

Fortlake Real-Higher Income Fund

ARSN 645 065 818

Annual report

For the year ended 30 June 2022

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Independent auditor's report to the unit holders of Fortlake Real-Higher Income Fund

This annual report covers Fortlake Real-Higher Income Fund as an individual entity.

The Responsible Entity of Fortlake Real-Higher Income Fund is Trustees Australia Limited (ABN 63 010 579 058) (AFSL 260038).

The Responsible Entity's registered office is:

Level 1, 262 Adelaide Street
Brisbane, QLD 4000.

Directors' report

The directors of Trustees Australia Limited, the Responsible Entity of Fortlake Real-Higher Income Fund (the "Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2022.

Principal activities

The Fund invests primarily in fixed interest investments in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution. This may include investment-grade corporate bonds, asset backed securities inflation derivatives, credit derivatives, interest rate derivatives, bank bills and Negotiable Certificates of deposit (NCDs) issued by larger Australian banks. The Fund may also use derivatives to gain additional exposure to non-Australian interest rates.

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	Trustees Australia Limited
Investment Manager	Fortlake Asset Management Pty Ltd
Administrator	Link Fund Solutions Pty Limited
Prime Broker and Custodian	J.P. Morgan Securities LLC
Statutory Auditor and Legal Advisers	Ernst & Young

Directors

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

Alexandra Coleman (Chairman)
 John Nantes
 Craig Swanger
 Brook Adcock (resigned 1 September 2022)
 Matthew Loughnan (appointed 1 September 2022)

Review and results of operations

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

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

	Year ended 30 June 2022	For the period 26 October 2020 to 30 June 2021
Profit/(loss) for the year (\$'000)	241	1,071
Distributions paid and payable (\$'000)	4,975	765
Distributions (cents per unit)	6.0157	5.8376

Significant changes in the state of affairs

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

On 1 September 2022, Brook Adcock resigned as a director and Matthew Loughnan was appointed as a director of Trustees Australia Limited.

No other matter or circumstance has arisen since 30 June 2022 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.

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 Trustees Australia Limited. So long as the officers of Trustees Australia 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.

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 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 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 Trustees Australia Limited.

A handwritten signature in dark ink, appearing to read 'Alex Coleman', is positioned above the printed name and title.

Alexandra Coleman
Director

Brisbane
2 November 2022



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Auditor's independence declaration to the directors of Trustees Australia Limited as the responsible entity for Fortlake Real-Higher Income Fund

As lead auditor for the audit of the financial report of Fortlake Real-Higher Income Fund for the year then ended 30 June 2022, 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; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

Ernst & Young

Emma Reekie
Partner
2 November 2022

Fortlake Real-Higher Income Fund
Statement of comprehensive income
For the year ended 30 June 2022

Statement of comprehensive income

		Year ended 30 June 2022 \$'000	For the period 26 October 2020 to 30 June 2021 \$'000
	Note		
Investment income			
Interest income from financial assets at amortised cost		23	-
Dividends and distribution income		48	-
Net foreign exchange gain/(loss)		118	25
Net gains/(losses) on financial instruments at fair value through profit or loss		545	1,137
Other income		4	-
Total investment income/(loss)		738	1,162
Expenses			
Interest expense		11	-
Management fees	16(g)	264	34
Custody and administration fees		-	6
Expense reimbursement fees	16(g)	130	7
Remuneration of auditor	15	36	38
Other expenses		56	6
Total expenses		497	91
Profit/(loss) for the year		241	1,071
Other comprehensive income		-	-
Total comprehensive income for the year		241	1,071

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

Fortlake Real-Higher Income Fund
Statement of financial position
As at 30 June 2022

Statement of financial position

		As at	
	30 June		30 June
	2022		2021
	\$'000		\$'000
Assets	Note		
Cash and cash equivalents	11	25,331	1,383
Receivables	13	391	7
Due from brokers - receivable for securities sold		94	19
Financial assets at fair value through profit or loss	6	90,117	17,597
Total assets		115,933	19,006
Liabilities			
Borrowings	11	699	49
Distributions payable	10	3,815	765
Payables	14	136	55
Financial liabilities at fair value through profit or loss	7	17,036	4,653
Total liabilities		21,686	5,522
Net assets attributable to unit holders - equity	9	94,247	13,484

