

# **Alexander Credit Opportunities Fund**

ARSN 156 026 514

## **Annual report**

**For the year ended 30 June 2021**

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ARSN 156 026 514

## Annual report For the year ended 30 June 2021

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This annual report covers Alexander Credit Opportunities Fund as an individual entity.

The Responsible Entity of Alexander Credit Opportunities Fund is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975).

The Responsible Entity's registered office is:

Level 1, 575 Bourke Street  
Melbourne, VIC 3000.

## Directors' report

The directors of Equity Trustees Limited, the Responsible Entity of Alexander Credit Opportunities Fund (the "Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2021.

### Principal activities

The Fund invests in fixed income securities that include corporate bonds, bank loans, hybrids, mortgage-backed and asset-backed securities, and unit trusts in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

The Fund did not have any employees during the year.

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

The various service providers for the Fund are detailed below:

Service	Provider
Responsible Entity	Equity Trustees Limited
Investment Manager	Alexander Funds Management Pty Ltd.
Custodian	JPMorgan Chase Bank, N.A.
Administrator	Unity Fund Services Pty Ltd.
Statutory Auditor	Ernst & Young

### Directors

The following persons held office as directors of Equity Trustees Limited during or since the end of the year and up to the date of this report:

Philip D Gentry	(Chairman)
Harvey H Kalman	(resigned 1 September 2020)
Ian C Westley	(resigned 3 July 2020)
Michael J O'Brien	
Russell W Beasley	(appointed 1 September 2020)

### Review and results of operations

During the year, the Fund continued to invest its funds in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

The Fund's performance was 5.86% (net of fees) for the year ended 30 June 2021. The Fund's benchmark, Bloomberg AusBond Bank Bill Index plus 2% per annum returned 2.06% for the same period.

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

	Year ended	
	30 June 2021	30 June 2020
Profit/(loss) before finance costs attributable to unit holders for the year (\$'000)	13,103	6,778
Distributions paid and payable (\$'000)	11,626	13,070
Distributions (cents per unit)	6.4911	7.1279

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

### **Significant changes in the state of affairs**

Ian C Westley resigned as a director of Equity Trustees Limited on 3 July 2020.

Harvey H Kalman resigned as a director of Equity Trustees Limited on 1 September 2020.

Russell W Beasley was appointed as a director of Equity Trustees Limited on 1 September 2020.

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 2021 that has significantly affected, or may have a significant effect on:

- 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.

### **COVID-19**

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The outbreak and the response of Governments in dealing with the pandemic has continued to evolve over the course of time. The prior year saw an increase in financial market volatility and corresponding fluctuations in the fair value of the Fund's investment portfolio. There is still some uncertainty around the impact of COVID, the potential for further outbreak and the COVID vaccine and its roll out both in Australia and around the world.

The Responsible Entity and Investment Manager are monitoring the situation closely, noting that with the ongoing developments, there is still a degree of uncertainty; therefore it is not possible at this time to predict the extent and nature of the overall impact on the Fund. The Investment Manager however, actively manages the financial risks that the Fund is exposed to, and the Net Asset Values of the Fund continue to be valued in accordance with the frequency set out in the Fund's Offer Documents, applying valuation policies reflective of the prevailing market conditions.

### **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 Product Disclosure Statement and 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.

### **Indemnification and insurance of officers**

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to the officers of Equity Trustees Limited. So long as the officers of Equity Trustees 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.

## Directors' report (continued)

### Indemnification of auditor

The Responsible Entity has not, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify the auditor of the Fund against a liability incurred as auditor.

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

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

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

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

### Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 9 to 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 to 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 *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise indicated.

### Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

This report is made in accordance with a resolution of the directors of Equity Trustees Limited through a delegated authority given by Equity Trustees Limited's Board.



Philip D Gentry  
Chairman

Melbourne  
28 September 2021

## Auditor's independence declaration to the directors of Equity Trustees Limited as Responsible Entity for Alexander Credit Opportunities Fund

As lead auditor for the audit of the financial report of Alexander Credit Opportunities Fund for the financial year ended 30 June 2021, I declare 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.

*Ernst & Young*  
Ernst & Young

*Luke Slater*  
Luke Slater  
Partner  
28 September 2021

## Statement of comprehensive income

		Year ended	
		30 June 2021	30 June 2020
	Note	\$'000	\$'000
<b>Investment income</b>			
Interest income from financial assets at fair value through profit or loss		8,234	13,092
Interest income from financial assets at amortised cost		-	12
Distribution income		7,009	2,771
Other income		-	3
Net foreign exchange loss		(100)	(45)
Net gains/(losses) on financial instruments at fair value through profit or loss		2,602	(4,045)
<b>Total investment income/(loss)</b>		<b>17,745</b>	<b>11,788</b>
<b>Expenses</b>			
Interest expense from financial instruments at fair value through profit or loss		75	863
Management and performance fees	16(g)	4,360	3,926
Custody and administration fees		147	168
Remuneration of auditor		31	31
Other expenses		29	22
<b>Total expenses</b>		<b>4,642</b>	<b>5,010</b>
<b>Profit/(loss) before finance costs attributable to unitholders for the year</b>		<b>13,103</b>	<b>6,778</b>
<b>Finance costs attributable to unit holders</b>			
Distributions to unit holders	10	(11,626)	(13,070)
(Increase)/decrease in net assets attributable to unit holders	9	(1,477)	6,292
<b>Profit/(loss) for the year</b>		<b>-</b>	<b>-</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>

