

Solaris High Alpha Australian Equity Fund

ARSN 128 860 159

Annual report for the year ended 30 June 2020

30 June 2020

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These financial statements cover the Solaris High Alpha Australian Equity Fund as an individual entity.

The Responsible Entity of the Solaris High Alpha Australian Equity Fund is Pinnacle Fund Services Limited (ACN 082 494 362, AFSL 238371). 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 of the Solaris High Alpha Australian Equity Fund, present their report together with the financial statements of the Solaris High Alpha Australian Equity Fund (the "Fund"), for the year ended 30 June 2020.

Principal activities

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

Until its termination on 25 June 2020, the Fund invested in between 20 and 40 listed Australian securities and security derivatives in accordance with the provisions of the Fund's Product Disclosure Statement and Fund Constitution. The Fund's objective was to outperform the S&P/ASX 200 Accumulation Index over rolling 3 year periods.

The Fund did not have any employees during the year.

Directors

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

Mr I Macoun
Mr A Ihlenfeldt
Mr C Kwok
Mr T O'Callaghan (resigned 5 August 2019)
Mr A Whittingham (appointed 5 August 2019)

The Responsible Entity also has a Compliance Committee consisting of one non-independent person and three 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

These are the final financial statements of the fund, which has terminated.

During the period prior to its termination the fund continued to invest funds in accordance with target asset allocations as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

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

| | Year ended | |
|--|-------------------|------------|
| | 30 June | 30 June |
| | 2020 | 2019 |
| | \$ | \$ |
| Net operating profit/(loss) for the year | (99,321) | 17,876,521 |
| Distribution paid and payable | | |
| Class A | 20,968 | 63,535,960 |
| Class B | 2,049 | 7,852,366 |
| | 23,017 | 71,388,326 |
| Distribution (cents per unit) | | |
| Class A | 2.7150 | 10.3693 |
| Class B | 2.7150 | 19.9746 |

Directors' report (continued)

Significant changes in state of affairs

The Fund terminated on 25 June 2020 when all unitholders' entitlements were redeemed.

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

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 25 June 2020 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund
- (ii) the results of those operations, or
- (iii) the state of affairs of 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 the officers of Pinnacle Fund Services Limited. 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.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 13 of the financial statements.

The value of the Fund's assets and liabilities are 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 a Commonwealth, State or Territory law.

Auditor's independence declaration

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

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



Mr A. Ihlenfeldt
Director
Pinnacle Fund Services Limited

Brisbane
22 September 2020



Auditor's Independence Declaration

As lead auditor for the audit of Solaris High Alpha Australian Equity Fund for the year ended 30 June 2020, 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
22 September 2020

Statement of comprehensive income

| | | Year ended | |
|--|--------------|--------------------------------|--------------------------------|
| | Notes | 30 June 2020 \$ | 30 June 2019 \$ |
| Investment income | | | |
| Interest income from financial assets at amortised cost | | 175 | 22,284 |
| Dividend/Trust distribution income | 5 | 32,277 | 10,404,390 |
| Net gains/(losses) on financial instruments at fair value through profit or loss | 6 | (129,999) | 7,637,028 |
| Other operating income | | 4 | 18,647 |
| Total net investment income | | (97,543) | 18,082,349 |
| Expenses | | | |
| Transaction costs | | 1,467 | 205,383 |
| Management Fees | | 307 | 439 |
| Other operating expenses | | 4 | 6 |
| Total operating expenses | | 1,778 | 205,828 |
| Total operating profit | | (99,321) | 17,876,521 |
| Profit/(loss) for the year | | (99,321) | 17,876,521 |
| Other comprehensive income | | - | - |
| Total comprehensive income for the year | | (99,321) | 17,876,521 |

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

Statement of financial position

| | Notes | As at | |
|--|-------|-----------------------|-----------------------|
| | | 30 June 2020 \$ | 30 June 2019 \$ |
| Assets | | | |
| Cash and cash equivalents | 9 | - | 22,644 |
| Receivables | 11 | - | 15,558 |
| Financial assets at fair value through profit or loss | 10 | - | 928,349 |
| Total assets | | <u>-</u> | <u>966,551</u> |
| Liabilities | | | |
| Distributions payable | 8 | - | 60,601 |
| Payables | 12 | - | 37 |
| Total liabilities | | <u>-</u> | <u>60,638</u> |
| Net assets attributable to unitholders - equity | 13 | <u>-</u> | <u>905,913</u> |

