

# **Two Trees Global Macro Fund**

ARSN 620 185 159

## **Annual report**

**For the year ended 30 June 2020**

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## Annual report

### For the year ended 30 June 2020

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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 year ended 30 June 2020.

### 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 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 A Whittingham (appointed 5 August 2019)

Mr T O'Callaghan (resigned 5 August 2019)

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 the previous financial year. The Fund continued to invest 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.

## Directors' report (continued)

### Review and results of operations (continued)

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

	Year ended	
	30 June 2020	30 June 2019
(Loss)/profit for the year (\$'000)	<u>(10,661)</u>	<u>1,215</u>
<i>Distributions - Class A</i>		
Distributions paid and payable (\$'000)	1	-
Distribution (Cents per unit)	0.04	-
<i>Distributions - Class F</i>		
Distributions paid and payable (\$'000)	35	220
Distribution (Cents per unit)	0.04	0.24
<i>Distributions - Class Z</i>		
Distributions paid and payable (\$'000)	1	11
Distribution (Cents per unit)	0.04	0.59

### Significant changes in state of affairs

The outbreak of COVID-19 worldwide has led to extreme volatility in equities markets, which impacts the value of the Fund's assets. Governments have introduced significant fiscal stimulus, but it is still too soon to predict the longer-term economic impacts. The Directors of the Responsible Entity are monitoring the evolution of the situation closely. The Fund has procedures in place to actively monitor its service providers to ensure its continued operational effectiveness. In addition, the Fund is closely monitoring its investment policies, strategies, investment flows, performance and liquidity during this period. As at the date of this report, the fund has not experienced liquidity issues and has been able to facilitate all redemptions when due.

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

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

No matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

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

### Likely developments and expected results of operations

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

## **Directors' report (continued)**

### **Likely developments and expected results of operations (continued)**

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 year are disclosed in note 17 of the financial statements.

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

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 17 of the financial statements.

### **Interests in the Fund**

The movement in units on issue in the Fund during the year is disclosed in note 11 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.

## Directors' report (continued)

### Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

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



Director

Mr A Ihlenfeldt

Brisbane  
22 September 2020



## *Auditor's Independence Declaration*

As lead auditor for the audit of Two Trees Global Macro 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

	Notes	Year ended	
		30 June 2020 \$'000	30 June 2019 \$'000
<b>Investment income</b>			
Interest income from financial assets at fair value through profit or loss		474	481
Dividend/Trust distribution income		359	597
Net (losses)/gains on financial instruments at fair value through profit or loss	6	(10,525)	619
Net losses on foreign exchange		(333)	(25)
Other operating income		-	35
<b>Total net investment income</b>		<u>(10,025)</u>	<u>1,707</u>
<b>Expenses</b>			
Management fees	17	470	346
Transaction costs		164	145
Other operating expenses		2	1
<b>Total operating expenses</b>		<u>636</u>	<u>492</u>
<b>(Loss)/profit for the year</b>		<u>(10,661)</u>	<u>1,215</u>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<u>(10,661)</u>	<u>1,215</u>

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

## Statement of financial position

		As at	
	Notes	30 June 2020 \$'000	30 June 2019 \$'000
<b>Assets</b>			
Cash and cash equivalents	12	32,858	46,516
Deposits held with brokers for margin		19,750	17,430
Receivables	15	92	83
Financial assets at fair value through profit or loss	7	<u>34,445</u>	<u>35,313</u>
<b>Total Assets</b>		<u>87,145</u>	<u>99,342</u>
<b>Liabilities</b>			
Payables	16	3,383	124
Distributions payable		37	231
Financial liabilities at fair value through profit or loss	8	<u>1,123</u>	<u>1,624</u>
<b>Total Liabilities</b>		<u>4,543</u>	<u>1,979</u>
<b>Net assets attributable to unitholders - equity</b>	11	<u>82,602</u>	<u>97,363</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 \$'000	30 June 2019 \$'000
<b>Total equity at the beginning of the year</b>		97,363	66,186
<b>Comprehensive income for the year</b>			
(Loss)/profit for the year		<u>(10,661)</u>	<u>1,215</u>
<b>Total comprehensive income for the year</b>		<u>(10,661)</u>	<u>1,215</u>
<b>Transactions with unitholders</b>			
Applications	11	33,487	38,556
Redemptions	11	(37,590)	(8,363)
Units issued upon reinvestment of distributions		40	-
Distributions paid and payable		<u>(37)</u>	<u>(231)</u>
<b>Total transactions with unitholders</b>		<u>(4,100)</u>	<u>29,962</u>
<b>Total equity at the end of the year</b>		<u>82,602</u>	<u>97,363</u>