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

Fortlake Real-Higher Income Fund
Statement of changes in equity
For the year ended 30 June 2022

Statement of changes in equity

	Year ended 30 June 2022 \$'000	For the period 26 October 2020 to 30 June 2021 \$'000
Total equity at the beginning of the financial year	13,484	-
Comprehensive income for the financial year		
Profit/(loss) for the year	241	1,071
Other comprehensive income	-	-
Total comprehensive income	241	1,071
Transaction with unit holders		
Applications	96,337	15,178
Redemptions	(11,568)	(2,000)
Reinvestment of distributions	728	-
Distributions paid and payable	(4,975)	(765)
Total transactions with unit holders	80,522	12,413
Total equity at the end of the financial year	94,247	13,484

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

Fortlake Real-Higher Income Fund
Statement of cash flows
For the year ended 30 June 2022

Statement of cash flows

	Note	Year ended 30 June 2022 \$'000	For the period 26 October 2020 to 30 June 2021 \$'000
Cash flows from operating activities			
Proceeds from sale of financial instruments at fair value through profit or loss		16,099	674
Payments for purchase of financial instruments at fair value through profit or loss		(75,769)	(12,500)
Interest income received from financial assets at amortised cost		23	-
Dividends and distributions received		48	-
Other income received		4	-
Management fees paid		(233)	(28)
Custody and administration fees paid		-	(6)
Other expenses paid		(273)	(9)
Net cash inflow/(outflow) from operating activities	12	(60,101)	(11,869)
Cash flows from financing activities			
Proceeds from applications by unit holders		95,980	15,178
Payments for redemptions by unit holders		(11,502)	(2,000)
Distributions paid to unit holders		(1,197)	-
Net cash inflow/(outflow) from financing activities		83,281	13,178
Net increase/(decrease) in cash and cash equivalents		23,180	1,309
Cash and cash equivalents at the beginning of the year		1,334	-
Effects of foreign currency exchange rate changes on cash and cash equivalents		118	25
Cash and cash equivalents at the end of the year	11	24,632	1,334
Non-cash operating and financing activities	12(a)	728	-

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 Fortlake Real-Higher Income Fund (the "Fund") as an individual entity. The Fund is an Australian registered managed investment scheme which was constituted on 18 September 2020, commenced operations on 18 December 2020 and will terminate in accordance with the provisions of the Fund's Constitution or by Law.

The Responsible Entity of the Fund is Trustees Australia Limited (ABN 63 010 579 058) (AFSL 260038) (the "Responsible Entity"). The Responsible Entity's registered office is Level 1, 262 Adelaide Street, Brisbane, QLD 4000. The financial statements are presented in the Australian currency unless otherwise noted.

The Fund invests primarily in fixed interest investments in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution. This may include investment-grade corporate bonds, asset backed securities inflation derivatives, credit derivatives, interest rate derivatives, bank bills and Negotiable Certificates of deposit (NCDs) issued by larger Australian banks. The Fund may also use derivatives to gain additional exposure to non-Australian interest rates.

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 periods 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.

(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 2021 that have a material impact on the amounts recognised in prior period or will affect the current or future periods.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) New standard and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2022 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 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. Short sales are held for trading and are consequently classified as financial liabilities at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

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 (management fees payable, audit fees 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. Financial liabilities are derecognised when the obligation under the liabilities are discharged, cancelled or expired.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(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 financial liabilities carried at fair value through profit or loss, if any, 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 5 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 and receivables are carried at amortised cost.

(iv) Repurchase and reverse repurchase agreements

- Repurchase agreements

Under repurchase agreements, the Fund takes possession of an underlying debt obligation (collateral) subject to an obligation of the seller to repurchase, and the Fund to resell, the obligation at an agreed-upon price and time.

The underlying securities are held in safekeeping by the Fund's custodian under a tri-party repurchase agreement. The market value of the collateral is equal to or greater than the total amount of the repurchase obligations, including interest.

Securities purchased under repurchase agreements are reflected as a financial asset at fair value. Interest earned is recorded as a component of interest income.

In the event of counterparty default, the Fund has the right to use the collateral to offset losses incurred. If the counterparty should default, the Fund will seek to sell the securities which it holds as collateral.