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

Statement of changes in equity

| | Notes | Year ended | |
|--|-------|-----------------------|-----------------------|
| | | 30 June 2020 \$ | 30 June 2019 \$ |
| Total equity at the beginning of the financial year | 13 | 905,913 | 267,675,810 |
| Comprehensive income for the year | | | |
| Profit/(loss) for the year | | (99,321) | 17,876,966 |
| Total comprehensive income | | (99,321) | 17,876,966 |
| Transactions with unit holders | | | |
| Applications | 13 | - | - |
| Redemptions | 13 | (852,561) | (233,220,786) |
| Reinvestment of distributions | 13 | 68,986 | 19,962,249 |
| Distributions paid and payable | 8,13 | (23,017) | (71,388,326) |
| Total transactions with unit holders | | (806,592) | (284,646,863) |
| Total equity at the end of the financial year | 13 | - | 905,913 |

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

Statement of cash flows

| | Notes | Year ended | |
|---|-----------|-----------------------|-----------------------|
| | | 30 June 2020 \$ | 30 June 2019 \$ |
| Cash flows from operating activities | | | |
| Proceeds from sales of financial instruments at fair value through profit or loss | | 1,104,042 | 346,198,006 |
| Purchase of financial instruments at fair value through profit or loss | | (295,551) | (62,729,666) |
| Transaction costs on financial instruments at fair value through profit or loss | | (1,467) | (205,383) |
| Dividend/Trust distribution received | | 37,021 | 12,860,399 |
| Interest received | | 189 | 25,402 |
| RITC received/(paid) | | 659 | 5,942 |
| Other income received | | (344) | 18,201 |
| Net cash outflow from operating activities | 14 (a) | <u>844,549</u> | <u>296,172,901</u> |
| Cash flows from financing activities | | | |
| Proceeds from applications by unitholders | | - | - |
| Payments for redemptions by unitholders | | (852,561) | (233,220,341) |
| Distributions paid from operating activities | | (14,632) | (63,491,569) |
| Net cash inflow from financing activities | | <u>(867,193)</u> | <u>(296,711,910)</u> |
| Net (decrease)/increase in cash and cash equivalents | | (22,644) | (539,009) |
| Cash and cash equivalents at the beginning of the year | | <u>22,644</u> | <u>561,653</u> |
| Cash and cash equivalents at the end of the year | 9, 14 (b) | <u>-</u> | <u>22,644</u> |
| Non-cash financing activities | 14 (c) | <u>68,986</u> | <u>19,962,249</u> |

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

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1 General information

These financial statements cover the Solaris High Alpha Australian Equity Fund (the "Fund") as an individual entity. The Fund was constituted on 7 December 2007. The Fund terminated its operations on 25 June 2020 when all assets of the Fund were realised and all units were redeemed out of the Fund.

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.

The Responsible Entity is incorporated and domiciled in Australia. Solaris Investment Management Limited acts as investment manager of the Fund.

The Custodian of the Fund is RBC Investor Services Trust.

Until its termination on 25 June 2020, the Fund invested in between 20 and 40 listed Australian securities and security derivatives in accordance with the provisions of the Fund's Product Disclosure Statement and Fund Constitution.

The financial statements were authorised for issue by the directors on 22 September 2020. The directors of the Responsible Entity have the power to amend and reissue the financial statements after they have been issued.

2 Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, interpretations issued by the Accounting Standard Board and the *Corporations Act 2001* in Australia. The Solaris High Alpha Australian Equity Fund is a for-profit Fund for the purpose of preparing the financial statements.

As the Fund was terminated on 25 June 2020, the going concern basis of preparation is no longer appropriate and the financial statements have been prepared on a liquidation basis. The liquidation basis means assets have been written down to the lower of their carrying amounts and net realisable value and additional liabilities have been recognised to the extent there was a present obligation at the reporting date. The accounting policies set out below have been applied within this context. As there were no assets or liabilities at the reporting date, adopting the liquidation basis did not change the carrying amounts of any assets or liabilities.