*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 \$'000	30 June 2019 \$'000
<b>Cash flows from operating activities</b>			
Proceeds from sale of financial instruments at fair value through profit or loss		5,986	9,910
Payments for purchase of financial instruments at fair value through profit or loss		(15,785)	(4,875)
Net foreign exchange loss		(333)	(25)
Dividend/Trust distribution income received		-	1
Interest received		460	420
Amount received from/(paid to) brokers for margin		(2,320)	(10,712)
Other income received		10	15
Management fees paid		(464)	(299)
Payment of other expenses		(160)	(137)
<b>Net cash outflow from operating activities</b>	13(a)	<u>(12,606)</u>	<u>(5,702)</u>
<b>Cash flows from financing activities</b>			
Proceeds from applications by unitholders		33,488	38,556
Payments for redemptions by unitholders		(34,348)	(8,357)
Distributions paid		(192)	-
<b>Net cash (outflow)/inflow from financing activities</b>		<u>(1,052)</u>	<u>30,199</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(13,658)</b>	24,497
Cash and cash equivalents at the beginning of the year		<u>46,516</u>	<u>22,019</u>
<b>Cash and cash equivalents at the end of the year</b>	12	<u>32,858</u>	<u>46,516</u>
 Non-cash financing activities	 13(b)	 40	 -

*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 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 1 November 2017.

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 22 September 2020. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

## 2 Summary of significant accounting policies

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

### (a) Basis of preparation

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

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

#### *New standards, amendments and interpretations effective after 1 July 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 July 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.

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments

#### (i) Classification

The Fund classifies its financial instruments 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 performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Investment Manager to evaluate the information about these financial assets on a fair value basis together with other related financial information.

For equity securities and derivatives, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments 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.

#### (ii) Measurement

At initial recognition, the Fund measures financial assets and financial liabilities at 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. For further details on how the fair values of financial instruments are determined please see note 4 to the financial statements.

### (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.

The Fund's units have been classified as equity having satisfied all the above criteria.

## 2 Summary of significant accounting policies (continued)

### (d) Cash and cash equivalents

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

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

### (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 at fair value through profit or loss using the effective interest method. Interest income on assets 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 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 provided it attributes the entirety of its taxable income to its unitholders.

The benefit of imputation credits and foreign tax paid are passed on to unitholders. Please refer to note 2(f) for policy on withholding tax.

### (i) Distribution to unitholders

Distributions are payable as set out in the Fund's constitution. Such distributions are recognised as payable when they are determined by the Responsible Entity of the Fund.

## 2 Summary of significant accounting policies (continued)

### (i) Distribution to unitholders (continued)

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 at fair value through profit or loss 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 year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income in other operating income.

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 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 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.

## 2 Summary of significant accounting policies (continued)

### (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.

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 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.

### (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.

## 2 Summary of significant accounting policies (continued)

### (q) Use of estimates (continued)

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.

The Fund estimates the expected credit loss (ECL) using an impairment model, which has not materially impacted the Fund.

Please see Note 3 for more information on credit risk.

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.

