

Two Trees Global Macro Fund

ARSN 620 185 159

Annual report

For the period from 25 May 2017 to 30 June 2018

Two Trees Global Macro Fund

ARSN 620 185 159

Annual report

For the period from 25 May 2017 to 30 June 2018

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	35
Independent audit report to the unitholders of Two Trees Global Macro Fund	36

These financial statements cover the Two Trees Global Macro Fund as an individual entity.

The Responsible Entity of the Two Trees Global Macro 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 (ABN 29 082 494 362 AFSL No. 238371), the Responsible Entity of Two Trees Global Macro Fund ("the Fund"), present their report together with the financial statements of the Fund, for the period from 25 May 2017 to 30 June 2018.

The Fund was constituted on 25 May 2017, hence, there are no prior period comparatives. According this annual report reflects the results of the Fund's activities from 25th May 2018 to 30 June 2018.

Principal activities

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

The Fund aims to produce positive returns in all market conditions, with low correlations to traditional asset classes such as equities and government bonds and outperform the Bloomberg Ausbond Bank Bill Index.

The Fund will take long and short positions, primarily through futures, forwards, in global equity indices, bonds, currencies and commodity markets. The portfolio allocation will be a function of both forecast returns and risks, and will be produced systematically through a proprietary portfolio construction process. Exposure to these markets will primarily be obtained using exchange traded futures contracts or over the counter derivatives such as currency forward contracts. Investments held by the Fund are global in nature and may be denominated in a number of currencies. The use of derivatives will generally lead to a position of being financially leveraged.

Two Trees Investment Management Pty Limited is the Investment Manager of the Fund.

The Fund did not have any employees during the period.

Directors

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

Mr I Macoun

Mr A Ihlenfeldt

Mr A Findlay (resigned 29 March 2018)

Mr C Kwok

Mr T O'Callaghan (appointed 29 March 2018)

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. The committee met four times during the financial period under review.

Review and results of operations

There have been no significant changes to the operations of the Fund since inception. The Fund invested in accordance with its investment objective and investment strategy as set out in the offer documents of the Fund and in accordance with the provisions of the Fund's Constitution.

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

	Period from 25 May 2017 to 30 June 2018
Profit/(loss) for the period (\$'000)	<u>(2,095)</u>

Directors' report (continued)

Significant changes in state of affairs

The Fund was constituted on 25 May 2017, registered by the Australian Securities and Investments Commission (ASIC) as a managed Investment Scheme on 17 July 2017 and commenced operations on 01 November 2017. Accordingly these financial statements only include the current financial period, covering the period from registration of the Fund to 30 June 2018.

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

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

Matters subsequent to the end of the financial period

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

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

Likely developments and expected results of operations

The Fund will to be managed in accordance with the investment objectives and guidelines as set out in the offer 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.

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.

Indemnity 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 in no way indemnified out of the assets of the Fund.

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

Fees paid to the Responsible Entity and its associates out of Fund property during the period are disclosed in note 16 of the financial statements.

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

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial period are disclosed in note 16 of the financial statements.

Directors' report (continued)

Interests in the Fund

The movement in units on issue in the Fund during the period is disclosed in note 10 of the financial statements.

The value of the Fund's assets and liabilities is disclosed in the Statement of financial position and derived using the basis set out in note 2 of the financial statements.

Environmental regulation

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

Rounding of amounts to the nearest thousand dollars

Amounts in the Directors' report have been rounded to the nearest thousand dollars in accordance with that *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 5.

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



Director

Mr A Ihlenfeldt

Brisbane
20 September 2018



Auditor's Independence Declaration

As lead auditor for the audit of Two Trees Global Macro Fund for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

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

A handwritten signature in black ink, appearing to read 'Ben Woodbridge', written in a cursive style.

