

# **Fortlake Sigma Opportunities Fund**

ABN 41 547 102 160

## **Annual report**

**For the year ended 30 June 2023**

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ABN 41 547 102 160

## Annual report

## For the year ended 30 June 2023

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This annual report covers Fortlake Sigma Opportunities Fund as an individual entity.

The Trustee of Fortlake Sigma Opportunities Fund is Trustees Australia Limited (ABN 63 010 579 058) (AFSL 260038).

The Trustee's registered office is:

Level 11, 4 Martin Place  
Sydney, NSW 2000.

## **Directors' report**

The directors of Trustees Australia Limited, the Trustee of Fortlake Sigma Opportunities Fund (the "Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2023.

### **Principal activities**

The Fund was constituted on 18 September 2020 and commenced operations on 18 December 2020.

The Fund invests primarily in fixed interest investments in accordance with the Information Memorandum and provisions of the Fund's Constitution. This may include investment-grade corporate bonds, asset backed securities inflation 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:

<b>Service</b>	<b>Provider</b>
Trustee	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
Auditor	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, resigned 14 February 2023)  
Kyle Lambert (appointed 10 March 2023)

### **Review and results of operations**

During the year, the Fund invested its funds in accordance with the Information Memorandum 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:

	<b>Year ended</b>	
	<b>30 June 2023</b>	<b>30 June 2022</b>
Profit/(loss) for the year (\$'000)	<b>13,251</b>	1,377
Distributions paid and payable (\$'000)	<b>13,419</b>	8,272
Distributions (cents per unit)	<b>13.8610</b>	12.3506

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

On 1 September 2022, Brook Adcock resigned as a director and Matthew Loughnan was appointed as a director of Trustees Australia Limited. Matthew Loughnan subsequently resigned on 14 February 2023 and Kyle Lambert was appointed as a director of Trustees Australia Limited on 10 March 2023.

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

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

The following event occurred post 30 June 2023 which should be noted:

On 19 October 2023 it was identified by the Fund's administrator that an error had occurred in the calculation of the 30 June 2023 distribution whereby the Fund under distributed income of \$5,476,079. The error was rectified by the Fund's administrator by completing a non-cash cost base adjustment for the under distributed amount and reissuing AMMA statements to investors. AMMA statements were reissued to investors on 27 October 2023.

Other than the above, no matter or circumstance has arisen since 30 June 2023 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 Information Memorandum 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 Trustee 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 Trustee and its associates**

Fees paid to the Trustee 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 Trustee during the year.

The number of interests in the Fund held by the Trustee 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.

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



Alexandra Coleman  
Director

Brisbane  
16 November 2023

**Fortlake Sigma Opportunities Fund**  
**Statement of comprehensive income**  
**For the year ended 30 June 2023**

**Statement of comprehensive income**

		Year ended	
		30 June 2023	30 June 2022
	Note	\$'000	\$'000
<b>Investment income</b>			
Interest income from financial assets at fair value through profit or loss		4,048	15
Net foreign exchange gain/(loss)		1,537	(225)
Net gains/(losses) on financial instruments at fair value through profit or loss		12,415	2,352
Other income		-	6
<b>Total investment income/(loss)</b>		<b>18,000</b>	<b>2,148</b>
<b>Expenses</b>			
Management fees	16(g)	837	509
Performance fees	16(g)	1,688	-
Transaction costs		18	-
Remuneration of auditor	15	61	22
Expense reimbursement fees	16(g)	252	162
Other expenses		1,893	78
<b>Total expenses</b>		<b>4,749</b>	<b>771</b>
<b>Profit/(loss) for the year</b>		<b>13,251</b>	<b>1,377</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b>13,251</b>	<b>1,377</b>