(i) Compliance with International Financial Reporting Standards (IFRS)

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

(ii) New and amended standards adopted by the Fund

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2019 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

(iii) New standards, amendments and interpretations effective after 1 January 2020 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

(b) Financial instruments

(i) Classification

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

Assets

The Fund classifies its investments based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Fund's portfolio of financial assets is managed and its performance evaluated on a fair value basis in accordance with the Fund's document investment strategy. The Fund uses fair value information to assess performance of the portfolio and to make decisions to rebalance the portfolio or to realise fair value gains or minimise losses through sales or other trading strategies. The Fund's policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Classification (continued)

Debt securities and derivatives are measured at fair value through profit or loss.

For debt securities, the contractual cash flows are solely payments of principal and interest, however they are neither held for collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, the debt securities are measured at fair value through profit or loss.

Liabilities

The Fund makes short sales in which 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 held for trading and are consequently classified as financial liabilities at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

(ii) Recognition/derecognition

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

A financial asset is derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liabilities are discharged.

(iii) Measurement

At initial recognition, the Fund measures financial assets and financial liabilities at their fair value. Transaction costs of financial assets and financial liabilities 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 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.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Fund is the current bid price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used include the use of comparable recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

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

(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 in accordance with the Fund's constitution.

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 unit holder net of any related transaction costs.

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.

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 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.

(d) Margin accounts

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

(e) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes deposits held at call with financial institutions.

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.

(f) Investment income

(i) Interest income

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

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

(ii) Dividend and distributions

Dividend income is recognised on the ex-dividend date net of any related foreign withholding tax.

Trust distributions are recognised on an entitlements basis.

2 Summary of significant accounting policies (continued)

(g) Expenses

Any expenses which are paid by the unitholder from Fund assets are included in the Fund's financial statements and 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 provided it attributes the entirety of its taxable income to unit holders.

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

(i) Distributions

The Fund may distribute its distributable income, in accordance with the Fund's Constitution, to unit holders by cash or reinvestment. The distributions are recognised in the statement of changes in equity.

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

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

(k) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. The due from brokers balance is held for collection and consequently measured at amortised cost.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on amounts due from broker at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

(l) Receivables

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

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

The amount of the impairment loss is recognised in profit or loss 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 profit or loss.

Receivables include such items as Reduced Input Tax Credits (RITC) and application monies receivable from unitholders.

2 Summary of significant accounting policies (continued)

(m) Payables

Payables include liabilities and accrued expenses owed by the Fund. Any distributions declared which are unpaid as at the end of the reporting period are recorded as a Distribution Payable in the Statement of Financial Position.

Distributions declared effective 30 June in relation to unit holders who have previously elected to reinvest distributions are recognised as reinvested effective 1 July of the following financial year.

(n) 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. Unit redemption prices are determined by reference to the net assets of the fund divided by the number of units on issue.

(o) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as audit fees, 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 75% hence management fees, transaction costs 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.

(p) Use of estimates

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

For the majority of the Fund's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing calculations) 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.

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

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

(q) Rounding of amounts

The Fund is an entity of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with that instrument, amounts in the consolidated financial report and directors' report have been rounded off to the nearest whole dollar.

3 Financial risk management

(a) Objectives, strategies, policies and processes

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, foreign currency 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 include sensitivity analysis in the case of interest rate, foreign exchange and other price risks and ratings analysis for credit risk.

As part of its risk management strategy, the Fund uses derivatives and other investments, including share price futures, to manage exposures resulting from changes in equity price risks, and exposures arising from forecast transactions.

(b) Market risk

(i) Price risk

Equity price risk is the risk that the fair value of equities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Equity price risk exposure arises from the Fund's investment portfolio. The investments 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. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Investment Manager mitigates 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. Compliance with the Fund's Product Disclosure Statement is reported to the Board at least quarterly.

The Fund's policy also limits individual equity securities to no more than +/- 9% (relative to the benchmark) of net assets attributable to unitholders. The Fund had no concentrations in individual equity positions exceeding +/- 9% (relative to the benchmark) (2019: Nil) of the net assets attributable to unitholders at 30 June 2020.

Net assets attributable to unitholders include investments in equity securities and related derivatives. At 30 June 2020 and 30 June 2019, the overall market exposures were as follows:

| | As at | |
|---|-------------------------|-----------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| Securities at fair value through profit or loss | - | 928,349 |
| Total | - | 928,349 |

Summarised sensitivity analysis

The following summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regards to a number of factors, including 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 changings in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variation in risk variables should not be used to predict future variation in the risk variables.