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

## Statement of financial position

		As at	
		30 June 2021	30 June 2020
	Note	\$'000	\$'000
<b>Assets</b>			
Cash and cash equivalents	11	12,677	18,479
Receivables	13	163	187
Due from brokers - receivable for securities sold		7	13,385
Financial assets at fair value through profit or loss	5	233,468	229,701
Margin accounts		-	160
<b>Total assets</b>		<b>246,315</b>	<b>261,912</b>
<b>Liabilities</b>			
Distributions payable	10	7,526	7,063
Payables	14	1,555	1,048
Due to brokers - payable for securities purchase		-	8,135
Financial liabilities at fair value through profit or loss	6	-	530
<b>Total liabilities (excluding net assets attributable to unit holders)</b>		<b>9,081</b>	<b>16,776</b>
<b>Net assets attributable to unit holders - liability</b>	9	<b>237,234</b>	<b>245,136</b>

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



## Statement of changes in equity

	Year ended	
	30 June 2021 \$'000	30 June 2020 \$'000
<b>Total equity at the beginning of the financial year</b>	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
<b>Total comprehensive income</b>	-	-
Transactions with owners in their capacity as owners	-	-
<b>Total equity at the end of the financial year *</b>	-	-

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

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

## Statement of cash flows

		Year ended	
		30 June 2021	30 June 2020
	Note	\$'000	\$'000
<b>Cash flows from operating activities</b>			
Proceeds from sale of financial instruments at fair value through profit or loss		243,478	176,395
Payments for purchase of financial instruments at fair value through profit or loss		(238,690)	(189,840)
Interest income received from financial assets at fair value through profit or loss		8,241	13,481
Interest income received from financial assets at amortised cost		-	12
Distributions received		5,769	2,021
Interest expense paid from financial instruments at fair value through profit or loss		(75)	(863)
Management and performance fees paid		(3,488)	(4,084)
Custody and administration fees paid		(164)	(131)
Audit fees paid		(22)	(47)
RITC/GST paid		4	(90)
Other expenses paid		(17)	(17)
Margin call received/(paid)		160	1,710
<b>Net cash inflow/(outflow) from operating activities</b>	12(a)	<b>15,196</b>	<b>(1,453)</b>
<b>Cash flows from financing activities</b>			
Proceeds from applications by unit holders		38,312	68,905
Payments for redemptions by unit holders		(51,143)	(53,092)
Distributions paid to unit holders		(8,067)	(8,948)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>(20,898)</b>	<b>6,865</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(5,702)</b>	<b>5,412</b>
Cash and cash equivalents at the beginning of the year		18,479	13,112
Effect of foreign currency exchange rate changes on cash and cash equivalents		(100)	(45)
<b>Cash and cash equivalents at the end of the year</b>	11	<b>12,677</b>	<b>18,479</b>
Non-cash operating and financing activities	12(b)	4,336	3,391

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

## Notes to the financial statements

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## 1. General information

These financial statements cover Alexander Credit Opportunities Fund (the "Fund") as an individual entity. The Fund is an Australian registered managed investment scheme which was constituted on 29 October 2009 and will terminate in accordance with the provisions of the Fund's Constitution or by Law.

The Responsible Entity of the Fund is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975) (the "Responsible Entity"). The Responsible Entity's registered office is Level 1, 575 Bourke Street, Melbourne, VIC 3000. The financial statements are presented in the Australian currency unless otherwise noted.

The Fund invests in fixed income securities that include corporate bonds, bank loans, hybrids, mortgage-backed and asset-backed securities, and unit trusts in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The outbreak and the response of Governments in dealing with the pandemic has continued to evolve over the course of time. The prior year saw an increase in financial market volatility and corresponding fluctuations in the fair value of the Fund's investment portfolio. There is still some uncertainty around the impact of COVID, the potential for further outbreaks and the COVID vaccine and its roll out both in Australia and around the world.

The Responsible Entity and Investment Manager are monitoring the situation closely, noting that with the ongoing developments, there is still a degree of uncertainty; therefore it is not possible at this time to predict the extent and nature of the overall impact on the Fund. The Investment Manager however, actively manages the financial risks that the Fund is exposed to, and the Net Asset Values of the Fund continue to be valued in accordance with the frequency set out in the Fund's Offer Documents, applying valuation policies reflective of the prevailing market conditions.

The financial statements were authorised for issue by the directors on the date the Directors' declaration was signed. 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 (AASB) and the *Corporations Act 2001* in Australia. The Fund is a for-profit entity 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 do not distinguish between current and non-current. All balances are expected to be recovered or settled within 12 months, except for investments in financial assets and liabilities and net assets attributable to unit holders.

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 holders' 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.

## 2. Summary of significant accounting policies (continued)

### a. Basis of preparation (continued)

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

The financial statements of the Fund also comply with IFRS as issued by the International Accounting Standards Board (IASB).

#### ii. New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2020 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 not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2021 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

##### • Financial assets

The Fund classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss; and
- those to be measured at amortised cost.

The Fund classifies its financial assets 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 for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business objective. Consequently, the debt securities are measured at fair value through profit or loss.

For cash and cash equivalents, due from brokers, margin accounts and receivables, these assets are held in order to collect the contractual cash flows. The contractual terms of these assets give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. Consequently, these are measured at amortised cost.