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

**Fortlake Sigma Opportunities Fund**  
**Statement of financial position**  
**As at 30 June 2023**

**Statement of financial position**

		<b>As at</b>	
	<b>30 June</b>		<b>30 June</b>
	<b>2023</b>		<b>2022</b>
	<b>\$'000</b>		<b>\$'000</b>
<b>Assets</b>	<b>Note</b>		
Cash and cash equivalents	11	<b>131,116</b>	57,362
Receivables	13	<b>286</b>	128
Due from brokers - receivable for securities sold		-	94
Financial assets at fair value through profit or loss	6	<b>84,549</b>	82,516
<b>Total assets</b>		<b>215,951</b>	140,100
<b>Liabilities</b>			
Distributions payable	10	<b>7,946</b>	6,688
Payables	14	<b>4,922</b>	124
Due to brokers - payable for securities purchased		-	-
Borrowings	11(a)	<b>501</b>	7,430
Financial liabilities at fair value through profit or loss	7	<b>92,635</b>	56,384
<b>Total liabilities</b>		<b>106,004</b>	70,626
<b>Net assets attributable to unit holders - equity</b>	9	<b>109,947</b>	69,474

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

**Fortlake Sigma Opportunities Fund**  
**Statement of changes in equity**  
**For the year ended 30 June 2023**

**Statement of changes in equity**

		Year ended	
	Note	30 June 2023 \$'000	30 June 2022 \$'000
<b>Total equity at the beginning of the financial year</b>		<b>69,474</b>	15,149
<b>Comprehensive income for the financial year</b>			
Profit/(loss) for the year		13,251	1,377
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<b>13,251</b>	1,377
<b>Transaction with unit holders</b>			
Applications	9	62,426	81,898
Redemptions	9	(29,599)	(22,046)
Reinvestment of distributions	9	7,814	1,368
Distributions paid and payable	9	(13,419)	(8,272)
<b>Total transactions with unit holders</b>		<b>27,222</b>	52,948
<b>Total equity at the end of the financial year</b>		<b>109,947</b>	69,474

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



**Fortlake Sigma Opportunities Fund**  
**Statement of cash flows**  
**For the year ended 30 June 2023**

**Statement of cash flows**

		Year ended	
		30 June 2023	30 June 2022
	Note	\$'000	\$'000
<b>Cash flows from operating activities</b>			
Proceeds from sale of financial instruments at fair value through profit or loss		48,126	57,626
Payments for purchase of financial instruments at fair value through profit or loss		(590)	(70,393)
Interest income received from financial assets at amortised		4,047	15
Other income received		-	6
Management and performance fees paid		(1,318)	(546)
Expense reimbursement fees paid		(252)	(184)
Other expenses paid		(1,938)	(112)
<b>Net cash inflow/(outflow) from operating activities</b>	12	<b>48,075</b>	<b>(13,588)</b>
<b>Cash flows from financing activities</b>			
Proceeds from applications by unit holders		65,087	81,822
Payments for redemptions by unit holders		(29,599)	(22,046)
Distributions paid to unit holders		(4,417)	(684)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>31,071</b>	<b>59,092</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>79,146</b>	<b>45,504</b>
Cash and cash equivalents at the beginning of the year		49,932	4,653
Effects of foreign currency exchange rate changes on cash and cash equivalents		1,537	(225)
<b>Cash and cash equivalents at the end of the year</b>	11	<b>130,615</b>	<b>49,932</b>
Non-cash operating and financing activities	12(a)	<b>7,814</b>	1,368

*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 Sigma Opportunities Fund (the "Fund") as an individual entity. The Fund is an unregistered wholesale unit trust. The Fund 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 Trustee of the Fund is Trustees Australia Limited (ABN 63 010 579 058) (AFSL 260038) (the "Trustee"). The Trustee's registered office is Level 11, 4 Martin Place, Sydney, NSW 2000. The financial statements are presented in the Australian currency unless otherwise noted.

The Fund invests primarily in fixed interest investments in accordance with the Information Memorandum and the provisions of the Fund's Constitution. This may include investment-grade corporate bonds, asset backed securities inflation 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 Trustee 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). 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 2022 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

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

### **(a) Basis of preparation (continued)**

#### *(iii) New standards and interpretations not yet adopted*

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2023 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 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 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

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, performance fees payable, interest payable and due to brokers).