Ben Woodbridge
Partner
PricewaterhouseCoopers

Brisbane
20 September 2018

Statement of comprehensive income

	Notes	Period from 25 May 2017 to 30 June 2018 \$'000
Investment income		
Interest income from financial assets not held at fair value through profit or loss		114
Dividend/Trust distribution income		25
Net gains/(losses) on financial instruments held at fair value through profit or loss	5	(2,096)
Net gains/(losses) on foreign exchange		<u>15</u>
Total net Investment income		<u>(1,942)</u>
Expenses		
Management fees	16	103
Transaction costs		<u>50</u>
Total Expenses		<u>153</u>
Profit/(loss) for the period		<u>(2,095)</u>
Other comprehensive income		<u>-</u>
Total comprehensive income for the period		<u>(2,095)</u>

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

Statement of financial position

	Notes	As at 30 June 2018 \$'000
Assets		
Cash and cash equivalents	11	22,019
Margin accounts		6,718
Receivables	14	12
Financial assets held at fair value through profit or loss	6	<u>38,747</u>
Total Assets		<u>67,496</u>
Liabilities		
Payables	15	72
Financial liabilities held at fair value through profit or loss	7	<u>1,238</u>
Total Liabilities		<u>1,310</u>
Net assets attributable to unitholders - equity*	10	<u>66,186</u>

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

Statement of changes in equity

	Notes	Period from 25 May 2017 to 30 June 2018 \$'000
Total equity at the beginning of the period		-
Comprehensive income for the period		
Profit/(loss) for the period		<u>(2,095)</u>
Total comprehensive income for the period		<u>(2,095)</u>
Transactions with unitholders		
Applications	10	74,492
Redemptions	10	<u>(6,211)</u>
Total transactions with unitholders		<u>68,281</u>
Total equity at the end of the financial period*		<u>66,186</u>

* Net assets attributable to unitholders are classified as equity as at 30 June 2018. Refer to note 1 for further detail.

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

Statement of cash flows

	Notes	Period from 25 May 2017 to 30 June 2018 \$'000
Cash flows from operating activities		
Proceeds related to financial instruments held at fair value through profit or loss		1,308
Payments related to financial instruments held at fair value through profit or loss		(40,888)
Net foreign exchange gain/(loss)		10
Interest received/(paid)		102
Amount received from/(paid to) brokers for margin		(6,718)
Management fees paid		(42)
Payment of other expenses		(49)
Net cash inflow/(outflow) from operating activities	12(a)	<u>(46,277)</u>
Cash flows from financing activities		
Proceeds from applications by unitholders		74,492
Payments for redemptions by unitholders		(6,201)
Net cash inflow/(outflow) from financing activities		<u>68,291</u>
Net increase/(decrease) in cash and cash equivalents		22,014
Cash and cash equivalents at the beginning of the period		-
Effects of foreign exchange rate changes on cash and cash equivalents		5
Cash and cash equivalents at the end of the period	11	<u>22,019</u>
Non-cash financing activities	12(b)	

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

Contents of the notes to the financial statements

	Page	
1	General information	11
2	Summary of significant accounting policies	11
3	Financial risk management	17
4	Fair value measurement	22
5	Net gains/(losses) on financial instruments held at fair value through profit or loss	25
6	Financial assets held at fair value through profit or loss	25
7	Financial liabilities held at fair value through profit or loss	26
8	Derivative financial instruments	26
9	Structured entities	27
10	Net assets attributable to unitholders	28
11	Cash and cash equivalents	29
12	Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities	30
13	Auditor's remuneration	30
14	Receivables	31
15	Payables	31
16	Related party transactions	31
17	Events occurring after the reporting period	34
18	Contingent assets and liabilities and commitments	34

1 General information

These financial statements cover Two Trees Global Macro Fund (the “Fund”) as an individual entity. The Fund was constituted on 25 May 2017, registered by the Australian Securities and Investments Commission (ASIC) as a managed Investment Scheme on 17 July 2017 and commenced operations on 01 November 2017. Accordingly these financial statements only include the current financial period, covering the period from operation of the Fund to 30 June 2018.

The Responsible Entity of the Fund is Pinnacle Fund Services Limited (the “Responsible Entity”). The Responsible Entity’s registered office is Level 19, 307 Queen Street, Brisbane, QLD 4000. The financial statements are presented in the Australian currency.

State Street Bank and Trust Company is the custodian of the Fund.

The financial statements were authorised for issue by the directors of the Responsible Entity on 20 September 2018. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

Reclassification of units from financial liability to equity

On 5 May 2016, a new tax regime applying to Managed Investment Trusts (“MITs”) was established under the Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016. The Attribution Managed Investment Trust (“AMIT”) regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. In order to allow the Scheme to elect into the AMIT tax regime, the Scheme’s constitution has been amended and the other conditions to adopt the AMIT tax regime have been met effective 25 May 2017. The Responsible Entity is therefore no longer contractually obligated to pay distributions. Consequently the units in the Scheme have been reclassified from a financial liability to equity on 25 May 2017, see note 10 for further information.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all period 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 fund 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 Statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and liabilities and net assets attributable to unitholders.