- Reverse repurchase agreements

Under reverse repurchase agreements, the Fund sells securities that it holds with an agreement to repurchase the same security at an agreed-upon price and date. Securities sold under reverse repurchase agreements are reflected as a financial liability at fair value. Interest payments are recorded as a component of interest expense. The Fund may receive a fee for use of the security by the counterparty, which may result in interest income to the Fund.

A reverse repurchase agreement involves the risk that the market value of the security sold by a Fund may decline below the repurchase price of the security. The Fund segregates assets determined to be liquid or otherwise covers its obligations under reverse repurchase agreements.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(v) Impairment

At each reporting date, the Fund shall estimate a loss allowance on each of the financial assets carried at amortised cost (cash and cash equivalents and 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 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. 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 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.

(vi) 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.

Financial assets and liabilities that have been offset are disclosed in Note 4.

(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 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.

The Fund's units are classified as equity as 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;
- apart from the contractual obligation for the issuer to repurchase or redeem the instrument for cash or another financial asset, the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund, and is not a contract settled in the Fund's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

2 Summary of significant accounting policies (continued)

(c) Net assets attributable to unit holders (continued)

In addition having all of the above features, the Fund must have no other financial instrument or contract that has:

- total cash flows based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the Fund, and
- the effect of substantially restricting or fixing the residual return to the puttable instrument holders.

(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) 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 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 included in the net gains/(losses) on financial instruments at fair value through profit or loss. 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.

Other income is recognised in the statement of comprehensive income on an accruals basis.

(f) Expenses

All expenses are recognised in the statement of comprehensive income on an accruals basis.

(g) Income tax

Under current legislation, the Fund is not subject to income tax as the income tax liability is attributed to unit holders under the AMIT regime.

The benefits of tax credits paid are passed on to unit holders.

(h) Distributions

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

2 Summary of significant accounting policies (continued)

(i) 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 at fair value through profit or loss 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.

(j) 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.

(k) Receivables

Receivables may include amounts for interest. Where applicable, interest is accrued on a daily basis. Amounts are generally received within 30 days of being recorded as receivables.

(l) Payables

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

A separate distributions payable is recognised in the statement of financial position.

(m) Applications and redemptions

Unit application and redemption prices are determined by reference to the net assets of the Fund divided by the number of units on issue, adjusted for buy/sell spreads.

(n) 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. 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.

(o) 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.

2 Summary of significant accounting policies (continued)

(o) Use of estimates and judgements (continued)

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 5 to the financial statements.

(p) 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.

(q) Comparative revisions

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

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 from 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 investments present a risk of loss of capital. The maximum loss of capital on debt securities is limited to the fair value of those positions. The maximum loss of capital on long future contracts and credit default swaps is limited to the notional contract values of those positions. On options sold short, the maximum loss of capital can be unlimited.

The investments of the Fund, and associated risks, are managed by a specialist Investment Manager, Fortlake Asset 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.

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

(a) Market risk

Market risk is the risk that changes in market risk factors, such as equity prices, foreign exchange rates, interest rates and other market prices will affect the Fund's income or the carrying value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Price risk

The Fund is exposed to price risk on debt securities and derivative 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.

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Price risk (continued)

The Fund manages its exposure to price risk on interest bearing and derivative securities by only allowing investment into certain securities.

The portfolio will typically contain 20 to 70 positions (including derivative positions). Interests in the Fund will be issued in Australian dollars (AUD), however, the Fund will have underlying positions in US dollars and other currencies which will be hedged back to AUD.

The Fund will generally have the following asset allocations at all times:

- Weighted average credit weighting of the bond portfolio within the Fund no lower than BBB-
- Global government and corporate bond exposure of 0% - 15% of net asset value of the Fund
- Australian corporate bonds of 70% - 100% of net asset value of the Fund
- Australian government bonds of 0% - 10% of net asset value of the Fund
- The Fund may use derivatives to gain access to the above investment exposures and these derivatives may reference sub-investment grade issuers.

(ii) Foreign exchange risk

The Fund 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 hedging undesired currency exposure.