#### *(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 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 Trustee 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.

### **(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 attributable 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 referenced 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.



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

### **(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.

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**

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 Information Memorandum 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 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 options 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 Trustee, and containing the investment strategy and guidelines of the Fund, consistent with those stated in the Information Memorandum.

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.

### **3 Financial risk management (continued)**

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

##### *(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.

The Fund does not hold equity securities and thus does not have a material exposure to price risk. 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.

##### *(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.

<b>As at 30 June 2023</b>	<b>US Dollar A\$'000</b>	<b>Euro A\$'000</b>	<b>Japanese Yen A\$'000</b>
Cash and cash equivalents	19,875	22,807	-
Financial assets held at fair value through profit or loss	16,759	-	-
Borrowings	-	-	(501)
Financial liabilities held at fair value through profit or loss	(6,177)	(26,253)	-
<b>Net exposure</b>	<b>30,457</b>	<b>(3,446)</b>	<b>(501)</b>

### 3 Financial risk management (continued)

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

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

As at 30 June 2022

	US Dollar A\$'000	Euro A\$'000	Japanese Yen A\$'000
Cash and cash equivalents	1,528	536	-
Financial assets held at fair value through profit or loss	7,338	5,372	-
Due from brokers - receivable for securities sold	-	94	-
Borrowings	(5,721)	(1,296)	-
Financial liabilities held at fair value through profit or loss	(599)	(266)	-
Net exposure	2,546	4,440	-

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% (2022: +/- 10%) against the material foreign currencies to which the Fund is exposed.

##### (iii) Interest rate risk

The Fund's interest bearing financial assets expose them to risks associated with the effects of fluctuation in the prevailing levels of market interest rate on its financial positions 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
<b>As at 30 June 2023</b>				
<b>Financial assets</b>				
Cash and cash equivalents	131,116	-	-	131,116
Receivables	-	-	286	286
Financial assets at fair value through profit or loss	-	67,792	16,757	84,549
<b>Total financial assets</b>	<b>131,116</b>	<b>67,792</b>	<b>17,043</b>	<b>215,951</b>

### 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
<b>As at 30 June 2023</b>				
<b>Financial liabilities</b>				
Distributions payable	-	-	7,946	7,946
Payables	-	-	4,922	4,922
Borrowings	501	-	-	501
Financial liabilities at fair value through profit or loss	-	-	92,635	92,635
<b>Total financial liabilities</b>	<b>501</b>	<b>-</b>	<b>105,503</b>	<b>106,004</b>
<b>Net exposure</b>	<b>130,615</b>	<b>67,792</b>	<b>(88,460)</b>	<b>109,947</b>
<b>As at 30 June 2022</b>				
<b>Financial assets</b>				
Cash and cash equivalents	57,362	-	-	57,362
Receivables	-	-	128	128
Due from brokers - receivable for securities sold	-	-	94	94
Financial assets at fair value through profit or loss	-	69,806	12,710	82,516
<b>Total financial assets</b>	<b>57,362</b>	<b>69,806</b>	<b>12,932</b>	<b>140,100</b>
<b>Financial liabilities</b>				
Distributions payable	-	-	6,688	6,688
Payables	-	-	124	124
Borrowings	7,430	-	-	7,430
Financial liabilities at fair value through profit or loss	-	-	56,384	56,384
<b>Total financial liabilities</b>	<b>7,430</b>	<b>-</b>	<b>63,196</b>	<b>70,626</b>
<b>Net exposure</b>	<b>49,932</b>	<b>69,806</b>	<b>(50,264)</b>	<b>69,474</b>

The table at Note 3(b) summarises the impact of an increase/(decrease) of 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 (2022: +/- 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/(loss)/ net assets attributable to unit holders							
	Interest rate risk		Foreign exchange risk					
	+25bps	-25bps	+10%	-10%	+10%	-10%	+10%	-10%
	\$'000	\$'000	USD \$'000	USD \$'000	EUR \$'000	EUR \$'000	JPY \$'000	JPY \$'000
<b>As at 30 June 2023</b>	<b>529</b>	<b>(529)</b>	<b>1,790</b>	<b>(1,790)</b>	<b>1,414</b>	<b>(1,414)</b>	<b>(50)</b>	<b>50</b>
As at 30 June 2022	318	(318)	(419)	419	(67)	67	-	-

#### (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 2023 and 30 June 2022, 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.