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 reporting date.

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

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.

New and amended standards adopted by the Fund

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

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

The amendments made by AASB 2016-2 *Amendments to Australian Accounting Standard - Disclosure Initiative: Amendments to AASB 107* require disclosure of changes in liabilities arising from financing activities. The relevant information is provided in Note 10.

(b) Financial instruments

(i) Classification

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

- Financial instruments held for trading

Derivative financial instruments such as futures are included under this classification. The Fund does not designate as hedges in a hedging relationship.

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities at fair value through profit or loss.

- 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 and unit trusts.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's 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 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. This also includes dividend expense on short sales of securities, which have been classified at fair value through profit or loss.

Further details on how the fair values of financial instruments are determined are disclosed in note 4 to the financial statements.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position 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.

2 Summary of significant accounting policies (continued)

(c) Net assets attributable to unitholders

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

The units can be put back to the Fund at any time for cash based on the redemption price, which is equal to a proportionate share of the Fund's net asset value attributable to the unitholders.

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

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

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

Effective from 1 July 2017, the Fund's units have been reclassified from financial liability to equity as they satisfied all the above criteria.

(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. Bank overdrafts, if any, are shown within borrowings in the Statement of financial position.

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

(e) Deposits held with broker for margin

Margin accounts comprise cash held as collateral for derivative transactions. 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) to the financial statements.

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

2 Summary of significant accounting policies (continued)

(f) Investment income (continued)

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.

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense. The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in profit or loss.

Trust distributions are recognised on an entitlements basis.

(g) Expenses

All expenses, including Responsible Entity's and management fees, 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 benefit of imputation credits and foreign tax paid are passed on to unitholders.

(i) Distribution to unitholders

The Fund distributes its distributable income adjusted for amounts determined by the Responsible Entity in accordance with the Fund's Constitution, to unitholders by cash or reinvestment. As a result of the reclassification of net assets attributable to unitholders from liability to equity, the Fund's distributions are no longer classified as finance costs in the statement of comprehensive income, but rather as distributions paid/payable in the statement of changes in equity.

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any realised capital gains. Unrealised gains and losses on financial assets and liabilities held of trading that recognised as income are transferred to net assets attributable to unitholders and are not assessable and distributable unit realised.

(j) Increase/(decrease) in net assets attributable to unitholders

The Fund's distributions are classified as distributions paid/payable in the Statement of changes in equity. Income not distributed is included in net assets attributable to unitholders.

(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 period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income in other operating income.

2 Summary of significant accounting policies (continued)

(k) Foreign currency translation (continued)

(ii) Transactions and balances (continued)

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

The Fund does not isolate that portion of gains or losses on securities and derivative financial instruments that are measured at fair value through profit or loss and which are due to changes in foreign exchange rates from those that are due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss.

(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 period. 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

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

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the Statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of comprehensive income.

(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 Statement of financial position.

(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.

2 Summary of significant accounting policies (continued)

(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 at least 55%; 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 Statement of financial position. Cash flows relating to GST are included in the Statement of cash flows on a gross basis.

(q) Use of estimates

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

For the majority of the Fund's financial instruments, observable 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, 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 more information on how fair value is calculated please see note 4 to the financial statements.

(r) Rounding of amounts

The Fund is an entity of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

(s) New accounting standards and interpretations

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

(i) AASB 9 *Financial Instruments* (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 have assessed the impact of AASB 9 on the Fund's financial statements. There are no investments which could result in a reclassification of the financial instruments to amortised cost or fair value through other comprehensive income ('FVOCI'), the adoption of AASB 9 is not expect to have a significant impact on the recognition and measurement of the Fund's financial instruments.

The derecognition rules have not been changed from the previous requirements, and the Fund does not apply hedge accounting.

(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.

2 Summary of significant accounting policies (continued)

(s) New accounting standards and interpretations (continued)

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

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

3 Financial risk management

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 program focuses on ensuring compliance with the Fund's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Financial risk management is carried out by the Investment Manager under policies approved by the Board of Directors of the Responsible Entity ("the Board").

The Fund uses different methods to measure different types of risk to which it is exposed. These methods are explained below:

(a) Market risk

(i) Price risk

The Fund is exposed to equity securities, unit trusts and derivative securities 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. Paragraph (ii) below sets out how this component of price risk is managed and measured. They are classified on the statement of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Investment Manager manages this price risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the Board.