##### • Financial liabilities

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

## 2. Summary of significant accounting policies (continued)

### b. Financial instruments (continued)

#### i. Classification (continued)

- Financial liabilities (continued)

For financial liabilities that are not classified and measured at fair value through profit or loss, these are classified as financial liabilities at amortised cost (due to brokers, distributions payable, management fees payable, performance fees payable, administration fees payable, audit fees payable, redemptions payable and other payables).

#### ii. Recognition and derecognition

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

Financial assets are 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. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

#### iii. Measurement

- Financial instruments at fair value through profit or loss

At initial recognition, the Fund measures a financial asset and a financial liability at its fair value. Transaction costs of financial assets and 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 liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of 'financial assets or 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 value of financial instruments is determined please see Note 4 to the financial statements.

- Financial instruments at amortised cost

For financial assets and financial liabilities at amortised cost, they are initially measured at fair value including directly attributable costs and are subsequently measured using the effective interest rate method less any allowance for expected credit losses.

Cash and cash equivalents, due from brokers, receivables, margin accounts, and payables are carried at amortised cost.

#### iv. Impairment

At each reporting date, the Fund shall estimate a loss allowance on each of the financial asset carried at amortised cost (cash and cash equivalents, receivables, margin accounts and 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 counter party, probability that the counter party will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that the asset is credit impaired. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the net carrying amount adjusted for the loss allowance.

## 2. Summary of significant accounting policies (continued)

### b. Financial instruments (continued)

#### iv. *Impairment (continued)*

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 expected credit loss (ECL) approach is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Fund expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

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.

#### v. *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Fund has 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.

As at the end of the reporting period, there are no financial assets or liabilities offset or with the right to offset in the statement of financial position.

### c. Net assets attributable to unit holders

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

The units are classified as financial liabilities as the Fund is required to distribute its distributable income 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 holders.

The units are carried at the redemption amount that is payable at the reporting date if the holder exercises the right to put the units back to the Fund.

### 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 and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

### e. Margin accounts

Margin accounts comprise cash held as collateral for derivative transactions and short sales. The cash is held by the broker and is only available to meet margin calls. It is not included as a component of cash and cash equivalents.

## 2. Summary of significant accounting policies (continued)

### f. Investment income

#### i. Interest income

Interest income from financial assets at amortised cost is recognised using the effective interest method and includes interest from cash and cash equivalents. Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities measured at fair value through the profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or 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 instruments (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.

Interest income on financial assets at fair value through profit or loss is also recognised in the statement of comprehensive income. Changes in fair value of financial instruments at fair value through profit or loss are recorded in accordance with the policies described in Note 2(b) to the financial statements.

#### ii. Distributions

Trust distributions are recognised on an entitlement basis.

### g. Expenses

All expenses 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 distributes the entirety of its taxable income to its unit holders on present entitlement basis.

The Fund currently incurs withholding taxes imposed by certain countries on investment income and capital gains. Such income or gains are recorded gross of withholding taxes in the statement of comprehensive income. Withholding taxes are included in the statement of comprehensive income as an expense.

#### i. Distributions

The Fund distributes 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 comprehensive income as finance costs attributable to unit holders.

#### j. Increase/decrease in net assets attributable to unit holders

Income not distributed is included in net assets attributable to unit holders. As the Fund's units are classified as financial liabilities, movements in net assets attributable to unit holders are recognised in the statement of comprehensive income as finance costs.



## 2. Summary of significant accounting policies (continued)

### k. Foreign currency translation

#### i. Functional and presentation currency

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

#### ii. Transactions and balances

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

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. The Fund does not isolate that portion of unrealised gains or losses on financial instruments that are measured at fair value through profit or loss and which is due to changes in foreign exchange rates. Such fluctuations are included in the net gains/(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 is recognised initially at fair value and subsequently measured at amortised cost.

### m. Receivables

Receivables may include amounts for interest, dividends and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Where applicable, interest is accrued on a daily basis. Amounts are generally received within 30 days of being recorded as receivables.

### n. Payables

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

A separate distribution payable is recognised 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.

### 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 management, administration and custodian services where applicable, have been passed on to the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 55%. Hence, fees for these services and any other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Amounts payable are inclusive of GST.

## 2. Summary of significant accounting policies (continued)

### p. Goods and services tax (GST) (continued)

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 and judgements

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

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

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 and judgements. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The Fund estimates that the resultant expected credit loss (ECL) derived from using impairment model, has not materially impacted the Fund. Please see Note 3(c) for more information on credit risk.

For more information on how fair value is calculated refer to Note 4 to the financial statements.

### r. Rounding of amounts

The Fund is an entity of a 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 to the nearest thousand dollars, unless otherwise indicated.

## 3. Financial risk management

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

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Product Disclosure Statement and the investment guidelines of the Fund. It also seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance. The Fund's policy allows it to use derivative financial instruments in managing its financial risks.

All securities investments present a risk of loss of capital. The maximum loss of capital on long equity and debt securities is limited to the fair value of those positions. The maximum loss of capital on long futures and forward currency contracts is limited to the notional contract values of those positions.

The investments of the Fund, and associated risks, are managed by a specialist Investment Manager, Alexander Funds Management Pty Ltd under an Investment Management Agreement (IMA) approved by the Responsible Entity, and containing the investment strategy and guidelines of the Fund, consistent with those stated in the Product Disclosure Statement.

### 3. Financial risk management (continued)

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 price risk on securities listed or quoted on recognised securities exchanges and debt securities measured at fair value. Price risk 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 which are considered a component of price risk.

