 Mr C Kwok (appointed 9 September 2016)

The Responsible Entity also has a Compliance Committee consisting of one non-independent person and two independent persons. The committee's role is to oversee the compliance requirements of the Fund operated by the Responsible Entity.

Review and results of operations

There have been no significant changes to the operations of the Fund since the previous financial period. The Fund continued to invest in accordance with target asset allocations as set out in the governing documents of the Fund.

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

	Half-year ended	
	31 December 2016	31 December 2015
	\$'000	\$'000
Net operating profit/(loss) before finance costs attributable to unitholders	<u>1,308</u>	<u>8,258</u>
<i>Distributions</i>		
Distribution paid and payable	<u>6,444</u>	<u>-</u>
Distribution (cents per unit)	<u>40.6504</u>	<u>-</u>

Significant changes in state of affairs

As at 1 July 2016, Spheria Asset Management Pty Limited was appointed as the Investment Manager of the Fund. Previously, Priority Investment Management Pty Ltd was the Investment Manager of the Fund until 30 June 2016.

Apart from the above, in the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial half-year.

Directors' report (continued)

Matters subsequent to the end of the financial half-year

No matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect:

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

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.

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.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Pinnacle Fund Services Limited or the auditors of the Fund. So long as the officers of Pinnacle Fund 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 not indemnified out of the assets of the Fund.

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

Directors' report (continued)

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 5.

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



Mr A Ihlenfeldt
Director

Brisbane
9 March 2017



Auditor's Independence Declaration

As lead auditor for the review of Spheria Australian Smaller Companies Fund for the half-year ended 31 December 2016, 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 review; and
- (b) no contraventions of any applicable code of professional conduct in relation to the review.



Ben Woodbridge
Partner
PricewaterhouseCoopers

Brisbane
9 March 2017

Spheria Australian Smaller Companies Fund
Statement of comprehensive income
For the half-year ended 31 December 2016

Statement of comprehensive income

	Half-year ended	
	31 December	31 December
	2016	2015
Notes	\$'000	\$'000
Investment income		
Interest income from financial assets not held at fair value through profit or loss	30	26
Dividend/Trust distribution income	846	372
Net gains/(losses) on financial instruments held at fair value through profit or loss	913	8,674
Net foreign exchange gains/(losses)	6	-
Total net investment income/(loss)	1,795	9,072
Expenses		
Management fees	259	231
Performance fees	-	450
Transaction costs	228	133
Total operating expenses	487	814
Operating profit/(loss) for the half-year	1,308	8,258
Finance costs attributable to unitholders		
Distributions to unitholders	3 (6,444)	-
(Increase)/decrease in net assets attributable to unitholders	2 5,136	(8,258)
Profit/(loss) for the half-year	-	-
Other comprehensive income for the half-year	-	-
Total comprehensive income for the half-year	-	-

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

Spheria Australian Smaller Companies Fund
Statement of financial position
As at 31 December 2016

Statement of financial position

		As at	
		31 December	30 June
		2016	2016
	Notes	\$'000	\$'000
Assets			
Cash and cash equivalents		5,576	5,419
Receivables		462	53
Financial assets held at fair value through profit or loss	4	51,149	40,485
Total assets		57,187	45,957
Liabilities			
Distributions payable		381	4,208
Payables		128	886
Total liabilities (excluding net assets attributable to unitholders)		509	5,094
Net assets attributable to unitholders - liability	2	56,678	40,863

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

Spheria Australian Smaller Companies Fund
Statement of changes in equity
For the half-year ended 31 December 2016

Statement of changes in equity

	Half-year ended	
	31 December	31 December
	2016	2015
	\$'000	\$'000
Total equity at the beginning of the financial half-year	-	-
Profit/(loss) for the half-year	-	-
Other comprehensive income	-	-
Total comprehensive income for the half-year	-	-
Transactions with owners in their capacity as owners	-	-
Total equity at the end of the financial half-year	-	-

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 the end of the half-year.

Changes in net assets attributable to unitholders are disclosed in note 2.

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

Spheria Australian Smaller Companies Fund
Statement of cash flows
For the half-year ended 31 December 2016

Statement of cash flows

	Half-year ended	
	31 December	31 December
	2016	2015
	\$'000	\$'000
Cash flows from operating activities		
Proceeds from sale of financial instruments held at fair value through profit or loss	44,306	19,563
Purchase of financial instruments held at fair value through profit or loss	(54,324)	(15,277)
Transaction costs on financial instruments held at fair value through profit or loss	(228)	(133)
Interest received	32	26
Dividend/Trust distribution received	602	372
Management fees paid	(258)	(233)
RITC received/(paid)	35	-
Other expenses paid	(652)	-
Net cash inflow/(outflow) from operating activities	(10,487)	4,318
Cash flows from financing activities		
Proceeds from applications by unitholders	15,803	-
Payments for redemptions by unitholders	(2,260)	(3,398)
Distributions paid	(2,899)	(1,377)
Net cash inflow/(outflow) from financing activities	10,644	(4,775)
Net increase/(decrease) in cash and cash equivalents	157	(457)
Cash and cash equivalents at the beginning of the half-year	5,419	2,898
Cash and cash equivalents at the end of the half-year	5,576	2,441