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

	US Dollar A\$'000	Euro A\$'000
As at 30 June 2022		
Cash and cash equivalents	916	-
Due from brokers - receivable for securities sold	-	94
Financial assets at fair value through profit or loss	3,029	5,843
Financial liabilities at fair value through profit or loss	(1,497)	(541)
Borrowings	-	(699)
Net exposure	2,448	4,697
 As at 30 June 2021		
Cash and cash equivalents	767	-
Financial assets at fair value through profit or loss	-	102
Financial liabilities at fair value through profit or loss	(510)	(8)
Borrowings	-	(49)
Net exposure	257	45

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 10% (2021: +/- 10%) 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's interest bearing financial instruments expose it to risks associated with the effects of fluctuations in the prevailing market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

The Fund's main interest rate risk arises from its investments in interest bearing securities such as bonds and other debt securities.

Interest rate risk is managed by only allowing investment into certain instrument types.

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

	Floating interest rate \$'000	Fixed interest rate \$'000	Non- interest bearing \$'000	Total \$'000
As at 30 June 2022				
Financial assets				
Cash and cash equivalents	25,331	-	-	25,331
Receivables	-	-	391	391
Due from brokers - receivable for securities sold	-	-	94	94
Financial assets at fair value through profit or loss	-	74,419	15,698	90,117
Total financial assets	25,331	74,419	16,183	115,933
Financial liabilities				
Borrowings	699	-	-	699
Distributions payable	-	-	3,815	3,815
Payables	-	-	136	136
Financial liabilities at fair value through profit or loss	-	-	17,036	17,036
Total financial liabilities	699	-	20,987	21,686
Net exposure	24,632	74,419	(4,804)	94,247

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

	Floating interest rate \$'000	Fixed interest rate \$'000	Non- interest bearing \$'000	Total \$'000
As at 30 June 2021				
Financial assets				
Cash and cash equivalents	1,383	-	-	1,383
Receivables	-	-	3	3
Due from brokers - receivable for securities sold	-	-	19	19
Financial assets at fair value through profit or loss	-	16,472	1,125	17,597
Total financial assets	1,383	16,472	1,147	19,002
Financial liabilities				
Borrowings	49	-	-	49
Distributions payable	-	-	765	765
Payables	-	-	51	51
Financial liabilities at fair value through profit or loss	-	4,135	518	4,653
Total financial liabilities	49	4,135	1,334	5,518
Net exposure	1,334	12,337	(187)	13,484

The table at Note 3(b) summarises the impact of an increase/(decrease) in interest rates on the Fund's operating profit/(loss) 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 change by +/- 25 basis points (2021: +/- 25 basis points) from the year end rates with all other variables held constant.

3 Financial risk management (continued)

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit/(loss) 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 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					
	Interest rate risk		+10% USD A\$'000	Foreign exchange risk		
	+25bps	-25bps		-10%	+10%	-10%
	\$'000	\$'000		USD A\$'000	EUR A\$'000	EUR A\$'000
30 June 2022	249	(249)	92	(92)	(61)	61
30 June 2021	45	(45)	77	(77)	(5)	5

(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.

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

Credit risk is managed by managing exposure to issuers, deposit taking institutions, brokers and other counterparties.

The Fund determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 30 June 2022 and 30 June 2021, all receivables, cash and short-term deposits are held with counterparties with a credit rating of A- or higher and are either callable on demand or due to be settled within 1 week. Management consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

3 Financial risk management (continued)

(c) Credit risk (continued)

(i) Debt securities

The Fund invests in debt securities which have an investment grade categorisation as rated by Standard and Poor's. For unrated assets a rating is assigned by the Investment Manager using an approach that is consistent with the approach used by rating agencies.

An analysis of debt by rating is set out in the table below.

	As at	
	30 June	30 June
	2022	2021
	\$'000	\$'000
Debt securities		
A-	34,498	520
BBB+	18,154	1,224
BBB	14,166	7,033
BBB-	2,505	4,795
BB+	819	897
BB	540	2,003
Unrated	3,737	-
Total	74,419	16,472

(ii) Derivative financial instruments

Derivatives (both exchange traded and over the counter) may be used in the management of the Fund for purposes including the following:

- managing investment risk and volatility of a security or market;
- managing actual and anticipated interest rate risk and credit exposure;
- managing currency risk and adjusting currency exposure;
- achieving asset exposures without buying or selling the underlying securities;
- creating short exposure to a security or market where permitted;
- generating additional income;
- adding to the gearing levels of the Fund's portfolio;
- managing strategic and tactical asset allocation strategies; or
- taking advantage of price differences (known as arbitrage).