Price risk is managed by monitoring compliance with established investment mandate limits. All securities 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 table at Note 3(b) summarises the sensitivities of the Fund's assets and liabilities to price risk. The analysis is based on the reasonably possible shift that the investment portfolio in which the Fund invests moves by +/- 10% (2020: +/-10%).

##### ii. Foreign exchange risk

The Fund operates internationally and holds both monetary and non-monetary assets denominated in currencies other than the Australian dollar. Foreign exchange risk arises as the value of monetary securities denominated in other currencies fluctuate due to changes in exchange rates. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk and not foreign exchange risk. However, the Investment Manager monitors the exposure of all foreign currency denominated assets and liabilities.

Foreign exchange risk is managed by the use of cross-currency swap, foreign currency contracts, future contracts and spot contracts.

Foreign exchange risk is managed as a part of price risk.

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

	US Dollars A\$'000	EUR A\$'000	Total A\$'000
<b>As at 30 June 2021</b>			
Cash and cash equivalents	16	-	16
Financial assets at fair value through profit or loss	22	-	22
<b>Net exposure including forward currency contracts</b>	<b>38</b>	<b>-</b>	<b>38</b>
 As at 30 June 2020			
Cash and cash equivalents	85	-	85
Due from brokers - receivable for securities sold	-	435	435
Due to brokers - payable for securities purchase	(189)	-	(189)
Financial assets at fair value through profit or loss	78	-	78
Financial liabilities at fair value through profit or loss	-	(516)	(516)
<b>Net exposure including forward currency contracts</b>	<b>(26)</b>	<b>(81)</b>	<b>(107)</b>

The table at Note 3(b) summarises the sensitivities of the Fund's monetary assets and liabilities to foreign exchange risk. The analysis is based on the reasonably possible shift that the Australian dollar weakened and strengthened by 20% (2020: +/-20%) against the material foreign currencies to which the Fund is exposed.

### 3. Financial risk management (continued)

#### a. Market risk (continued)

##### iii. 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 them to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The impact of interest rate risk on profit and net assets attributable to unit holders is considered immaterial to the Fund.

The Fund's main interest rate risk arises from its investments in bonds.

Interest rate risk can be reduced through the use of interest rate swaps and future contracts.

The table below summarises the Fund's exposure to interest rate risk at the end of the reporting period.

	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>As at 30 June 2021</b>				
<b>Financial assets</b>				
Cash and cash equivalents	12,677	-	-	12,677
Receivables	-	-	163	163
Due from brokers - receivable for securities sold	-	-	7	7
Financial assets at fair value through profit or loss	76,361	-	157,107	233,468
<b>Total financial assets</b>	<b>89,038</b>	<b>-</b>	<b>157,277</b>	<b>246,315</b>
<b>Financial liabilities</b>				
Distributions payable	-	-	7,526	7,526
Payables	-	-	1,555	1,555
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>9,081</b>	<b>9,081</b>
<b>Net exposure</b>	<b>89,038</b>	<b>-</b>	<b>148,196</b>	<b>237,234</b>
	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
<b>As at 30 June 2020</b>				
<b>Financial assets</b>				
Cash and cash equivalents	18,479	-	-	18,479
Receivables	-	-	187	187
Due from brokers - receivable for securities sold	-	-	13,385	13,385
Financial assets at fair value through profit or loss	175,449	-	54,252	229,701
Margin accounts	-	-	160	160
<b>Total financial assets</b>	<b>193,928</b>	<b>-</b>	<b>67,984</b>	<b>261,912</b>
<b>Financial liabilities</b>				
Distributions payable	-	-	7,063	7,063
Payables	-	-	1,048	1,048
Due to brokers - payable for securities purchase	-	-	8,135	8,135
Financial liabilities at fair value through profit or loss	-	-	530	530
<b>Total financial liabilities</b>	<b>-</b>	<b>-</b>	<b>16,776</b>	<b>16,776</b>
<b>Net exposure</b>	<b>193,928</b>	<b>-</b>	<b>51,208</b>	<b>245,136</b>

### 3. Financial risk management (continued)

#### a. Market risk (continued)

##### iii. Interest rate risk (continued)

The table at Note 3(b) summarises the impact of an increase/decrease in interest rates on the Fund's operating profit and net assets attributable to unit holders through changes in fair value or changes in future cash flows. The analysis is based on the reasonably possible shift that the interest rates changed by +/- 75 basis points (2020: +/- 75 basis points) from the year end rates with all other variables held constant.

#### b. Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unit holders to market risks. 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, interest rates and the 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 movements resulting from changes in the performance of and/or correlation between the performances of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variances in the risk variables.

	Impact on operating profit/net assets attributable to unit holders							
	Price risk		Foreign exchange risk (USD)		Foreign exchange risk (EUR)		Interest rate risk	
	-10% \$'000	+10% \$'000	-20% \$'000	+20% \$'000	-20% \$'000	+20% \$'000	-75bps \$'000	+75bps \$'000
As at 30 June 2021	(23,347)	23,347	(3)	3	-	-	(668)	668
As at 30 June 2020	(22,917)	22,917	21	(21)	(87)	87	(1,454)	1,454

#### c. Credit risk

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

This is the primary risk within the portfolio and it is analysed in many different ways by the Investment Manager. Credit limits, which are set through risk management processes, provide a framework for the amount of credit risk that the Fund can take, and this risk can be supplemented or hedged through the use of tools as credit derivative products.

The main concentration of credit risk, to which the Fund is exposed, arises from the Fund's investment in debt securities. The Fund is also exposed to counterparty credit risk on derivative financial instruments, cash and cash equivalents, amounts due to from brokers and other receivables.