The Fund's overall market positions are monitored on a daily basis by the Fund's Investment Manager and are reviewed at least quarterly by the Board.

Compliance with the Fund's Product Disclosure Statement is reported to the Board on a quarterly basis.

At 30 June 2018, the fair value of equities and related derivatives exposed to price risk were as follow:

	30 June 2018 \$'000
Total investment exposures to price risk	46,543

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Price risk (continued)

The table on page 20 summarises the impact of an increase/decrease on the Fund's net assets attributable to unitholders at 30 June 2018. The analysis is based on the assumptions that the underlying investments increased/decreased by 10% with all other variables held constant.

(ii) Foreign exchange risk

The Fund holds assets denominated in currencies other than the Australian Dollar, the functional currency. It is therefore exposed to currency risk, as the value of the securities denominated in other currencies will fluctuate due to changes in foreign exchange rates.

The Fund may utilise financial instruments to hedge against fluctuations in the relative values of their portfolio positions in addition to making active currency selections.

The Investment Manager hedges the capital component of all overseas listed security purchases back into Australian dollars. Hedging of the income exposure is at the Investment Manager's discretion. However, for accounting purposes, the Fund does not designate any derivatives as hedges in a hedging relationship, and hence these derivative financial instruments are classified as at fair value through profit or loss.

The Fund uses forward foreign exchange contracts to reduce currency risk on specific investments within the portfolio.

Compliance with the Fund's policy is reported to the Board on a quarterly basis.

The table below summarises the Fund's assets and liabilities, monetary and non monetary, which are denominated in a currency other than the Australian dollar.

30 June 2018	USD A\$'000	EUR A\$'000	JPY A\$'000	All other foreign currencies A\$'000	Total A\$'000
Cash and cash equivalents	9	-	-	-	9
Financial assets held at fair value through profit or loss	6,396	525	193	317	7,431
Deposits held with broker for margin payables	(73)	(1,842)	(171)	(570)	(2,656)
Financial liabilities held at fair value through profit or loss	(417)	(141)	(16)	(664)	(1,238)
	<u>5,915</u>	<u>(1,458)</u>	<u>6</u>	<u>(917)</u>	<u>3,546</u>
Foreign currency contracts exposure	<u>25,256</u>	<u>(16,581)</u>	<u>(16,551)</u>	<u>461</u>	<u>(7,415)</u>
Net increase/(decrease) in exposure from foreign currency contracts	<u>31,171</u>	<u>(18,039)</u>	<u>(16,545)</u>	<u>(456)</u>	<u>(3,869)</u>

The table on page 20 summarises the sensitivities of the Fund's monetary assets and liabilities to foreign exchange risk. The analysis is based on the assumption that the Australian Dollar weakened/strengthened by 10% against other currencies to which the Fund is significantly exposed. The impact arises mainly from exposure to accounts denominated in US Dollars.

The Fund's foreign exchange exposure on investment in unit trusts, equities is embedded in the price risk as presented on page 20 and therefore these investments are not included in the foreign exchange risk sensitivity analysis.

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk

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 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 Fund has direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain companies in which the Fund invests and impact on the valuation of certain assets that use interest rates as an input in their valuation model. Therefore, the sensitivity analysis within note 3(b) may not fully indicate the total effect on the Fund's net assets attributable to unitholders of future movements in interest rates.

The table below summarises the Fund's exposure to interest rate risks, excluding any exposure to interest rate futures. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual re-pricing or maturity dates.

30 June 2018	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
Assets				
Cash and cash equivalents	13,008	-	9,011	22,019
Deposits held with brokers for margin	6,718	-	-	6,718
Receivables	-	-	12	12
Financial assets held at fair value through profit or loss	4,989	5,524	28,234	38,747
Liabilities				
Payables	-	-	(72)	(72)
Financial liabilities held at fair value through profit or loss	-	(16)	(1,222)	(1,238)
Net assets attributable to unitholders	<u>24,715</u>	<u>5,508</u>	<u>35,963</u>	<u>66,186</u>
Net increase/(decrease) in exposure from				
Interest rate futures (notional principal)	<u>(8,915)</u>	<u>8,915</u>	<u>-</u>	<u>-</u>
Net exposure	<u>15,800</u>	<u>14,423</u>	<u>35,963</u>	<u>66,186</u>

An analysis of financial liabilities by maturities is provided in paragraph (d) on page 21.