## 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.

### 3 Financial risk management (continued)

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

##### (i) Price risk (continued)

At 30 June 2020 and 30 June 2019, the fair value of equities and related derivatives exposed to price risk were as follow:

	<b>30 June 2020 \$'000</b>	30 June 2019 \$'000
Total investment exposures to price risk	<b>34,445</b>	35,313

The table on page 22 summarises the impact of an increase/decrease on the Fund's net assets attributable to unitholders at 30 June 2020 and 30 June 2019. The analysis is based on the assumptions that the underlying investments increased/decreased by 10% (2019: 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.

### 3 Financial risk management (continued)

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

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

<b>30 June 2020</b>	<b>USD \$'000</b>	<b>EUR \$'000</b>	<b>CAD \$'000</b>	<b>All other foreign currencies \$'000</b>	<b>Total \$'000</b>
Cash and cash equivalents	3	-	-	-	3
Deposits held with brokers for margin	9,127	179	136	592	10,034
Financial assets at fair value through profit or loss	781	12	83	210	1,086
Payables	-	-	-	(11)	(11)
Financial liabilities at fair value through profit or loss	<u>(374)</u>	<u>(146)</u>	<u>-</u>	<u>(603)</u>	<u>(1,123)</u>
	<u>9,537</u>	<u>45</u>	<u>219</u>	<u>188</u>	<u>9,989</u>
Foreign currency contracts exposure	<u>(15,906)</u>	<u>(3,668)</u>	<u>1,740</u>	<u>10,779</u>	<u>(7,055)</u>
Net increase/(decrease) in foreign current exposure	<u>(6,369)</u>	<u>(3,623)</u>	<u>1,959</u>	<u>10,967</u>	<u>2,934</u>

### 3 Financial risk management (continued)

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

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

30 June 2019	USD \$'000	EUR \$'000	CAD \$'000	All other foreign currencies \$'000	Total \$'000
Cash and cash equivalents	5	-	-	-	5
Deposits held with brokers for margin	<u>8,541</u>	<u>241</u>	<u>191</u>	<u>600</u>	<u>9,573</u>
Financial assets at fair value through profit or loss	<u>1,135</u>	<u>264</u>	<u>81</u>	<u>787</u>	<u>2,267</u>
Deposits held with broker for margin payables	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities at fair value through profit or loss	<u>(1,225)</u>	<u>(17)</u>	<u>-</u>	<u>(369)</u>	<u>(1,611)</u>
	<u>8,456</u>	<u>488</u>	<u>272</u>	<u>1,018</u>	<u>10,234</u>
Foreign currency contracts exposure	<u>40,164</u>	<u>(6,705)</u>	<u>-</u>	<u>(38,313)</u>	<u>(4,854)</u>
Net increase/(decrease) in foreign current exposure	<u>48,620</u>	<u>(6,217)</u>	<u>272</u>	<u>(37,295)</u>	<u>5,380</u>

The table on page 21 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 21 and therefore these investments are not included in the foreign exchange risk sensitivity analysis.

##### (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.

### 3 Financial risk management (continued)

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

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

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 2020	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>Assets</b>				
Cash and cash equivalents	26,225	-	6,633	32,858
Deposits held with brokers for margin	19,750	-	-	19,750
Receivables	-	-	92	92
Financial assets at fair value through profit or loss	-	123	34,322	34,445
<b>Liabilities</b>				
Distributions payable	-	-	(37)	(37)
Payables	-	-	(3,383)	(3,383)
Financial liabilities at fair value through profit or loss	-	(12)	(1,111)	(1,123)
Net assets attributable to unitholders	<u>45,975</u>	<u>111</u>	<u>36,516</u>	<u>82,602</u>
<b>Net increase/(decrease) in exposure from</b>				
Interest rate futures (notional principal)	<u>(19,058)</u>	<u>19,058</u>	<u>-</u>	<u>-</u>
Net exposure	<u>26,917</u>	<u>19,169</u>	<u>36,516</u>	<u>82,602</u>
30 June 2019	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>Assets</b>				
Cash and cash equivalents	4,386	-	42,130	46,516
Deposits held with brokers for margin	17,430	-	-	17,430
Receivables	-	-	83	83
Financial assets at fair value through profit or loss	-	839	34,474	35,313
<b>Liabilities</b>				
Distributions payable	-	-	(231)	(231)
Payables	-	-	(124)	(124)
Financial liabilities at fair value through profit or loss	-	-	(1,624)	(1,624)
Net assets attributable to unitholders	<u>21,816</u>	<u>839</u>	<u>74,708</u>	<u>97,363</u>