##### i. Debt securities

The Fund invests in debt securities which have an investment grade categorisation as rated by external rating agencies. For unrated assets a rating is assigned by the Investment Manager using an approach that is consistent with the approach used by rating agencies. All debt securities must have a minimum investment grade as outlined in the Fund's Product Disclosure Statement.

### 3. Financial risk management (continued)

#### c. Credit risk (continued)

##### i. Debt securities (continued)

An analysis of debt (including debt securities held by the unit trust) by rating is set out in the table below.

	As at	
	30 June 2021	30 June 2020
	\$'000	\$'000
<b>Cash and cash equivalents rating</b>		
AA	123	716
A	12,554	17,763
<b>Total</b>	<b>12,677</b>	<b>18,479</b>
 <b>Australian debt securities rating</b>		
AAA	3,071	3,030
AA	9,315	16,280
A	45,787	11,640
BBB	86,996	74,486
BB	66,825	92,206
B	21,474	31,981
<b>Total</b>	<b>233,468</b>	<b>229,623</b>
 <b>Total</b>	<b>246,145</b>	<b>248,102</b>

##### ii. Derivative financial instruments

The Fund may enter into a variety of derivative financial instruments to manage its exposure to interest rate risk.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which even the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Fund will use derivatives predominantly for hedging purposes. Where the Fund uses derivatives for investment purposes, it will set aside cash and investment grade listed ASX assets to meet the up-front notional exposure of that derivative over and above the cash and listed ASX assets level that it is required to maintain for liquidity purposes. Accordingly, the use of derivatives for investment purposes will not generate leverage for the Fund.

##### iii. Settlement of securities transactions

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

##### iv. Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of A (as determined by the Standard & Poor's) or higher.

### 3. Financial risk management (continued)

#### c. Credit risk (continued)

##### v. Other

The Fund is not materially exposed to credit risk on other financial assets.

##### vi. Maximum exposure to credit risk

The maximum exposure to credit risk before any credit enhancements 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.

#### 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.

Exposure to liquidity risk for the Fund may arise from the requirement to meet daily unit holder redemption requests, margin calls on derivative transactions or to fund foreign exchange related cash flow requirements.

Liquidity risk is managed by holding some of the portfolio assets in securities that are liquid even in time of heightened volatility and conducting its investing activities in accordance with agreed guidelines and leverage ratios to ensure a minimal concentration of risk.

In order to manage the Fund's overall liquidity, 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. The Fund did not reject or withhold any redemptions during 2021 and 2020.

##### i. Maturities of 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 reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Units are redeemed on demand at the unit holders' option. However, the Responsible Entity does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

	Less than 1 month	1 to 6 months	6 to 12 months	Over 12 months	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 30 June 2021</b>					
Distributions payable	7,526	-	-	-	7,526
Payables	1,536	19	-	-	1,555
Net assets attributable to unit holders - liability	237,234	-	-	-	237,234
<b>Contractual cash flows (excluding derivatives)</b>	<b>246,296</b>	<b>19</b>	<b>-</b>	<b>-</b>	<b>246,315</b>
 <b>As at 30 June 2020</b>					
Distributions payable	7,063	-	-	-	7,063
Payables	1,024	24	-	-	1,048
Due to brokers - payable for securities purchase	8,135	-	-	-	8,135
Net assets attributable to unit holders - liability	245,136	-	-	-	245,136
<b>Contractual cash flows (excluding derivatives)</b>	<b>261,358</b>	<b>24</b>	<b>-</b>	<b>-</b>	<b>261,382</b>

### 3. Financial risk management (continued)

#### d. Liquidity risk (continued)

##### ii. Maturities of net settled derivative financial instruments

The table below analyses the Fund's net settled derivative financial instruments based on their contractual maturity. The Fund may, at its discretion, settle financial instruments prior to their original contractual settlement date, in accordance with its investment strategy, where permitted by the terms and conditions of the relevant instruments.

	Less than 1 month	1 to 6 months	6 to 12 months	Over 12 months	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<b>As at 30 June 2021</b>					
Net settled derivatives					
Options	-	22	-	-	22
<b>Total net settled derivatives</b>	-	22	-	-	22
<b>As at 30 June 2020</b>					
Net settled derivatives					
Futures	-	(14)	-	-	(14)
Options	-	78	-	-	78
Swaps	-	-	(516)	-	(516)
<b>Total net settled derivatives</b>	-	64	(516)	-	(452)

### 4. Fair value measurement

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 (see Note 5 and Note 6);
- Derivative financial instruments (see Note 7).

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

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- 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).

The Fund values its investments in accordance with the accounting policies set out in Note 2 to 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.

#### 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.



#### 4. Fair value measurement (continued)

##### a. Fair value in an active market (level 1) (continued)

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 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.

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.

Investments in unlisted unit trusts are recorded at the net asset value per unit as reported by the investment managers of such funds. The Fund may make adjustments to the value based on considerations such as: liquidity of the Investee Fund or its underlying investments, the value date of the net asset value provided, or any restrictions on redemptions and the basis of accounting.