##### (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.

### 3 Financial risk management (continued)

#### (c) Credit risk (continued)

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

	<b>As at</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Debt securities</b>		
A-	<b>28,047</b>	34,165
BBB+	<b>3,353</b>	10,135
BBB	<b>20,986</b>	18,027
BBB-	<b>3,273</b>	3,582
BB	<b>-</b>	540
Unrated	<b>12,040</b>	3,357
<b>Total</b>	<b>67,699</b>	69,806

##### (ii) Derivative financial instruments

Derivatives, such as options, forwards and swaps, may be used by the Investment Manager for hedging and non-hedging purposes, such as:

- To manage particular risks (e.g. currency risks);
- When it is more efficient to execute a particular thematic via the derivative; or
- To reduce risk or gain exposure to other types of investments when appropriate.

The risks of using derivatives might include: the value of the derivative failing to move in line with the underlying asset, potential illiquidity of the derivative, the possibility that the derivative position is difficult or costly to reverse, the derivative not performing as expected, and counterparty risk.

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+ (2022: 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- (2022: 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 2023 was JP Morgan Chase Bank, N.A. with a rating of A+ (2022: A+). As at 30 June 2022, the securities pledged as collateral under the repurchase agreement have a fair value of \$127,080,000 (2022: \$53,611,768).

##### *(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 Trustee 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 2023 and 2022.

##### *(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.

### 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
<b>As at 30 June 2023</b>				
Net settled derivatives				
Swaps	2,288	8,331	5,406	(26,468)
<b>Total net settled derivatives</b>	<b>2,288</b>	<b>8,331</b>	<b>5,406</b>	<b>(26,468)</b>
	Less than 1 month \$'000	1 to 6 months \$'000	6 to 12 months \$'000	Over 12 months \$'000
<b>As at 30 June 2022</b>				
Net settled derivatives				
Swaps	-	-	(2,369)	11,439
<b>Total net settled derivatives</b>	<b>-</b>	<b>-</b>	<b>(2,369)</b>	<b>11,439</b>

##### (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	1-2 years \$'000	Total \$'000
<b>As at 30 June 2023</b>					
<b>Options</b>					
Inflows	-	-	65	-	65
(Outflows)	(3,053)	(4,756)	(2,093)	(1,042)	(10,944)
<b>Total gross settled derivatives</b>	<b>(3,053)</b>	<b>(4,756)</b>	<b>(2,028)</b>	<b>(1,042)</b>	<b>(10,879)</b>
<b>As at 30 June 2022</b>					
<b>Options</b>					
Inflows	-	-	201	-	201
(Outflows)	(491)	(1,431)	(3,952)	-	(5,874)
<b>Total gross settled derivatives</b>	<b>(491)</b>	<b>(1,431)</b>	<b>(3,751)</b>	<b>-</b>	<b>(5,673)</b>