The primary over the counter derivative counterparty used is J.P. Morgan Securities LLC, who is the Fund's Prime Broker with a credit rating of A+ (2021: A+). The Investment Manager prefers to have multiple counterparties available for derivative transactions to ensure its liquidity, risk management and execution processes are optimised. The Investment Manager only trades with institutional counterparties with a broad market coverage.

Derivatives traded by the Fund are subject to legally enforceable master netting arrangements, such as an International Swap and Derivatives Association (ISDA) master netting agreement. The ISDA agreement in place meets the criteria for offsetting in the statement of financial position as the Fund has a currently legally enforceable right of payment netting to net same day, same currency payments and by derivative transaction type. Refer to Note 4 to the financial statements for further analysis of the Fund's master netting arrangements.

(iii) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of at least A- (2021: A-) (as determined by Standard and Poor's rating agency) or higher.

3 Financial risk management (continued)

(c) Credit risk (continued)

(iv) Repurchase and reverse repurchase agreements

The Fund may engage in repurchase and reverse repurchase transactions. Under the terms of a repurchase agreement, the Fund takes possession of an underlying debt obligation (collateral) subject to an obligation of the seller to repurchase, and the Fund to resell the obligation at an agreed-upon price and time. The underlying securities for all repurchase agreements are held in safekeeping at the Fund's custodian. The market value of the collateral must be equal to or exceed the total amount of the repurchase obligations, including interest. Securities purchased under repurchase agreements are reflected as an asset in the statement of financial position. If the counterparty should default, the Fund will seek to sell the securities which it holds as collateral to reduce its losses. This could involve procedural costs or delays in addition to a loss on the securities if their value should fall below their repurchase price. The counterparty to the outstanding repurchase/reverse repurchase agreements as at 30 June 2022 was JP Morgan Chase Bank, N.A. with a rating of A+ (2021: A+). As at 30 June 2022, the securities pledged as collateral under the repurchase agreement have a fair value of \$10,178,650 (2021: \$4,887,581).

(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 or to fund foreign exchange related cash flow requirements.

The Fund manages liquidity risk by investing the majority of its funds in assets that can be readily disposed of and limiting exposure to less liquid securities.

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 2022 and 2021.

(i) Maturities of non-derivative financial liabilities

All non-derivative financial liabilities of the Fund in the current and prior year have maturities of less than one month.

(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 \$'000	1 to 6 months \$'000	6 to 12 months \$'000	Over 12 months \$'000
As at 30 June 2022				
Net settled derivatives				
Swaps	-	-	(1,523)	(5,627)
Total net settled derivatives	-	-	(1,523)	(5,627)

3 Financial risk management (continued)

(d) Liquidity risk (continued)

(ii) Maturities of net settled derivative financial instruments (continued)

	Less than 1 month \$'000	1 to 6 months \$'000	6 to 12 months \$'000	Over 12 months \$'000
As at 30 June 2021				
Net settled derivatives				
Swaps	-	-	-	(362)
Total net settled derivatives	-	-	-	(362)

(iii) Maturities of gross settled derivative financial instruments

The table below analyses Fund's gross 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 \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
As at 30 June 2022					
Options					
(Outflows)	(219)	(3,981)	(1,933)	-	(6,133)
Total gross settled derivatives	(219)	(3,981)	(1,933)	-	(6,133)

30 June 2021

Options					
Inflows	1,117	-	-	-	1,117
(Outflows)	-	(46)	(102)	-	(148)
Total gross settled derivatives	1,117	(46)	(102)	-	969

4 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is 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 that follow.

Financial assets	Effects of offsetting on the statement of financial position			Related amounts not offset		
	Gross amounts of financial instruments \$'000	Gross amounts set off in the statement of financial position \$'000	Net amount of financial instruments presented in the statement of financial position \$'000	Amounts subject to master netting arrangements \$'000	Collateral received/pledged \$'000	Net amount \$'000
As at 30 June 2022						
Swaps - USD	3,029	(1,497)	1,532	-	-	1,532
Swaps - EUR	5,843	(541)	5,302	-	-	5,302
Total	8,872	(2,038)	6,834	-	-	6,834