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 price risk, interest rate risk and foreign exchange risk as at 30 June 2018. 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 foreign exchange rates, historical correlation 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 the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

	Price risk	
	Impact on operating profit/Net assets attributable to unitholders	
	-10%	+10%
	\$'000	\$'000
30 June 2018	(4,654)	4,654

	Foreign currency risk					
	Impact on operating profit/Net assets attributable to unitholders					
	-10%	+10%	-10%	+10%	-10%	+10%
	USD	USD	EUR	EUR	JPY	JPY
	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000	A\$'000
30 June 2018	(592)	592	(146)	146	1	(1)

(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, causing a financial loss to the fund.

Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired nor past due. At the end of the reporting period the exposure to credit risk for cash and cash equivalents, deposits with banks and amounts due from brokers is considered low as all counterparties of the Fund have a rating of Investment Grade or higher (as determined by external credit rating agencies).

3 Financial risk management (continued)

(c) Credit risk (continued)

The Fund invests in debt securities which have an investment grade categorisation as rated by Standard & Poor's. For unrated assets a rating is assigned by the responsible entity using an approach that is consistent with the approach used by rating agencies. All debt securities must have an investment rating of BBB or higher as determined by the Standard & Poor's. An analysis of debt by rating is set out in the following table.

	As at 30 June 2018 \$'000
Debt securities	
AA+ to AA-	10,266
Total	10,266

All transactions in debt securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

The clearing and depository operations for the Fund's security transactions are mainly concentrated with one counterparty, namely State Street Australia Limited. At 30 June 2018, State Street Australia Limited had a credit rating of AA-. At 30 June 2018, substantially all cash and investments are held in custody by State Street Australia Limited.

(d) Liquidity risk

The Fund is exposed to daily cash redemptions of redeemable units. The liquidity risks associated with the need to satisfy unitholders' requests for redemptions are primarily mitigated by maintaining a pool of cash to satisfy usual levels of demand. In addition, the Fund may restrict redemptions on a temporary basis as detailed in the Product Disclosure Statement.

The Fund primarily holds investments that are traded in an active market and can be readily disposed. However it may invest in derivative contracts and fixed income securities that are traded over the counter or on secondary markets. These markets may be illiquid and as a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer or counterparty. Refer to note 5 for the type of financial instruments held by the Fund.

The Fund delegates some of liquidity risk management to external Investment Managers where they monitor their liquidity positions on a daily basis. In addition, Pinnacle Fund Services Limited and underlying investment manager monitors the Fund's liquidity position on a daily basis.

3 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Maturities of non-derivative financial liabilities

The table below analyses the Fund's financial liabilities, excluding gross settled derivative financial liabilities, into relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date at year end date. The amounts in the table are contractual undiscounted cash flows.

At 30 June 2018	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	over 12 months \$'000	No stated maturity \$'000
Payables	72	-	-	-	-
Contractual cash flows (excluding derivatives)	72	-	-	-	-

(ii) Maturities of net settled derivative financial instruments

The table below analyses the Fund's net settled derivative financial instruments in a loss position for which the contractual maturities are considered to be essential to an understanding of the timing of cash flows based on the Fund's investment strategy.

At 30 June 2018	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	No stated maturity \$'000
Net settled derivatives					
Futures	555	1,006	-	-	-
Foreign currency contracts	(12)	-	-	-	-
Contracts for difference	-	-	-	-	(566)

All derivative financial instruments entered into by the Fund are settled on a net basis.

4 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 (FVTPL) (see note 6 and note 7)
- Financial assets / liabilities held for trading (see note 6 and note 7)
- Derivative financial instruments (see note 8)

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).

4 Fair value measurement (continued)

(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 prices used for both financial assets and financial liabilities were last traded prices.

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) Valuation techniques used to derive level 2 and level 3 fair value

The fair value of financial assets and liabilities that are not exchange-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. 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.

4 Fair value measurement (continued)

Recognised fair value measurements

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 30 June 2018.

As at 30 June 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets held for trading:				
Derivatives	1,911	310	-	2,221
Financial assets designated at fair value through profit or loss at inception:				
Unit trusts	-	26,260	-	26,260
Debt securities	-	10,266	-	10,266
Total financial assets	<u>1,911</u>	<u>36,836</u>	<u>-</u>	<u>38,747</u>
Financial liabilities				
Financial liabilities held for trading:				
Derivatives	350	888	-	1,238
Total financial liabilities	<u>350</u>	<u>888</u>	<u>-</u>	<u>1,238</u>

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

(i) Transfers between levels

There have been no transfer between levels for the period ended 30 June 2018.