### 3 Financial risk management (continued)

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

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

	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
30 June 2019				
<b>Net increase/(decrease) in exposure from</b>				
Interest rate futures (notional principal)	(61,595)	61,595	-	-
Net exposure	(39,779)	62,434	74,708	97,363

An analysis of financial liabilities by maturities is provided in paragraph (d) on page 23.

#### (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 2020 and 30 June 2019. 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% \$'000	+10% \$'000
30 June 2020	(3,445)	3,445
30 June 2019	(3,531)	3,531

	Foreign currency risk					
	Impact on operating profit/Net assets attributable to unitholders					
	-10% USD \$'000	+10% USD \$'000	-10% EUR \$'000	+10% EUR \$'000	-10% CAD \$'000	+10% CAD \$'000
30 June 2020	(838)	838	(11)	11	(14)	14
30 June 2019	(610)	610	(21)	21	(19)	19

### 3 Financial risk management (continued)

#### (c) 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 6 and 7 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.

#### (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.

	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	over 12 months \$'000	No stated maturity \$'000
<b>At 30 June 2020</b>					
Financial liabilities at fair value through profit or loss					
Payables	3,383	-	-	-	-
Distributions payable	37	-	-	-	-
Contractual cash flows (excluding derivatives)	<u>3,420</u>	-	-	-	-
	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	over 12 months \$'000	No stated maturity \$'000
<b>At 30 June 2019</b>					
Financial liabilities at fair value through profit or loss					
Payables	124	-	-	-	-
Distributions payable	231	-	-	-	-
Contractual cash flows (excluding derivatives)	<u>355</u>	-	-	-	-

### 3 Financial risk management (continued)

#### (c) Liquidity risk (continued)

##### (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.

	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	No stated maturity \$'000
<b>At 30 June 2020</b>					
Net settled derivatives					
Futures	(349)	716	-	-	-
Foreign currency contracts	(56)	-	-	-	-
Contracts for difference	-	-	-	-	(170)
	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	No stated maturity \$'000
<b>At 30 June 2019</b>					
Net settled derivatives					
Futures	193	301	-	-	-
Foreign currency contracts	(2)	-	-	-	-
Contracts for difference	-	-	-	-	307

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

### 4 Offsetting financial assets and financial liabilities

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. The gross and net positions of financial assets and liabilities that have been offset in the Statement of financial position are disclosed in the first three columns of the tables below.

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

Financial assets	Effects of offsetting on the Statement of financial position			Related amount not offset		
	Gross amounts of financial assets	Gross amounts set off in the Statement of financial position	Net amount of financial assets presented in the Statement of financial position	Amounts subject to master netting arrangements	Collateral received	Net amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>30 June 2020</b>						
Derivative financial instruments	1,264	-	1,264	(890)	-	374
Total	1,264	-	1,264	(890)	-	374
<b>30 June 2019</b>						
Derivative financial instruments	-	-	-	-	-	-
Total	-	-	-	-	-	-
Financial liabilities	Effects of offsetting on the Statement of financial position			Related amounts not offset		
	Gross amounts of financial liabilities	Gross amounts set off in the Statement of financial position	Net amount of financial liabilities presented in the Statement of financial position	Amounts subject to master netting arrangements	Collateral pledged	Net amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>30 June 2020</b>						
Derivative financial instruments	1,123	-	1,123	(890)	-	233
Total	1,123	-	1,123	(890)	-	233
<b>30 June 2019</b>						
Derivative financial instruments	-	-	-	-	-	-
Total	-	-	-	-	-	-

## 5 Fair value measurement

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

- Financial assets / liabilities at fair value through profit or loss (FVTPL) (see note 7 and note 8)
- 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).