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

#### 4. Fair value measurement (continued)

##### c. Recognised fair value measurements

The table below presents the Fund's financial assets and liabilities measured and recognised at fair value as at 30 June 2021.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>As at 30 June 2021</b>				
<b>Financial assets</b>				
Asset backed securities	-	62,512	-	62,512
Corporate bonds	-	13,827	-	13,827
Unit trusts	-	-	157,107	157,107
Options	22	-	-	22
<b>Total financial assets</b>	<b>22</b>	<b>76,339</b>	<b>157,107</b>	<b>233,468</b>

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>As at 30 June 2020</b>				
<b>Financial assets</b>				
Asset backed securities	-	153,872	-	153,872
Corporate bonds	-	20,896	-	20,896
Unit trusts	-	-	54,174	54,174
Other listed fixed income securities	681	-	-	681
Options	78	-	-	78
<b>Total financial assets</b>	<b>759</b>	<b>174,768</b>	<b>54,174</b>	<b>229,701</b>
<b>Financial liabilities</b>				
Futures	14	-	-	14
Swaps	-	516	-	516
<b>Total financial liabilities</b>	<b>14</b>	<b>516</b>	<b>-</b>	<b>530</b>

##### d. Transfer between levels

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

There were no transfers between levels in the fair value hierarchy at the end of the reporting period.

#### 4. Fair value measurement (continued)

##### e. Fair value measurements using significant unobservable inputs (level 3)

The following table presents the movement in level 3 instruments for the year ended 30 June 2021 and 30 June 2020 by class of financial instrument.

	Unit trusts \$'000
Opening balance 1 July 2019	26,341
Purchases	52,333
Sales	(24,661)
Distributions	(2,771)
Reinvestment	750
Gains/(losses) recognised in the statement of comprehensive income	2,182
Closing balance – 30 June 2020*	54,174
Purchases	112,295
Sales	(11,007)
Distributions	(7,009)
Reinvestment	1,240
Gains/(losses) recognised in the statement of comprehensive income	7,414
<b>Closing balance – 30 June 2021*</b>	<b>157,107</b>

\* includes unrealised gains/(losses) recognised in profit or loss attributable to balances held at the end of the reporting period

The gains/(losses) from the investment in unit trusts are recognised in the Statement of Comprehensive Income within distributions income of \$7,009,000 (2020: \$2,771,000) and net gains/loss on fair value through profit or loss of \$405,000 (2020: loss \$589,000).

##### i. Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements. See Note 4(b) above for the valuation techniques adopted.

Description	Fair value \$'000	Unobservable inputs	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
<b>As at 30 June 2021</b>				
Investment in unit trusts	157,107	Discount for lack of liquidity	5% - 15%	Increased / (decreased) discount for lack of liquidity by +/-5% and +/-10% would (decrease) / increase fair value by \$7,855,350
<b>As at 30 June 2020</b>				
Investment in unit trusts	54,174	Discount for lack of liquidity	5% - 15%	Increased / (decreased) discount for lack of liquidity by +/-5% and +/-10% would (decrease) / increase fair value by \$2,709,090

There were no significant inter-relationships between unobservable inputs that materially affect fair values.

#### 4. Fair value measurement (continued)

##### e. Fair value measurements using significant unobservable inputs (level 3) (continued)

##### ii. Valuation processes

The level 3 investments comprise investment in two unit trusts. The valuation techniques used to derive the fair value of the unit trusts is as follows:

- The fair value of the unit trust, which invests in a loan asset, is based on third party pricing (IDC pricing) available for the underlying loan asset plus accrued interest.
- The fair value of the unit trust which invests in an invoice market trust is based on the underlying face value of the short dated invoices held by this invoice market trust plus accrued interest.

##### f. Financial instruments not carried at fair value

The carrying value of cash and cash equivalent, margin accounts, receivables and payables approximate their fair values due to their short-term nature.

Net assets attributable to unit holders' carrying value differs from its fair value (deemed to be redemption price for individual units) due to differences in valuation inputs. This difference is not material in the current or prior year.

#### 5. Financial assets at fair value through profit or loss

	As at	
	30 June 2021	30 June 2020
	\$'000	\$'000
Options	22	78
Asset backed securities	62,512	153,872
Corporate bonds	13,827	20,896
Unit trusts	157,107	54,174
Other listed fixed income securities	-	681
<b>Total financial assets at fair value through profit or loss</b>	<b>233,468</b>	<b>229,701</b>

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 4 to the financial statements.

#### 6. Financial liabilities at fair value through profit or loss

	As at	
	30 June 2021	30 June 2020
	\$'000	\$'000
Futures	-	14
Swaps	-	516
<b>Total financial liabilities at fair value through profit or loss</b>	<b>-</b>	<b>530</b>

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 4 to the financial statements.

## 7. 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 or credit index or other variable.

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

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

- hedging to protect an asset or liability of the Fund against a fluctuation in market values, foreign exchange risk or to reduce volatility;
- a substitution for trading of physical securities; 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.

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

Certain transactions may give rise to a form of leverage. Such transactions may include, among others, reverse repurchase agreements, loans of portfolio securities, and the use of when-issued, delayed-delivery or forward commitment transactions. Leverage may be incurred when it is believed that is advantageous to increase the investment capacity of a Fund or to facilitate the clearance of transactions. Leverage creates opportunity for greater total returns for a Fund, but it also may magnify losses. The use of derivatives may also create leverage risk.

The Fund holds the following derivatives:

### a. Swaps

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

A credit default swap is an agreement whereby one counterparty pays a regular fee, usually expressed as a percentage of the notional principal, to another counterparty in return for security against default by the underlying loan or asset.

The fair value of interest rate swaps is the estimated amount that the Fund would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current credit worthiness of the swap counterparties.