### 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.



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

	Effects of offsetting on the statement of financial position			Related amounts not offset		
	Gross amounts of financial instruments	Gross amounts set off in the statement of financial position	Net amount of financial instruments presented in the statement of financial position	Amounts subject to master netting arrangements	Collateral received/pledged	Net amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>						
<b>As at 30 June 2023</b>						
Options - AUD	65	(65)	-	-	-	-
Swaps - AUD	281	(281)	-	-	-	-
Swaps - EUR	10,178	(10,178)	-	-	-	-
Futures	94	-	94	-	-	94
Swaps - USD	32,300	(15,541)	16,759	-	-	16,759
<b>Total</b>	<b>42,918</b>	<b>(26,065)</b>	<b>16,853</b>	<b>-</b>	<b>-</b>	<b>16,853</b>
<b>Financial liabilities</b>						
<b>As at 30 June 2023</b>						
Options - AUD	(1,704)	65	(1,639)	-	-	(1,639)
Options - USD	(6,177)	-	(6,177)	-	-	(6,177)
Options - EUR	(3,063)	-	(3,063)	-	-	(3,063)
Swaps- AUD	(4,292)	281	(4,011)	-	-	(4,011)
Swaps - EUR	(33,369)	10,178	(23,191)	-	-	(23,191)
Swaps - USD	(15,541)	15,541	-	-	-	-
<b>Total</b>	<b>(64,146)</b>	<b>26,065</b>	<b>(38,081)</b>	<b>-</b>	<b>-</b>	<b>(38,081)</b>
<b>Financial assets</b>						
<b>As at 30 June 2022</b>						
Options - USD	201	(201)	-	-	-	-
Swaps - EUR	5,755	(383)	5,372	-	-	5,372
Swaps - USD	9,552	(2,214)	7,338	-	-	7,338
<b>Total</b>	<b>15,508</b>	<b>(2,798)</b>	<b>12,710</b>	<b>-</b>	<b>-</b>	<b>12,710</b>
<b>Financial liabilities</b>						
<b>As at 30 June 2022</b>						
Futures	(39)	-	(39)	-	-	(39)
Options - AUD	(4,808)	-	(4,808)	-	-	(4,808)
Options - USD	(266)	-	(266)	-	-	(266)
Options - EUR	(800)	201	(599)	-	-	(599)
Swaps- AUD	(3,640)	-	(3,640)	-	-	(3,640)
Swaps - EUR	(383)	383	-	-	-	-
Swaps - USD	(2,214)	2,214	-	-	-	-
<b>Total</b>	<b>(12,150)</b>	<b>2,798</b>	<b>(9,352)</b>	<b>-</b>	<b>-</b>	<b>(9,352)</b>

## **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 active market (level 1)*

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives) are based on quoted market prices at the close of trading at the end of the reporting period without any deduction for estimated future selling costs.

The quoted market price used for financial assets held by the Fund is the current bid 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 ask 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.

## 5 Fair value measurement (continued)

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

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.

### (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 2023 and 30 June 2022.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>As at 30 June 2023</b>				
<b>Financial assets</b>				
Corporate bonds	-	67,699	-	67,699
Future contracts	-	94	-	94
Swaps	-	16,756	-	16,756
<b>Total financial assets</b>	-	84,549	-	84,549
<b>Financial liabilities</b>				
Financial liabilities designated at fair value through profit or loss:				
Swaps	-	27,199	-	27,199
Options	-	10,879	-	10,879
Repurchase agreements	-	54,557	-	54,557
<b>Total financial liabilities</b>	-	92,635	-	92,635
<b>As at 30 June 2022</b>				
<b>Financial assets</b>				
Corporate bonds	-	69,806	-	69,806
Swaps	-	12,710	-	12,710
<b>Total financial assets</b>	-	82,516	-	82,516
<b>Financial liabilities</b>				

## 5 Fair value measurement (continued)

### (c) Recognised fair value measurements (continued)

As at 30 June 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Futures	-	39	-	39
Options	-	5,673	-	5,673
Swaps	-	3,640	-	3,640
Repurchase agreements	-	47,032	-	47,032
Total financial liabilities	-	56,384	-	56,384

### (d) 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.

### (e) 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 2023	30 June 2022
	Note	\$'000	\$'000
Corporate bonds		67,699	69,806
Futures		94	-
Swaps	8	16,756	12,710
<b>Total financial assets at fair value through profit or loss</b>		<b>84,549</b>	<b>82,516</b>

## **6 Financial assets at fair value through profit or loss (continued)**

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**

		<b>As at</b>	
		<b>30 June</b>	<b>30 June</b>
		<b>2023</b>	<b>2022</b>
	<b>Note</b>	<b>\$'000</b>	<b>\$'000</b>
Futures	8	-	39
Options	8	10,878	5,673
Swaps	8	27,200	3,640
Repurchase agreements		54,557	47,032
<b>Total financial liabilities at fair value through profit or loss</b>		<b>92,635</b>	<b>56,384</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 Notes 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.