Financial liabilities

Options - AUD	(4,445)	-	(4,445)	-	-	(4,445)
Options - USD	(479)	-	(479)	-	-	(479)
Options - EUR	(1,209)	-	(1,209)	-	-	(1,209)
Swaps - AUD	(2,666)	-	(2,666)	-	-	(2,666)
Swaps - USD	(1,497)	1,497	-	-	-	-
Swaps - EUR	(541)	541	-	-	-	-
Futures - AUD	(35)	-	(35)	-	-	(35)
Total	(10,872)	2,038	(8,834)	-	-	(8,834)

Financial assets

As at 30 June 2021

Options - AUD	1,170	(147)	1,023	-	-	1,023
Total	1,170	(147)	1,023	-	-	1,023

Financial liabilities

As at 30 June 2021

Options - AUD	(147)	147	-	-	-	-
Options - USD	(46)	-	(46)	-	-	(46)
Options - EUR	(8)	-	(8)	-	-	(8)
Total	(201)	147	(54)	-	-	(54)

4 Offsetting financial assets and financial liabilities (continued)

(i) Master netting arrangement – enforceable

Agreements with derivative counterparties are based on the International Swaps and Derivatives Association (ISDA) Master Agreement. Under the terms of these arrangements, if on any date amounts would otherwise be payable in the same currency and in respect of the same transaction, by each party to the other, then on such date, each party's obligation to make payment of any such amount will be automatically satisfied and discharged. As the Fund presently has a legally enforceable right of set-off for transactions, these amounts have been offset in the statement of financial position.

5 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 6 and Note 7)
- Derivative financial instruments (see Note 8)

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

AASB 13 *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.

(a) 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.

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)

(b) 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 2022 and 30 June 2021.

As at 30 June 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Corporate bonds	-	74,419	-	74,419
Swaps	-	6,834	-	6,834
Unlisted equity securities	-	-	8,864	8,864
Total financial assets	-	81,253	8,864	90,117
Financial liabilities				
Options	-	(6,133)	-	(6,133)
Swaps	-	(2,666)	-	(2,666)
Repurchase agreements	-	(8,202)	-	(8,202)
Futures	-	(35)	-	(35)
Total financial liabilities	-	(17,036)	-	(17,036)

As at 30 June 2021

Financial assets				
Corporate bonds	-	16,472	-	16,472
Options	-	1,023	-	1,023
Swaps	-	102	-	102
Total financial assets	-	17,597	-	17,597
Financial liabilities				
Options	-	(54)	-	(54)
Swaps	-	(464)	-	(464)
Repurchase agreements	-	(4,135)	-	(4,135)
Total financial liabilities	-	(4,653)	-	(4,653)

(c) Transfers 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.

5 Fair value measurement (continued)

(d) 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 2022 by class of financial instrument. As at 30 June 2021, the level 3 investments have nil market value.

	Unlisted equity securities \$'000
Opening balance - 1 July 2021	-
Purchases	8,951
Gains/(losses) recognised in the statement of comprehensive income	(87)
Closing balance - 30 June 2022	8,864

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 5(a) above for the valuation techniques adopted.

Description	Fair value at 30 June 2022 \$'000	Unobservable inputs	Range of inputs (probability - weighted average)	Relationship of unobservable inputs to fair value
Units in Fortlake Real-Income Fund	8,864	Net asset value of the underlying fund as at 30 June 2022	N/A	Direct

(e) 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 and are disclosed in Note (d) above.

(f) Financial instruments not carried at fair value

The carrying values of cash and cash equivalents, receivables and payables approximate their fair values due to their short-term nature.

6 Financial assets at fair value through profit or loss

		As at	
		30 June 2022	30 June 2021
	Note	\$'000	\$'000
Corporate bonds		74,419	16,472
Options	8	-	1,023
Swaps	8	6,834	102
Unlisted equity securities		8,864	-
Total financial assets at fair value through profit or loss		90,117	17,597

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.

7 Financial liabilities at fair value through profit or loss

		As at	
		30 June 2022	30 June 2021
	Note	\$'000	\$'000
Futures	8	35	-
Options	8	6,133	54
Swaps	8	2,666	464
Repurchase agreements		8,202	4,135
Total financial liabilities at fair value through profit or loss		17,036	4,653

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 5 to the financial statements.

8 Derivative financial instruments

In the normal course of business the Fund enters into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating 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, 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, 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.