(ii) Fair value measurements using significant unobservable inputs (level 3)

The Fund did not hold any financial instruments with fair value measurements using significant unobservable inputs during the period ended 30 June 2018.

(iii) Valuation processes

Portfolio reviews are undertaken regularly by management to identify securities that potentially may not be actively traded or have stale security pricing. This process identifies securities which possibly could be regarded as being level 3 securities.

Further analysis, should it be required, is undertaken to determine the accounting significance of the identification. For certain security types, in selecting the most appropriate valuation model, management performs back testing and considers actual market transactions. Changes in allocation to or from level 3 are analysed at the end of each reporting period.

(iv) Fair values of other financial instruments

The Fund did not hold any financial instruments which were not measured at fair value in the Statement of financial position. Due to their short-term nature, the carrying amounts of receivables and payables are assumed to approximate their fair value.

5 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:

	Period from 25 May 2017 to 30 June 2018 \$'000
Financial assets	
Net gain/(loss) on financial assets held for trading	4,713
Net gain/(loss) on financial assets designated at fair value through profit or loss	<u>339</u>
Net gain/(loss) on financial assets held at fair value through profit or loss	<u>5,052</u>
Financial liabilities	
Net gain/(loss) on financial liabilities held for trading	<u>(7,148)</u>
Net gain/(loss) on financial liabilities held at fair value through profit or loss	<u>(7,148)</u>
Total net gains/(losses) on financial instruments held at fair value through profit or loss	<u>(2,096)</u>

6 Financial assets held at fair value through profit or loss

	As at 30 June 2018 \$'000
Held for trading	
Derivatives (Note 8)	<u>2,221</u>
Total held for trading	<u>2,221</u>
Designated at fair value through profit or loss	
Unit trusts	26,260
Debt securities	<u>10,266</u>
Total designated at fair value through profit or loss	<u>36,526</u>
Total financial assets held at fair value through profit or loss	<u>38,747</u>

An overview of the risk exposures and fair value measurements relating to financial assets held at fair value through profit or loss is included in note 3 and note 4 to the financial statements.

7 Financial liabilities held at fair value through profit or loss

	As at 30 June 2018 \$'000
Held for trading	
Derivatives (Note 8)	1,238
Total held for trading	1,238
Total financial liabilities held at fair value through profit or loss	1,238

An overview of the risk exposures and fair value measurements relating to financial liabilities held at fair value through profit or loss is included in note 3 and note 4 to the financial statements.

8 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 and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating, 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, options and swaps. 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; and
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

The Fund holds the following derivative instruments:

(a) 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 collateralized 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.

(b) Foreign currency contracts

Foreign currency contracts are primarily used by the Fund to hedge against foreign currency exchange rate risks on its non-Australian dollar denominated trading securities. The Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Foreign 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.

8 Derivative financial instruments (continued)

(b) Foreign currency contracts (continued)

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

As at 30 June 2018	Contract/ notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
Australian share price index futures	3,477	58	-
International share price index futures	72,888	819	104
Australian interest rate futures	1,200	9	-
International interest rate futures	31,253	238	16
Futures - Commodity Futures	30,366	787	230
Foreign currency contracts - forward	126,599	310	322
Contracts for differences	33	-	566
	<u>265,816</u>	<u>2,221</u>	<u>1,238</u>

An overview of the risk exposures and fair value measurements relating to derivatives is included in note 3 and note 4 to the financial statements.

As at the reporting date, the Fund hedged its transactions or positions by holding foreign currency contracts with a gross notional value of \$126,599,000 comprising of buy \$43,257,000 and sale \$83,342,000 resulting in net exposure of \$40,085,000.

9 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 investment in all funds to be structured entities. The Fund invests in related managed funds for the purpose of capital appreciation and or earning investment income.

An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Fund. Such interests include holdings of units in unit trusts.

	Fair value of investment 2018 \$'000
Structured entities	
Vanguard Cash Reserve Fund	<u>26,260</u>
Total	<u>26,260</u>

The exposure to investments in related investment funds are summarised in note 16.