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:

## **8 Derivative financial instruments (continued)**

### **(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:

	<b>Contractual/ notional \$'000</b>	<b>Assets \$'000</b>	<b>Liabilities \$'000</b>
<b>As at 30 June 2023</b>			
Futures	94	94	-
Options	(1,506,280)	-	(10,879)
Swaps	862,340	16,756	(27,199)
<b>Total derivatives</b>	<b>(643,846)</b>	<b>16,850</b>	<b>(38,078)</b>
<b>As at 30 June 2022</b>			
Futures	(39)	-	(39)
Options	(1,292,000)	-	(5,673)
Swaps	24,840	12,710	(3,640)
<b>Total derivatives</b>	<b>(1,267,199)</b>	<b>12,710</b>	<b>(9,352)</b>

## 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		Year ended	
	30 June 2023	30 June 2023	30 June 2022	30 June 2022
	Units '000	\$'000	Units '000	\$'000
Opening balance	68,715	69,474	13,801	15,149
Applications	59,303	62,426	73,711	81,898
Redemptions	(27,789)	(29,599)	(20,035)	(22,046)
Distributions paid and payable	-	(13,419)	-	(8,272)
Units issued upon reinvestment of distributions	7,633	7,814	1,238	1,368
Profit/(loss) for the year	-	13,251	-	1,377
<b>Closing balance</b>	<b>107,862</b>	<b>109,947</b>	<b>68,715</b>	<b>69,474</b>

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 Trustee. Under the terms of the Fund's Constitution, the Trustee 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		Year ended	
	30 June 2023 \$'000	30 June 2023 CPU	30 June 2022 \$'000	30 June 2022 CPU
<b>Distributions</b>				
September	1,236	1.5854	204	0.5134
December	1,547	2.0240	280	0.5376
March	2,690	2.8780	1,100	1.5670
June (payable)	7,946	7.3736	6,688	9.7326
<b>Total distributions</b>	<b>13,419</b>	<b>13.8610</b>	<b>8,272</b>	<b>12.3506</b>

## 11 Cash and cash equivalents

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
Cash at bank	131,116	57,362
<b>Total cash and cash equivalents</b>	<b>131,116</b>	<b>57,362</b>

### (a) Reconciliation to the statement of cash flows

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
<b>Balances as above</b>		
Cash and cash equivalents	131,116	57,362
Borrowings	(501)	(7,430)
<b>Balance as per statement of cash flows</b>	<b>130,615</b>	<b>49,932</b>



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

	<b>Year ended</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit/(loss) for the year	<b>13,251</b>	1,377
Proceeds from sale of financial instruments at fair value through profit or loss	<b>48,126</b>	57,626
Payments for purchase of financial instruments at fair value through profit or loss	<b>(590)</b>	(70,393)
Net (gains)/losses on financial instruments at fair value through profit or loss	<b>(12,416)</b>	(2,352)
Net foreign exchange (gain)/loss	<b>(1,537)</b>	225
Net change in receivables	<b>(202)</b>	(47)
Net change in payables	<b>1,443</b>	(24)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>48,075</b>	(13,588)

### **(a) Non-cash financing activities**

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

	<b>7,814</b>	1,368
<b>Total non-cash operating and financing activities</b>	<b>7,814</b>	1,368

## **13 Receivables**

	<b>As at</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2023</b>	<b>2022</b>
	<b>\$'000</b>	<b>\$'000</b>
Applications receivable	<b>32</b>	76
GST receivable	<b>254</b>	52
<b>Total receivables</b>	<b>286</b>	128