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

Notes to the financial statements

		Page
1	Basis of preparation of interim financial statements	11
2	Net assets attributable to unitholders	11
3	Distributions to unitholders	12
4	Financial assets held at fair value through profit or loss	12
5	Fair value measurements	12
6	Events occurring after the reporting period	14
7	Contingent assets and liabilities and commitments	14

1 Basis of preparation of interim financial statements

This general purpose financial report for the half-year ended 31 December 2016 has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

This interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made in respect of the Spheria Australian Smaller Companies Fund ("the Fund") during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The interim report was authorised for issue by the directors on 9 March 2017. The directors of Pinnacle Fund Services Limited ("the Responsible Entity") have the power to amend and reissue the interim report.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

2 Net assets attributable to unitholders

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

	As at			
	31 December 2016	30 June 2016	31 December 2016	30 June 2016
	No. '000	No. '000	\$'000	\$'000
Opening balance	14,514	14,016	40,863	31,951
Applications	6,344	1,199	15,853	3,393
Redemptions	(898)	(2,188)	(2,274)	(5,819)
Units issued upon reinvestment of distributions	2,794	1,487	7,372	3,398
Increase/(decrease) in net assets attributable to unitholders	-	-	(5,136)	7,940
Closing balance	<u>22,754</u>	<u>14,514</u>	<u>56,678</u>	<u>40,863</u>

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.

3 Distributions to unitholders

The distributions for the half-year were as follows:

	Half-year ended			
	31 December 2016	31 December 2016	31 December 2015	31 December 2015
	\$'000	CPU	\$'000	CPU
Distributions				
Distributions paid - July	6,063	38.9748	-	-
Distributions payable - December	381	1.6756	-	-
	<u>6,444</u>	<u>40.6504</u>	<u>-</u>	<u>-</u>

4 Financial assets held at fair value through profit or loss

	As at	
	31 December 2016	30 June 2016
	\$'000	\$'000
Designated at fair value through profit or loss		
Listed equities	44,004	40,485
Listed unit trusts	7,145	-
Total designated at fair value through profit or loss	<u>51,149</u>	<u>40,485</u>
Total financial assets held at fair value through profit or loss	<u>51,149</u>	<u>40,485</u>

5 Fair value measurements

The Fund measures and recognises financial assets and liabilities held at fair value on a recurring basis:

- Financial assets / liabilities designated at fair value through profit or loss (FVTPL)
- Financial assets / liabilities held for trading

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

Fair value hierarchy

(i) 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).

5 Fair value measurements (continued)

Fair value hierarchy (continued)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety.

For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The tables below set out the Fund's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 31 December 2016 and 30 June 2016.

As at 31 December 2016

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets designated at fair value through profit or loss:				
Listed equities	44,004	-	-	44,004
Listed unit trusts	7,145	-	-	7,145
Total assets	51,149	-	-	51,149

As at 30 June 2016

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets designated at fair value through profit or loss:				
Listed equities	40,485	-	-	40,485
Total assets	40,485	-	-	40,485

The fair value of financial instruments traded in active markets (listed equities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Fund is the current bid price. These instruments are included in Level 1.

(ii) Transfers between levels

There were no transfers between levels for the half-year ended 31 December 2016 and year ended 30 June 2016.

6 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the statement of financial position as at 31 December 2016 or on the results and cash flows of the Fund for the half-year ended on that date.

7 Contingent assets and liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 31 December 2016 and 30 June 2016.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 14 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards and 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 31 December 2016 and of its performance for the financial half-year ended on that date, and
- (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.

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



Mr A Ihlenfeldt
Director

Brisbane
9 March 2017



Independent auditor's review report to the members of Spheria Australian Smaller Companies Fund

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Spheria Australian Smaller Companies Fund (the registered scheme), which comprises the statement of financial position as at 31 December 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

The directors of Pinnacle Fund Services Limited (the responsible entity) are responsible for the preparation of the half-year 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 half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Spheria Australian Smaller Companies Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

PricewaterhouseCoopers, ABN 52 780 433 757
480 Queen Street, BRISBANE QLD 4000, GPO Box 150, BRISBANE QLD 4001
T: +61 7 3257 5000, F: +61 7 3257 5999, www.pwc.com.au



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Spheria Australian Smaller Companies Fund is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date;
2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written over the printed name.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Ben Woodbridge', written over the printed name.

Ben Woodbridge
Partner

Brisbane
9 March 2017