At 30 June 2020, if the equity prices had increased by 13% (2019: 13%) with all other variables held constant, this would have increased net assets attributable to unitholders (and net operating profit/(loss)) by approximately \$Nil (2019: \$120,685). Conversely, if the equity prices had decreased by 13% (2019: 13%), this would have decreased net assets attributable to unitholders (and net operating profit/(loss)) by approximately \$Nil (2019: 120,685).

3 Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk

The Fund is not exposed to significant risks from movements in foreign exchange rates as there are no financial assets and liabilities denominated in foreign currencies.

(iii) Cash flow and interest rate risk

The majority of the Fund's financial assets are non-interest-bearing. Interest-bearing financial assets and interest-bearing financial liabilities mature or reprice in the short-term, no longer than twelve months. As a result, the Fund is subject to limited exposure to fair value interest rate risk due to fluctuations in the prevailing levels of market interest rates.

(c) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

The Fund holds no collateral as security or any other credit enhancement. The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

There are no material concentrations of credit risk at 30 June 2020 and 30 June 2019.

(d) Liquidity risk

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

The Fund is exposed to daily cash redemptions of redeemable units and daily margin calls on derivatives. It therefore primarily holds investments that are traded in an active market and can be readily disposed.

The Fund may, from time to time, invest in exchange traded derivative contracts.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's liquidity position on a daily basis.

Maturity analysis for non-derivative financial liabilities

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

| At 30 June 2020 | Less than 1 month \$'000 | 1-3 months \$'000 | 3-12 months \$'000 | 12-60 months \$'000 |
|--|-----------------------------|----------------------|-----------------------|------------------------|
| Distributions payable | - | - | - | - |
| Management fees | - | - | - | - |
| Contractual cash flow (excluding derivatives) | - | - | - | - |
| | | | | |
| At 30 June 2019 | Less than 1 month \$'000 | 1-3 months \$'000 | 3-12 months \$'000 | 12-60 months \$'000 |
| Distributions payable | 60,601 | - | - | - |
| Management fees | 37 | - | - | - |
| Contractual cash flow (excluding derivatives) | 60,638 | - | - | - |

4 Fair value measurements

The Fund measures and recognises financial assets and liabilities at fair value through profit or loss on a recurring basis.

- Financial assets/liabilities at fair value through profit or loss (FVTPL)
- Derivative financial instruments

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

Fair value hierarchy

Classification of financial assets and financial liabilities

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

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

(a) Fair value in an active market (Level 1)

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and listed equity securities) are based on quoted market prices at the close of trading 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 of the financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

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

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

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

(b) Fair value in an inactive or unquoted market (Level 2 and Level 3)

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

Where discounted cash flow techniques are used, estimated future cash flows are based on 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 reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The foreign currency contracts are valued at the forward rate.

4 Fair value measurements (continued)

(b) Fair value in an inactive or unquoted market (Level 2 and Level 3) (continued)

Investments in other unlisted unit Funds 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.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

The following table presents the Fund's financial assets and liabilities measured and recognised at fair value according to the fair value hierarchy at 30 June 2020 and 30 June 2019:

| At 30 June 2020 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|--|-------------------|-------------------|-------------------|-----------------|
| Financial assets at fair value through profit or loss | | | | |
| Listed equities | - | - | - | - |
| Listed unit trust | - | - | - | - |
| Total financial assets | - | - | - | - |
| | | | | |
| At 30 June 2019 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
| Financial assets at fair value through profit or loss | | | | |
| Listed equities | 843,043 | - | - | 843,043 |
| Listed unit trust | 85,306 | - | - | 85,306 |
| Total financial assets | 928,349 | - | - | 928,349 |

No level 3 instruments were held for the year ended 30 June 2020 and 30 June 2019. There were no transfers between levels during the year/period (2019: nil).