### *(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.

## 5 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 2020.

As at 30 June 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value through profit or loss</b>				
Derivatives	1,253	11	-	1,264
Unit trusts	-	33,181	-	33,181
Total	<u>1,253</u>	<u>33,192</u>	<u>-</u>	<u>34,445</u>
<b>Financial liabilities at fair value through profit or loss</b>				
Derivatives	886	237	-	1,123
Total	<u>886</u>	<u>237</u>	<u>-</u>	<u>1,123</u>

As at 30 June 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value through profit or loss</b>				
Derivatives	2,009	414	-	2,423
Unit trusts	-	32,890	-	32,890
Total	<u>2,009</u>	<u>33,304</u>	<u>-</u>	<u>35,313</u>
<b>Financial liabilities at fair value through profit or loss</b>				
Derivatives	1,515	109	-	1,624
Total	<u>1,515</u>	<u>109</u>	<u>-</u>	<u>1,624</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 year ended 30 June 2020 and 30 June 2019.

#### (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 year ended 30 June 2020 and 30 June 2019.

#### (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.

## 5 Fair value measurement (continued)

### Recognised fair value measurements (continued)

#### (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.

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

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

	Year ended	
	30 June 2020 \$'000	30 June 2019 \$'000
<b>Financial assets</b>		
Net realised gain on financial assets at fair value through profit or loss	4,998	6,522
Net unrealised loss on financial assets at fair value through profit or loss	<u>(1,251)</u>	<u>(38)</u>
<b>Net gains on financial assets at fair value through profit or loss</b>	<u>3,747</u>	<u>6,484</u>
<b>Financial liabilities</b>		
Net realised loss on financial liabilities at fair value through profit or loss	(14,773)	(5,479)
Net unrealised gain/(loss) on financial liabilities at fair value through profit or loss	<u>501</u>	<u>(386)</u>
<b>Net losses on financial liability at fair value through profit or loss</b>	<u>(14,272)</u>	<u>(5,865)</u>
<b>Total net (losses)/gains on financial instruments at fair value through profit or loss</b>	<u>(10,525)</u>	<u>619</u>

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

	As at	
	30 June 2020 \$'000	30 June 2019 \$'000
<b>Financial assets at fair value through profit or loss</b>		
Derivatives (Note 9)	1,264	2,423
Unit trusts	<u>33,181</u>	<u>32,890</u>
<b>Total financial assets at fair value through profit or loss</b>	<u>34,445</u>	<u>35,313</u>

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in note 3 and note 5 to the financial statements.

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

	As at	
	30 June 2020 \$'000	30 June 2019 \$'000
<b>Financial liabilities at fair value through profit or loss</b>		
Derivatives (Note 9)	1,123	1,624
<b>Total financial liabilities at fair value through profit or loss</b>	1,123	1,624

An overview of the risk exposures and fair value measurements relating to financial liabilities at fair value through profit or loss is included in note 3 and note 5 to the financial statements.

## 9 Derivative financial instruments

In the normal course of business the Fund enters into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date 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.

## 9 Derivative financial instruments (continued)

### (b) Foreign currency contracts (continued)

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

As at 30 June 2020	Contract/ notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
Australian share price index futures	-	82	-
International share price index futures	-	288	624
Australian interest rate futures	5,900	96	-
International interest rate futures	18,612	27	12
Futures - Commodity Futures	-	760	250
Foreign currency contracts - forward	43,694	11	67
Contracts for differences	-	-	170
	<u>68,206</u>	<u>1,264</u>	<u>1,123</u>

As at 30 June 2019	Contract/ notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
Australian share price index futures	817	-	2
International share price index futures	119,325	506	546
Australian interest rate futures	13,700	155	-
International interest rate futures	47,895	684	-
Futures - Commodity Futures	40,715	664	967
Foreign currency contracts - forward	68,240	97	99
Contracts for differences	-	317	10
	<u>290,692</u>	<u>2,423</u>	<u>1,624</u>

An overview of the risk exposures and fair value measurements relating to derivatives is included in note 3 and note 5 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 \$43,694,000 (2019: \$68,240,000) comprising of buy \$22,745,000 (2019: \$8,925,000) and sale \$20,949,000 (2019: \$59,315,000) resulting in net exposure of \$1,796,000 (2019: \$50,390,000).