The Fund has exposures to structured entities through its trading activities. The Fund typically has no other involvement with the structured entity other than the securities it holds as part of trading activities and its maximum exposure to loss is restricted to the carrying value of the asset.

Exposure to trading assets are managed in accordance with financial risk management practices as set out in note 3.

10 Net assets attributable to unitholders

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

Prior to 1 July 2017, the Scheme classified its net assets attributable to unitholders as liabilities in accordance with AASB 132. The Scheme's Constitution has been amended in order to allow the Scheme to elect into the AMIT tax regime effective 1 July 2017 and it no longer has a contractual obligation to pay distributions to unitholders. Therefore the net assets attributable to unitholders of the Scheme meet the criteria set out under AASB 132 and are classified as equity from 1 July 2017 onwards.

As a result of the reclassification of net assets attributable to unitholders from liabilities to equity, the Fund's distributions are classified as dividends paid in the Statement of changes in equity.

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

	Period from 25 May 2017 to 30 June 2018 No.'000	Period from 25 May 2017 to 30 June 2018 \$'000
Class A		
Applications	1,475	1,435
Redemptions	(26)	(24)
Profit/(loss) for the period	-	(47)
Closing balance	<u>1,449</u>	<u>1,364</u>
Class F		
Applications	66,760	66,367
Redemptions	(1,454)	(1,418)
Profit/(loss) for the period	-	(1,761)
Closing balance	<u>65,306</u>	<u>63,188</u>
Class Z		
Applications	6,710	6,690
Redemptions	(4,990)	(4,769)
Profit/(loss) for the period	-	(287)
Closing balance	<u>1,720</u>	<u>1,634</u>
Total net assets attributable to unitholders - equity*	<u>68,475</u>	<u>66,186</u>

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

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund.

There are three separate classes of units. Each unit within the same class has the same rights as all other units within that class. Except for different management fee rates, the three different classes have the same preferences and restrictions. Refer to note 16 for the applicable management fee rates.

10 Net assets attributable to unitholders (continued)

Capital risk management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as equity from 1 July 2017. 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.

The Fund monitors the level of daily applications and redemptions relative to the liquid assets in the Fund. The Fund's strategy was to hold a certain portion of the net assets attributable to unitholders in liquid investments. Liquid assets include cash and cash equivalents and listed equities. 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.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Responsible Entity. 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.

11 Cash and cash equivalents

	As at 30 June 2018 \$'000
Cash at bank	1,188
Call deposits	8,829
Money market securities	2,991
Cash Fund	9,011
Total cash and cash equivalents	22,019

12 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	Period from 25 May 2017 to 30 June 2018 \$'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities	
Profit/(loss) for the period	(2,095)
Purchase of financial instruments held at fair value through profit or loss	(40,888)
Proceeds from sale of financial instruments held at fair value through profit or loss	1,308
Net (gains)/losses on financial instruments held at fair value through profit or loss	2,096
Distribution income reinvested	(25)
Net change in receivables	(12)
Net change in payables	62
Amount received from/(paid to) brokers for margin accounts	(6,718)
Effects of foreign currency exchange rate changes on cash and cash equivalents	(5)
Net cash inflow/(outflow) from operating activities	(46,277)
(b) Non-cash financing activities	

As described in note 2(i), income not distributed is included in net assets attributable to unitholders. The change in this amount each period (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

13 Auditor's remuneration

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

	Period from 25 May 2017 to 30 June 2018 \$
PricewaterhouseCoopers Australian firm	
<i>Audit and other assurance services</i>	
Audit of financial statements	10,428
Audit of compliance	2,790
Total remuneration for audit and other assurance services	13,218
<i>Taxation services</i>	
Tax compliance services	4,900
Total remuneration for taxation services	4,900
Total remuneration of PricewaterhouseCoopers	18,118

14 Receivables

	As at 30 June 2018 \$'000
Interest receivable	12
Total receivables	12

15 Payables

	As at 30 June 2018 \$'000
Redemptions payable	10
Responsible Entity's fees and Management fees payable	61
Other payables	1
Total payables	72

16 Related party transactions

Responsible entity

The Responsible Entity of Two Trees Global Macro Fund is Pinnacle Fund Services Limited.

Pinnacle Investment Management Limited is the parent company of Pinnacle Fund Services Limited. Pinnacle Investment Management Group Limited is the ultimate holding company of Pinnacle Fund Services Limited.

Two Trees Investment Management Pty Limited is the Investment Manager of the Fund.