8 Derivative financial instruments (continued)

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 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 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.

(b) 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. 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.

A swaption is an agreement that grants the owner of the derivative the right but not the obligation to enter into a swap.

(c) Swaps

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.

A credit default swap index is a credit derivative used to hedge credit risk or to take a position on a basket of credit entities. Unlike a credit default swap, which is an over the counter credit derivative, a credit default swap index is a completely standardised credit security and is therefore more liquid and trades at a smaller bid-offer spread.

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

	Contractual/ notional \$'000	Assets \$'000	Liabilities \$'000
As at 30 June 2022			
Futures	(35)	-	(35)
Options	(1,069,800)	-	(6,133)
Swaps	39,140	6,834	(2,666)
Total derivatives	(1,030,695)	6,834	(8,834)
As at 30 June 2021			
Options	(60,120)	1,023	(54)
Swaps	3,000	102	(464)
Total derivatives	(57,120)	1,125	(518)

8 Derivative financial instruments (continued)

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 5 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.

9 Net assets attributable to unit holders - 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 set out in Note 2(c).

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

	Year ended		For the period	
	30 June 2022	30 June 2022	26 October 2020 to 30 June 2021	26 October 2020 to 30 June 2021
	Units '000	\$'000	Units '000	\$'000
Opening balance	13,097	13,484	-	-
Applications	92,564	96,337	14,935	15,178
Redemptions	(11,137)	(11,568)	(1,838)	(2,000)
Reinvestment of distributions	702	728	-	-
Distributions paid and payable	-	(4,975)	-	(765)
Profit/(loss) for the year	-	241	-	1,071
Closing balance	95,226	94,247	13,097	13,484

As stipulated within the Fund's Constitution, each unit represents a right to an individual unit 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 12 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 equity. The amount of net assets attributable to unit holders can change significantly on a regular 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 regular 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:

	Year ended		For the period	
	30 June 2022 \$'000	30 June 2022 CPU	26 October 2020 to 30 June 2021 \$'000	26 October 2020 to 30 June 2021 CPU
Distributions				
September	137	0.2646	-	-
December	423	0.7097	-	-
March	600	1.0347	-	-
June (payable)	3,815	4.0067	765	5.8376
Total distributions	4,975	6.0157	765	5.8376

11 Cash and cash equivalents

	As at	
	30 June 2022 \$'000	30 June 2021 \$'000
Cash at bank	25,331	1,383
Total cash and cash equivalents	25,331	1,383

(a) Reconciliation to the statement of cash flows

	As at	
	30 June 2022 \$'000	30 June 2021 \$'000
Balance per above		
Cash at bank	25,331	1,383
Bank overdraft	(699)	(49)
Balance per statement of cash flows	24,632	1,334

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

	Year ended 30 June 2022 \$'000	For the period 26 October 2020 to 30 June 2021 \$'000
Profit/(loss) for the year	241	1,071
Proceeds from sale of financial instruments at fair value through profit or loss	16,099	500
Payments for purchase of financial instruments at fair value through profit or loss	(75,769)	(12,500)
Net (gains)/losses on financial instruments at fair value through profit or loss	(545)	(963)
Net foreign exchange (gain)/loss	(118)	(25)
Net change in receivables	(27)	(7)
Net change in payables	18	55
Net cash inflow/(outflow) from operating activities	(60,101)	(11,869)

(a) Non-cash operating and financing activities

The following distribution payments to unit holders were satisfied by the issue of units under the distribution reinvestment plan

	728	-
Total non-cash operating and financing activities	728	-

13 Receivables

	As at 30 June 2022 \$'000	30 June 2021 \$'000
Applications receivable	357	-
GST receivable	34	7
Total receivables	391	7

14 Payables

	As at 30 June 2022 \$'000	30 June 2021 \$'000
Management fees payable	37	6
Redemptions payable	66	-
Audit and tax fees payable	-	42
Other payables	33	7
Total payables	136	55

15 Remuneration of auditor

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

	Year ended 30 June 2022 \$	For the period 26 October 2020 to 30 June 2021 \$
Ernst & Young		
<i>Audit and other assurance services</i>		
Audit of financial statements	21,125	18,000
Total auditor remuneration and other assurance services	21,125	18,000
<i>Taxation services</i>		
Tax compliance services	5,000	10,000
Total remuneration for taxation services	5,000	10,000
Total remuneration of Ernst & Young	26,125	28,000
BDO		
<i>Audit and other assurance services</i>		
Audit of compliance plan	9,690	9,500
Total auditor remuneration and other assurance services	9,690	9,500
Total remuneration of BDO	9,690	9,500

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

16 Related party transactions

The Responsible Entity of Fortlake Real-Higher Income Fund is Trustees Australia Limited (ABN 63 010 579 058) (AFSL 260038). Accordingly, transactions with entities related to Trustees Australia Limited are disclosed below.