## 10 Structured entities

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

The Fund considers 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.

## 10 Structured entities (continued)

	Fair value of investment	
	2020	2019
	\$'000	\$'000
Structured entities		
Vanguard Cash Reserve Fund	33,181	32,890
<b>Total</b>	<b>33,181</b>	<b>32,890</b>

The exposure to investments in related investment funds are summarised in note 17.

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.

## 11 Net assets attributable to unitholders - equity

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.

As a result, the Fund's distributions are classified as dividends paid in the Statement of changes in equity set out in Note 2(c).

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

	Year ended			
	30 June 2020	30 June 2020	30 June 2019	30 June 2019
	No.'000	\$'000	No.'000	\$'000
<b>Class A</b>				
Opening balance	1,491	1,723	1,449	1,364
Applications	-	-	42	40
Redemptions	(156)	(150)	-	-
Units issued upon reinvestment of distributions	9	9	-	-
Distributions paid and payable	-	(1)	-	-
(Loss)/Profit for the year	-	(1,433)	-	319
Closing balance	<u>1,344</u>	<u>148</u>	<u>1,491</u>	<u>1,723</u>
<b>Class F</b>				
Opening balance	93,582	93,011	65,306	63,188
Applications	33,513	32,756	35,860	36,272
Redemptions	(38,031)	(35,737)	(7,584)	(7,296)
Units issued upon reinvestment of distributions	31	31	-	-
Distributions paid and payable	-	(35)	-	-
(Loss)/Profit for the year	-	(89,882)	-	1,067
Closing balance	<u>89,095</u>	<u>144</u>	<u>93,582</u>	<u>93,011</u>

## 11 Net assets attributable to unitholders - equity (continued)

	Year ended			
	30 June 2020 No.'000	30 June 2020 \$'000	30 June 2019 No.'000	30 June 2019 \$'000
<b>Class Z</b>				
Opening balance	3,002	2,629	1,720	1,634
Applications	775	731	2,430	2,244
Redemptions	(1,885)	(1,703)	(1,148)	(1,067)
Distributions paid and payable	-	(1)	-	-
Profit/(loss) for the year	-	80,654	-	(171)
Closing balance	<u>1,892</u>	<u>82,310</u>	<u>3,002</u>	<u>2,629</u>
<b>Total net assets attributable to unitholders - equity</b>	<u>92,331</u>	<u>82,602</u>	<u>98,075</u>	<u>97,363</u>

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

There are 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 17 for the applicable management fee rates.

### Capital risk management

The Fund considers its net assets attributable to unitholders as capital. 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.

## 12 Cash and cash equivalents

	As at	
	30 June 2020 \$'000	30 June 2019 \$'000
Cash at bank	3,763	1,451
Call deposits	22,462	2,935
Cash Fund	<u>6,633</u>	<u>42,130</u>
<b>Total cash and cash equivalents</b>	<u>32,858</u>	<u>46,516</u>

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

	Year ended	
	30 June 2020 \$'000	30 June 2019 \$'000
<b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
(Loss)/profit for the year	(10,698)	984
Distributions to unitholders	37	231
Purchase of financial instruments at fair value through profit or loss	(15,785)	(4,875)
Proceeds from sale of financial instruments at fair value through profit or loss	5,986	9,910
Net losses/(gains) on financial instruments at fair value through profit or loss	10,525	(619)
Dividend/Trust distribution income reinvested	(359)	(596)
Net change in receivables	(9)	(71)
Net change in payables	17	46
Amount paid to brokers for margin accounts	(2,320)	(10,712)
<b>Net cash (outflow) from operating activities</b>	<u>(12,606)</u>	<u>(5,702)</u>
<b>(b) Non-cash financing activities</b>		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	40	-

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.