**Fortlake Sigma Opportunities Fund**  
**Notes to the financial statements**  
**For the year ended 30 June 2023**  
**(continued)**

## 14 Payables

		<b>As at</b>	
		<b>30 June</b>	<b>30 June</b>
	<b>Note</b>	<b>2023</b>	<b>2022</b>
		<b>\$'000</b>	<b>\$'000</b>
Management fees payable	16(g)	97	60
Performance fees payable	16(g)	1,325	-
Applications pending		2,546	-
Audit and tax fees payable		5	-
Expense reimbursement recovery payable	16(g)	40	19
Other payables		909	45
<b>Total payables</b>		<b>4,922</b>	<b>124</b>

## 15 Remuneration of auditor

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

	<b>Year ended</b>	
	<b>30 June</b>	<b>30 June</b>
	<b>2023</b>	<b>2022</b>
	<b>\$</b>	<b>\$</b>
<b>Ernst &amp; Young</b>		
<i>Audit and other assurance services</i>		
Audit of financial statements	55,850	16,965
Total auditor remuneration and other assurance services	55,850	16,965
<i>Taxation services</i>		
Tax compliance services	5,000	5,000
Total remuneration for taxation services	5,000	5,000
<b>Total remuneration of Ernst &amp; Young</b>	<b>60,850</b>	<b>21,965</b>

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

## 16 Related party transactions

The Trustee of Fortlake Sigma Opportunities 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 Trustee 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*

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, resigned 14 February 2023)

Kyle Lambert (appointed 10 March 2023)

#### *(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 2023 (30 June 2022: 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) Trustee fees, Investment Manager's fees and other transactions**

Under the terms of the Fund's Constitution and Information Memorandum of the Fund, the Investment Manager is entitled to receive management fees and performance fees. The Investment Manager is entitled to a management fee of 0.99% per annum of the net asset value of the Fund (inclusive of GST) payable monthly. The Investment Manager is also entitled to a performance fee of 22% (inclusive of GST) of the Fund's outperformance above 6% calculated on a half-yearly basis and payable at the end of the relevant performance period.

## 16 Related party transactions (continued)

### (g) Trustee 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 Trustee and the Investment Manager were as follows:

	Year ended	
	30 June 2023	30 June 2022
	\$	\$
Management fees for the year	836,387	509,354
Performance fees for the year	1,687,575	-
Expense reimbursement fees for the year	251,673	161,546
Total fees payable to Investment Manager at year end	1,421,093	59,641
Expense reimbursement recovery payable at year end	48,993	18,709

### (h) Related party unit holdings

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

As at 30 June 2023	No. of units held opening	No. of units held closing	Fair value of investment (\$)	Interest held (%)	No. of units acquired	No. of units disposed/ unit consolidation	Distributions paid/payable by the Fund (\$)
<b>Unit holder</b>							
Trustees Australia Limited ATF Fortlake Real- Higher Income Fund	-	9,880,324	10,076,904	9.16	14,455,727	(4,575,403)	1,229,530

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.

### (i) Investments

The Fund did not hold any investments in Trustees Australia Limited or its related parties during the year (2022: nil).

## 17 Events occurring after the reporting period

On 19 October 2023 it was identified by the Fund's administrator that an error had occurred in the calculation of the 30 June 2023 distribution whereby the Fund under distributed income of \$5,476,079. The error was rectified by the Fund's administrator by completing a non-cash cost base adjustment for the under distributed amount and reissuing AMMA statements to investors. AMMA statements were reissued to investors on 27 October 2023.

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 2023 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 2023 and 30 June 2022.

## **Directors' declaration**

In the opinion of the directors of the Trustee:

- (a) The financial statements and notes set out on pages 5 to 35 are in accordance with:
  - (i) complying with Australian Accounting Standards and other mandatory professional reporting requirements; and
  - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2023 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  
16 November 2023

**Independent auditor's report to the Unit Holders of Fortlake Sigma Opportunities Fund**

**{The Independent auditor's report will be provided by your auditor}**