5 Dividend/Trust distribution income

| | Year ended | |
|---|-----------------------|-----------------------|
| | 30 June 2020 \$ | 30 June 2019 \$ |
| Dividend/Trust distribution income | 32,277 | 10,404,390 |
| Total dividend/trust distribution income | 32,277 | 10,404,390 |

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

| | Year ended | |
|--|-----------------------|-----------------------|
| | 30 June 2020 \$ | 30 June 2019 \$ |
| Financial assets | | |
| Net unrealised gains/(losses) on financial assets at fair value through profit or loss | (132,873) | (38,942,058) |
| Net realised gains on financial assets/(losses) at fair value through profit or loss | <u>2,874</u> | <u>46,579,086</u> |
| Net gains/(losses) on financial assets at fair value through profit or loss | <u>(129,999)</u> | <u>7,637,028</u> |

Realised gains and losses are recorded using historical cost information.

7 Auditor's remuneration

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

| | Year ended | |
|--|-----------------------|-----------------------|
| | 30 June 2020 \$ | 30 June 2019 \$ |
| PricewaterhouseCoopers Australian Firm | | |
| (i) Audit and other assurance services | | |
| Audit and review of financial statements | 17,992 | 11,500 |
| Audit of compliance plan | <u>2,936</u> | <u>2,850</u> |
| Total remuneration for audit and other assurance services | <u>20,928</u> | <u>14,350</u> |
| (ii) Non-audit services | | |
| Tax Compliance Services | <u>4,900</u> | <u>4,900</u> |
| Total remuneration for audit and non-audit services | <u>25,828</u> | <u>19,250</u> |

The fees for audit and non-audit services (principally tax advice) are paid by the investment manager out of the management fee that they charge to the clients.

8 Distributions to unitholders

The distributions were paid/payable as follows:

| | Year ended | | | |
|---------------------------|-----------------------|------------------------|-----------------------|------------------------|
| | 30 June 2020 \$ | 30 June 2020 CPU | 30 June 2019 \$ | 30 June 2019 CPU |
| Class A | | | | |
| Special distributions* | - | - | 63,485,068 | - |
| 31 December | 20,968 | 2,7150 | 2,874 | 3,8080 |
| 30 June (payable) | - | - | 48,018 | 6,5613 |
| | <u>20,968</u> | <u>2,7150</u> | <u>63,535,960</u> | <u>10,3693</u> |
| Class B | | | | |
| 31 December | 2,049 | 2,7150 | 7,839,783 | 3,3001 |
| 30 June (payable) | - | - | 12,583 | 16,6745 |
| | <u>2,049</u> | <u>2,7150</u> | <u>7,852,366</u> | <u>19,9746</u> |
| Total distribution | <u>23,017</u> | | <u>71,388,326</u> | |

* This distribution represent the special distribution paid by the Fund due to the unit holder redemptions of greater than 5% of the net assets of the Fund. Due to these redemptions, a portion of the withdrawal proceeds represented distributable income to the redeeming unit holders.

9 Cash and cash equivalents

| | As at | |
|--|-----------------|-----------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| Cash at bank | - | 22,644 |
| Total cash and cash equivalents | - | 22,644 |

10 Financial assets at fair value through profit or loss

| | As at | |
|--|-----------------|-----------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| <i>Financial assets at fair value through profit or loss</i> | | |
| Listed equities | - | 843,043 |
| Listed unit trusts | - | 85,306 |
| Total financial assets at fair value through profit or loss | - | 928,349 |

11 Receivables

| | As at | |
|---|-----------------|-----------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| Due from brokers - receivable for securities sold | - | 10,141 |
| Accrued income | - | 4,758 |
| GST receivable | - | 659 |
| Total receivables | - | 15,558 |

12 Payables

| | As at | |
|-----------------------|-----------------|-----------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| Management fees | - | 37 |
| Total payables | - | 37 |

13 Net assets attributable to unitholders

Under AASB 132 Financial Instruments: Presentation, puttable financial instruments are classified as equity where certain criteria are met. The Fund classifies the net assets attributable to unitholders as equity as they satisfy the following criteria:

- 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 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.