Key management personnel

(a) Directors

Key management personnel includes persons who were directors of Pinnacle Fund Services Limited at any time during the financial period as follows:

Pinnacle Fund Services Limited
 Mr I Macoun
 Mr A Ihlenfeldt
 Mr A Findlay (resigned 29 March 2018)
 Mr C Kwok
 Mr T O'Callaghan (appointed 29 March 2018)

Pinnacle Investment Management Limited

16 Related party transactions (continued)

Key management personnel (continued)

Pinnacle Fund Services Limited
Mr I Macoun
Mr A Ihlenfeldt
Ms E Padman (resigned 22 June 2017)
Mr A Whittingham (appointed 22 June 2017)

(b) Other key management personnel

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

Key management personnel compensation

Key management personnel of Pinnacle Fund Services Limited are paid by Pinnacle Services Administration Pty Ltd. Payments made from the Fund to Pinnacle Fund Services Limited 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.

Other transactions within the Fund

From time to time directors of Pinnacle Fund Services Limited, or their director related entities, may invest in or withdraw from the Fund. These investments or withdrawals are on the same terms and conditions as those entered into by other Fund investors and are not material in nature.

Apart from those details disclosed in this note, no key management personnel have entered into any transaction with the Fund since the end of the previous financial year and there were no material balance involving directors' interests outstanding at period end.

16 Related party transactions (continued)

Management fees and other transactions

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

	30 June 2018
	\$
Responsible Entity's fees for the period paid by the Fund	102,845
Aggregate amounts payable to the Responsible Entity at the end of the reporting period	61,506

The management fee (1.0% p.a. Class A, 0.5% p.a. Class F, 0% p.a. Class Z) is calculated daily based on the net asset value of the Fund. Performance fee (20% Class A, 10% Class F, 0% Class Z) is calculated based on percentage of the difference in the Fund's return relative to the benchmark, MSCI All Country World Net Index in AUD, is calculated net of management fees. Performance fees are not paid or payable for period ended 30 June 2018.

Responsible Entity fees are paid by the Investment Manager out of the fees they earn.

Related party unitholdings

Parties related to the Fund (including Pinnacle Fund Services Limited, its affiliates and other schemes managed by, or under trusteeship of Pinnacle Fund Services Limited or its affiliates), held units in the Fund as follows:

30 June 2018

Unitholders	Number of units held opening (Units)	Number of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/payable by the Fund (\$)
Macoun Family Pty Ltd ATF Macoun Family Super Fund	-	502,008	477,008	0.72	502,008	-	-
Pinnacle Charitable Foundation (formerly Wilson HTM Foundation)	-	300,722	285,746	0.43	300,722	-	-
Pinnacle Services Administration Pty Ltd	-	-	-	-	10,000	10,000	-
Pinnacle Services Administration Pty Ltd	-	-	-	-	4,990,000	4,990,000	-

Investments

The Fund did not hold any investments in Pinnacle Fund Services Limited or its related parties during the period.

17 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 as at 30 June 2018 or on the results and cash flows of the Fund for the period ended on that date.

18 Contingent assets and liabilities and commitments

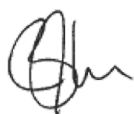
There are no outstanding contingent assets, liabilities or commitments as at 30 June 2018.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) 1.the financial statements and notes set out on pages 6 to 34 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its performance for the financial period 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; and
- (c) Note 2(a) confirms that the financial statements also 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

Mr A Ihlenfeldt

Brisbane

20 September 2018



Independent auditor's report

To the unitholders of Two Trees Global Macro Fund

Our opinion

In our opinion:

The accompanying annual report of Two Trees Global Macro 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 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The annual report comprises:

- the statement of financial position as at 30 June 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the 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.

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 annual 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 annual report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Liability limited by a scheme approved under Professional Standards Legislation.



Other information

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

Our opinion on the annual 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 annual 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 annual report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of the directors of the Responsible Entity for the annual report

The directors of the Responsible Entity of the Registered Scheme are responsible for the preparation of the annual 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 annual report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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



Auditor's responsibilities for the audit of the annual report

Our objectives are to obtain reasonable assurance about whether the annual 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 annual report.

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

A large, stylized handwritten signature of 'PricewaterhouseCoopers' in black ink.

PricewaterhouseCoopers

A handwritten signature of 'Ben Woodbridge' in black ink.

Ben Woodbridge
Partner

Brisbane
20 September 2018