### b. Futures

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

### c. Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price risk. Options held by the Fund are exchange-traded. The Fund is exposed to credit risk on purchased options to the extent of their carrying amount, which is their fair value. Options are settled on a gross basis.

## 7. Derivative financial instruments (continued)

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

	Contractual/ notional \$'000	Assets \$'000	Liabilities \$'000
<b>As at 30 June 2021</b>			
Options	3	22	-
<b>Total derivatives</b>	<b>3</b>	<b>22</b>	<b>-</b>
	Contractual/ notional \$'000	Assets \$'000	Liabilities \$'000
<b>As at 30 June 2020</b>			
Futures	(2,600)	-	14
Options	(1)	78	-
Swaps	6,000	-	516
<b>Total derivatives</b>	<b>3,399</b>	<b>78</b>	<b>530</b>

Information about the Fund's exposure to credit risk, foreign exchange risk, interest rate risk and about the methods and assumptions used in determining fair values is provided in Note 3 and Note 4 to the financial statements. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial instruments disclosed above.

## 8. 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 arrangement.

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

The exposure to investments in unrelated Schemes at fair value is disclosed in the following table:

	Fair value of investments	
	30 June 2021 \$'000	30 June 2020 \$'000
Alexander Mezzanine Bond Fund	-	7
Alexander Funds Finance Trust	157,107	54,167
<b>Total unrelated Schemes</b>	<b>157,107</b>	<b>54,174</b>

The fair value of the Schemes is included in financial assets at fair value through profit or loss in the statement of financial position.

The Fund's maximum exposure to loss from its interest in the Schemes is equal to the fair value of its investments in the Schemes as there are no off-balance sheet exposures relating to any of the Schemes. Once the Fund has disposed of its units in a Scheme it ceases to be exposed to any risk from that Scheme.

During the year ended 30 June 2021, total gains/(losses) incurred on investments in the Schemes were \$7,414,372 (2020: \$2,182,101). The Fund also earned distribution income of \$7,008,910 (2020: \$2,770,507) as a result of its interests in the Schemes.

## 9. Net assets attributable to unit holders - liability

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

	30 June 2021 '000	Year ended 30 June 2021 \$'000	30 June 2020 '000	30 June 2020 \$'000
Opening balance	184,526	245,136	171,949	233,271
Applications	28,227	38,312	49,978	68,905
Redemptions	(37,623)	(50,787)	(39,334)	(53,389)
Reinvestment of distributions	2,313	3,096	1,933	2,641
Increase/(decrease) in net assets attributable to unit holders	-	1,477	-	(6,292)
<b>Closing balance</b>	<b>177,443</b>	<b>237,234</b>	184,526	245,136

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 no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

Units are redeemed on demand at the unit holders' 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, notwithstanding that net assets attributable to unit holders are classified as a liability. 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.

## 10. Distributions to unit holders

The distributions declared during the year were as follows:

	30 June 2021 \$'000	Year ended 30 June 2021 CPU	30 June 2020 \$'000	30 June 2020 CPU
<b>Distributions</b>				
September	1,371	0.7500	1,331	0.8000
December	1,360	0.7500	2,777	1.5000
March	1,369	0.7500	1,899	1.0000
June (payable)	7,526	4.2411	7,063	3.8279
<b>Total distributions</b>	<b>11,626</b>	<b>6.4911</b>	13,070	7.1279

## 11. Cash and cash equivalents

	As at	
	30 June	30 June
	2021	2020
	\$'000	\$'000
Cash at banks	12,677	18,479
<b>Total cash and cash equivalents</b>	<b>12,677</b>	<b>18,479</b>

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

	Year ended	
	30 June	30 June
	2021	2020
	\$'000	\$'000
<b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Profit/(loss) for the year	-	-
Increase/(decrease) in net assets attributable to unit holders	1,477	(6,292)
Distributions to unit holders	11,626	13,070
Proceeds from sale of financial instruments at fair value through profit or loss	243,478	176,395
Payments for purchase of financial instruments at fair value through profit or loss	(238,690)	(189,840)
Net (gains)/losses on financial instruments at fair value through profit or loss	(2,602)	4,045
Margin call received/(paid)	160	1,710
Net change in receivables	24	299
Net change in payables	863	(135)
Unit trusts reinvestment	(1,240)	(750)
Effect of foreign currency exchange rate changes on cash and cash equivalents	100	45
<b>Net cash inflow/(outflow) from operating activities</b>	<b>15,196</b>	<b>(1,453)</b>
<b>(b) Non-cash operating and financing activities</b>		
Unit trusts reinvestment	1,240	750
The following distribution payments to unit holders were satisfied by the issue of units under the distribution reinvestment plan	3,096	2,641
<b>Total non-cash operating and financing activities</b>	<b>4,336</b>	<b>3,391</b>

As described in Note 2(j), income not distributed is included in net assets attributable to unit holders. The change in this amount for the year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

## 13. Receivables

	As at	
	30 June	30 June
	2021	2020
	\$'000	\$'000
GST receivable	163	180
Interest receivable	-	7
<b>Total receivables</b>	<b>163</b>	<b>187</b>



## 14. Payables

	As at	
	30 June 2021	30 June 2020
	\$'000	\$'000
Management fees payable	529	260
Performance fees payable	604	-
Administration fees payable	73	76
Audit fees payable	19	10
Redemptions payable	330	686
Other payables	-	16
<b>Total payables</b>	<b>1,555</b>	<b>1,048</b>

## 15. Remuneration of auditors

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

	Year ended	
	30 June 2021	30 June 2020
	\$	\$
<b>Ernst &amp; Young</b>		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	28,360	25,000
Audit of compliance plan	-	3,940
Total remuneration for audit and other assurance services	28,360	28,940
<i>Taxation services</i>		
Tax compliance services	6,873	6,778
Total remuneration for taxation services	6,873	6,778
<b>Total remuneration of Ernst &amp; Young</b>	<b>35,233</b>	<b>35,718</b>
<b>Pricewaterhouse Coopers</b>		
<i>Audit and other assurance services</i>		
Audit of compliance plan	2,342	-
Total remuneration for audit and other assurance services	2,342	-
<b>Total remuneration of Pricewaterhouse Coopers</b>	<b>2,342</b>	<b>-</b>

The auditors' remuneration is borne by the Fund. Fees are stated exclusive of GST.