The Responsible Entity has contracted services to Fortlake Asset Management Pty Ltd to act as Investment Manager, Link Fund Solutions Pty Limited to act as Administrator and J.P. Morgan Securities LLC to act as Prime Broker and Custodian for the Fund. The contracts are on normal terms and conditions.

16 Related party transactions (continued)

(a) Key management personnel

(i) Directors

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

Alexandra Coleman (Chairman)
John Nantes
Craig Swanger
Brook Adcock (resigned 1 September 2022)
Matthew Loughnan (appointed 1 September 2022)

(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.

(c) Key management personnel unit holdings

Key management personnel did not hold units in the Fund as at 30 June 2022 (30 June 2021: nil).

(d) Key management personnel compensation

Payments made from the Fund to Trustees Australia 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 key management personnel's interests existing at year end.

(g) Responsible Entity fees, Investment Manager's fees and other transactions

Under the terms of the Fund's Constitution and Product Disclosure Statement of the Fund, the Investment Manager is entitled to receive management fees. The Investment Manager is entitled to a management fee of 0.52% per annum of the net asset value of the Fund (inclusive of GST) payable monthly.

The management costs of the Fund include management fees, administrator fees, indirect costs, audit costs, legal costs, and administration and custody fees. Expense recoveries include all these expenses except management fees. The Investment Manager pays for these Fund expenses and then invoices the Fund for expense recoveries.

16 Related party transactions (continued)

(g) Responsible Entity fees, Investment Manager's fees and other transactions (continued)

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:

	Year ended 30 June 2022 \$	For the period 26 October 2020 to 30 June 2021 \$
Management fees for the year	263,723	34,210
Expense reimbursement fees for the year	129,965	6,823
Management fees payable at year end	36,795	6,574
Expense reimbursement recovery payable at year end	25,028	7,322

(h) Related party unit holdings

Parties related to the Fund (including Trustees Australia Limited and Fortlake Asset Management Pty Ltd, their related parties and other schemes managed by Trustees Australia Limited and the Investment Manager) held no units in the Fund as at 30 June 2022 (30 June 2021: nil).

(i) Investments

The Fund held investments in the following schemes which are also managed by Trustees Australia Limited and Fortlake Asset Management Pty Ltd or its related parties:

	Fair value of investment		Interest held		Distributions received/receivable		Units acquired during the year		Units disposed during the year	
	2022	2021	2022	2021	2022	2021	2022	2021	2022	2021
	\$	\$	%	%	\$	\$	\$	\$	No.	No.
Fortlake Real-Income Fund	8,414,524	-	13.93	-	48,916	-	8,474,694	-	-	-

17 Events occurring after the reporting period

On 1 September 2022, Brook Adcock resigned as a director and Matthew Loughnan was appointed as a director of Trustees Australia Limited.

No other 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 2022 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 2022 and 30 June 2021.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 6 to 36 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 2022 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 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 Trustees Australia Limited.



Alexandra Coleman
Director

Brisbane
2 November 2022

Independent auditor's report to the unit holders of Fortlake Real-Higher Income Fund

Opinion

We have audited the financial report of Fortlake Real-Higher Income Fund (the Fund), which comprises the statement of financial position as at 30 June 2022, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the fiscal year ended 30 June 2022, 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 2022 and of its financial performance for the fiscal year ended 30 June 2022; 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 Trustees Australia Pty Limited, the Responsible Entity of the Fund, 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 for the financial report

The directors of the Responsible Entity of the Fund 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.



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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.

A handwritten signature in dark blue ink that reads 'Ernst & Young' in a cursive script.

Ernst & Young

A handwritten signature in dark blue ink that reads 'E Reekie' in a cursive script.

Emma Reekie
Partner
Melbourne
2 November 2022