### 14 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 \$
<b>PricewaterhouseCoopers Australian firm</b>		
<i>Audit and other assurance services</i>		
Audit of financial statements	<u>14,781</u>	<u>14,350</u>
Total remuneration for audit and other assurance services	<u>14,781</u>	<u>14,350</u>
<b>Total remuneration of PricewaterhouseCoopers</b>	<u>14,781</u>	<u>14,350</u>

## 15 Receivables

	As at	
	30 June 2020	30 June 2019
	\$'000	\$'000
Interest receivable	87	73
Other receivables	5	10
<b>Total receivables</b>	<u>92</u>	<u>83</u>

## 16 Payables

	As at	
	30 June 2020	30 June 2019
	\$'000	\$'000
Redemptions payable	3,258	16
Responsible Entity's fees and Management fees payable	113	108
Other payables	12	-
<b>Total payables</b>	<u>3,383</u>	<u>124</u>

## 17 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 year as follows:

Mr I Macoun

Mr A Ihlenfeldt

Mr C Kwok

Mr A Whittingham (appointed 5 August 2019)

Mr T O'Callaghan (resigned 5 August 2019)

## 17 Related party transactions (continued)

### Key management personnel (continued)

#### (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 year.

### 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 year end.

### Management fees and other transactions

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

	<b>30 June 2020</b>	30 June 2019
	\$	\$
Responsible Entity's fees for the year paid by the Fund	<b>470,045</b>	346,081
Aggregate amounts payable to the Responsible Entity at the end of the reporting period	<b>112,818</b>	108,560

The management fee 1.0% p.a. (2019: 1.0% p.a.) Class A, 0.5% p.a. (2019: 0.5% p.a.) Class F and 0% p.a. (2019: 0% p.a.) Class Z is calculated daily based on the net asset value of the Fund. Performance fee 20% p.a. (2019: 20% p.a.) Class A, 10% p.a. (2019: 10% p.a.) Class F and 0% p.a. (2019: 0% p.a.) 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 year ended 30 June 2020 and 30 June 2019.

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

## 17 Related party transactions (continued)

### 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 as at 30 June 2020 and 30 June 2019:

#### 30 June 2020

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	505,047	447,068	0.54	3,039	-	3,172
Pinnacle Charitable Foundation (formerly Wilson HTM Foundation)	300,722	144,910	128,274	0.16	-	155,812	1,838
Pinnacle Services Administration Pty Ltd	2,690,716	-	-	-	-	-	-
Pinnacle Services Administration Pty Ltd	2,711,450	-	-	-	-	-	-

#### 30 June 2019

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	505,047	493,785	0.51	-	-	-
Pinnacle Charitable Foundation (formerly Wilson HTM Foundation)	300,722	300,722	294,016	0.30	-	-	1,780
Pinnacle Services Administration Pty Ltd	-	2,690,716	2,617,259	31.06	2,500,000	-	-
Pinnacle Services Administration Pty Ltd	-	2,711,450	2,636,885	31.29	2,500,000	-	-

### Investments

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

## **18 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 2020 or on the results and cash flows of the Fund for the year ended on that date.

## **19 Contingent assets and liabilities and commitments**

There were no outstanding contingent assets, 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 7 to 37 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 2020 and of its performance for the year ended on that date; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; 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

22 September 2020



## *Independent auditor's report*

To the unitholders of Two Trees Global Macro Fund

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### *Our opinion*

In our opinion:

The accompanying financial 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 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.

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### *Basis for opinion*

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

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

### ***Independence***

We are independent of the Registered Scheme in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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.

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### *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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**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](http://www.pwc.com.au)

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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.

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### *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.

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

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

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

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