## 16. Related party transactions

The Responsible Entity of Alexander Credit Opportunities Fund is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975). Accordingly, transactions with entities related to Equity Trustees Limited are disclosed below.

The Responsible Entity has contracted services to Alexander Funds Management Pty Ltd to act as Investment Manager for the Fund, JPMorgan Chase Bank N.A to act as Custodian and Unity Fund Services Pty Ltd as Administrator for the Fund. The contracts are on normal commercial terms and conditions.

## 16. Related party transactions (continued)

### a. Key management personnel

#### i. Directors

Key management personnel include persons who were directors of Equity Trustees Limited at any time during or since the end of the financial year and up to the date of this report.

Philip D Gentry	(Chairman)
Harvey H Kalman	(resigned 1 September 2020)
Ian C Westley	(resigned 3 July 2020)
Michael J O'Brien	
Russell W Beasley	(appointed 1 September 2020)

#### ii. Other key management personnel

There were no other key management personnel with responsibility for planning, directing and controlling activities of the Fund, directly or indirectly during the financial year.

### b. Transactions with key management personnel

There were no transactions with key management personnel during the reporting period (2020: nil).

### c. Key management personnel unit holdings

Key management personnel did not hold units in the Fund as at 30 June 2021 (30 June 2020: nil).

### d. Key management personnel compensation

Key management personnel are paid by EQT Services Pty Ltd. Payments made from the Fund to Equity Trustees Limited do not include any amounts directly attributable to the compensation of key management personnel.

### e. Key management personnel loans

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

### f. Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial year and there were no material contracts involving management personnel's interests existing at year end.

## 16. Related party transactions (continued)

### g. Responsible Entity fees, Investment Manager's fees and other transactions

Under the terms of the Fund's Constitution and Product Disclosure Statement for the Fund, the Responsible Entity and the Investment Manager are entitled to receive management fees.

The transactions during the year and amounts payable as at year end between the Fund, the Responsible Entity and the Investment Manager were as follows:

	As at	
	30 June 2021	30 June 2020
	\$	\$
Management fees for the year	2,981,975	3,035,850
Performance fees for the year	1,236,782	746,403
Responsible Entity fees for the year	141,467	143,934
Management fees payable at year end	488,897	243,188
Performance fees payable at year end	604,454	-
Responsible Entity fees payable at year end	40,394	16,578

For information on how management and performance fees are calculated please refer to the Fund's Product Disclosure Statement.

The management fees borne by the Fund are paid to the Investment Manager, who in turn provides the on-payment of the fees to the respective service providers.

### h. Related party unit holdings

Parties related to the Fund (including Equity Trustees Limited, its related parties and other schemes managed by Equity Trustees Limited and the Investment Manager) hold units in the Fund, as follows:

Unit holder	Number of units held opening	Number of units held closing	Fair value of investment \$	Interest held %	Number of units acquired	Number of units disposed	Distributions paid/payable by the Fund \$
As at 30 June 2021							
State Street Australia Ltd ACF							
EQT Alpha Diversified Income Fund	4,198,046	-	-	-	-	(4,198,046)	20,205
As at 30 June 2020							
State Street Australia Ltd ACF							
EQT Alpha Diversified Income Fund	4,198,046	4,198,046	5,577,046	2.25	-	-	297,132

### i. Investments

The Fund did not hold any investments in Equity Trustees Limited or its related parties during the year (2020: nil).

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

No significant events have occurred since the end of the year which would impact on the financial position of the Fund as disclosed in the statement of financial position as at 30 June 2021 or on the results and cash flows of the Fund for the year ended on that date.

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

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2021 and 30 June 2020.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- a. The financial statements and notes set out on pages 6 to 35 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 2021 and of its performance for the financial year ended on that date.
- b. There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- c. Note 2(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors of Equity Trustees Limited through a delegated authority given by Equity Trustees Limited's Board.



Philip D Gentry  
Chairman

Melbourne  
28 September 2021

## Independent Auditor's Report to the Unit Holders of Alexander Credit Opportunities Fund

### Opinion

We have audited the financial report of Alexander Credit Opportunities Fund (the Fund), which comprises the statement of financial position as at 30 June 2021, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Fund is in accordance with the *Corporations Act 2001*, including:

- a. Giving a true and fair view of the Fund's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### 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 are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (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.

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

### Information Other than the Financial Report and Auditor's Report Thereon

The directors of the Responsible Entity are responsible for the other information. The other information is the directors' report accompanying the financial report.

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

In connection with our audit of the financial report, our responsibility is to read the other information 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, 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 determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- ▶ Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

*Ernst & Young*  
Ernst & Young

*Luke Slater*

Luke Slater

Partner

Melbourne

28 September 2021