13 Net assets attributable to unitholders (continued)

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

| | Year ended | | 30 June 2020 Units | 30 June 2019 Units |
|---|-----------------|-----------------|--------------------------|--------------------------|
| | 30 June 2020 | 30 June 2019 | | |
| Class A | | | | |
| Net assets attributable to unitholders | | | | |
| Opening balance | 731,835 | 227,269,506 | 867,198 | 267,622,930 |
| Applications | - | - | - | - |
| Redemptions | (789,644) | (244,302,519) | (852,561) | (233,210,066) |
| Units issued upon reinvestment of distributions | 57,809 | 17,764,848 | 68,986 | 19,962,249 |
| Profit/(loss) for the year | - | - | (62,655) | 10,028,045 |
| Distributions paid and payable | - | - | (20,968) | (63,535,960) |
| Closing balance | - | 731,835 | - | 867,198 |
| Class B | | | | |
| Net assets attributable to unitholders | | | | |
| Opening balance | 75,464 | 75,464 | 38,715 | 52,880 |
| Applications | - | - | - | - |
| Redemptions | (75,464) | - | - | (10,720) |
| Units issued upon reinvestment of distributions | - | - | - | - |
| Profit/(loss) for the year | - | - | (36,666) | 7,848,921 |
| Distributions paid and payable | - | - | (2,049) | (7,852,366) |
| Closing balance | - | 75,464 | - | 38,715 |
| Total | | | | |
| Net assets attributable to unitholders | | | | |
| Opening balance | 807,299 | 227,344,970 | 905,913 | 267,675,810 |
| Applications | - | - | - | - |
| Redemptions | (865,108) | (244,302,519) | (852,561) | (233,220,786) |
| Units issued upon reinvestment of distributions | 57,809 | 17,764,848 | 68,986 | 19,962,249 |
| Profit/(loss) for the year | - | - | (99,321) | 17,876,966 |
| Distributions paid and payable | - | - | (23,017) | (71,388,326) |
| Closing balance | - | 807,299 | - | 905,913 |

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 in the underlying assets of the Fund. There are 2 separate classes of units. Each unit within the same class has the same rights as all other units within that class. Each unit class has a different management fee rate.

Units are redeemed 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 twelve months after the end of the reporting period cannot be reliably determined.

Capital risk management

The Fund considers its net assets attributable to unit holders as capital. The amount of net assets attributable to unit holders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unit holders.

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 redemption of units if the exercise of such discretion is in the best interests of unit holders.

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

| | Year ended | |
|---|-----------------|--------------------|
| | 30 June 2020 | 30 June 2019 |
| | \$ | \$ |
| (a) Reconciliation of net profit/(loss) to net cash inflow/(outflow) from operating activities | | |
| Net profit/(loss) for the year | (99,321) | 17,876,521 |
| Proceeds from sales of financial instruments at fair value through profit or loss | 1,104,042 | 346,198,006 |
| Purchase of financial instruments at fair value through profit or loss | (295,551) | (62,729,666) |
| Net (gains) on financial instruments at fair value through profit or loss | 129,999 | (7,637,028) |
| Increase/(decrease) in receivables and accrued income | 5,380 | 2,465,068 |
| Net cash inflow/(outflow) from operating activities | 844,549 | 296,172,901 |
| (b) Components of cash and cash equivalents | | |
| Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the statement of financial position as follows: | | |
| Cash and cash equivalents | - | 22,644 |
| Closing balance | - | 22,644 |
| (c) Non-cash financing and investing activities | | |
| During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan | | |
| | 68,986 | 19,962,249 |
| Closing balance | 68,986 | 19,962,249 |

15 Events occurring after the reporting period

Since the fund has terminated as at 25 June 2020, there have been no significant events since the end of the period which would impact on the financial position of the Fund as disclosed in the statement of financial position as at 30 June 2020 or on the results and cash flows of the Fund for the period ended on that date.

16 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2020 and 30 June 2019.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 22 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its performance for the financial year ended on that date.
- (b) As outlined in Note 1 to the financial statements, the Fund terminated its operations on 25 June 2020 and all units were redeemed out of the Fund.

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.



Mr A. Ihlenfeldt
Director
Pinnacle Fund Services Limited

Brisbane
22 September 2020



Independent auditor's report

To the unitholders of Solaris High Alpha Australian Equity Fund

Our opinion

In our opinion:

The accompanying financial report of Solaris High Alpha Australian Equity 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 2020 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2020
- 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 financial report* section of our report.

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

Independence

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

Other information

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

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In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we 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 financial report

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

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Registered Scheme to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intends 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 financial report

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

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

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

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Ben Woodbridge'.

Ben Woodbridge
Partner

Brisbane
22 September 2020