

# **MORGAN STANLEY GLOBAL SUSTAIN FUND**

ARSN 641 016 917

**ANNUAL REPORT  
FOR THE PERIOD 24 APRIL 2020 TO 30 JUNE 2021**

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This annual report covers Morgan Stanley Global Sustain Fund as an individual entity.

The Responsible Entity of Morgan Stanley Global Sustain Fund is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975).

The Responsible Entity's registered office is:

Level 1, 575 Bourke Street,  
Melbourne, VIC 3000.

## DIRECTORS' REPORT

The directors of Equity Trustees Limited, the Responsible Entity of Morgan Stanley Global Sustain Fund (the "Fund"), present their report together with the financial statements of the Fund for the period 24 April 2020 to 30 June 2021.

### Principal activities

The Fund was constituted on 24 April 2020, registered with the Australian Securities and Investments Commission on 28 May 2020 and commenced operations on 2 July 2020.

The Fund invests in a concentrated portfolio (25 to 50 stocks) of equity and equity related securities which are traded, listed or due to be listed on recognised stock exchanges throughout the world in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution. The Morgan Stanley Global Sustain Fund (Hedged) class may use derivatives to seek to reduce exposures to international currency volatility.

The Fund did not have any employees during the period.

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

The various service providers for the Fund are detailed below:

| Service                | Provider   |
|------------------------|--|
| Responsible Entity     | Equity Trustees Limited                                      |
| Investment Manager     | SG Hiscock & Company Limited                                 |
| Sub-Investment Manager | Morgan Stanley Investment Management (Australia) Pty Limited |
| Administrator          | Mainstream Fund Services Pty Ltd                             |
| Custodian              | State Street Australia Limited                               |
| Statutory Auditor      | Deloitte Touche Tohmatsu                                     |

### Directors

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

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

### Review and results of operations

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

The Fund's performance for Morgan Stanley Global Sustain Fund class was 6.77% (net of fees) for the period ended 30 June 2021. The Fund's benchmark, the MSCI World (Net) Index returned 20.59% for the same period.

The Fund's performance for Morgan Stanley Global Sustain Fund (Hedged) class was 20.63% (net of fees) for the period ended 30 June 2021. The Fund's benchmark, the MSCI World (Net) Index - hedged to AUD returned 34.83% for the same period.

## DIRECTORS' REPORT (CONTINUED)

### Review and results of operations (continued)

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

|   | For the period<br>24 April<br>2020<br>to<br>30 June<br>2021 |
|---|---|
| Profit/(loss) before financial costs attributable to unit holders for the period (\$) | 410,974   |
| <b>Morgan Stanley Global Sustain Fund</b>   |   |
| Distributions paid and payable (\$)   | 9,448   |
| Distributions (cents per unit)  | 0.76  |
| <b>Morgan Stanley Global Sustain Fund (Hedged)</b>                                    |   |
| Distributions paid and payable (\$)   | 55,845  |
| Distributions (cents per unit)  | 3.30  |

### Significant changes in the state of affairs

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

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

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

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

### COVID-19 Outbreak

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The outbreak and the response of Governments in dealing with the pandemic has continued to evolve over the course of time. There is still some uncertainty around the impact of COVID, the potential for further outbreaks and the COVID vaccine and its roll out both in Australia and around the world.

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

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

No matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may have a significant effect on:

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

### Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the Product Disclosure Statement and the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

### Indemnification and insurance of officers

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to the officers of Equity Trustees Limited. So long as the officers of Equity Trustees Limited act in accordance with the Fund's Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

## DIRECTORS' REPORT (CONTINUED)

### Indemnification of auditor

The auditor of the Fund is in no way indemnified out of the assets of the Fund.

### 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 period 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 period.

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

### Interests in the Fund

The movement in units on issue in the Fund during the period 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 dollar

Amounts in the Directors' report have been rounded to the nearest dollar in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise indicated.

### Auditor's independence declaration

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

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



Philip D Gentry  
Chairman

Melbourne  
28 September 2021

28 September 2021

The Board of Directors  
Equity Trustees Limited  
Level 1, 575 Bourke Street  
MELBOURNE VIC 3000

Dear Board Members,

## **Independence Declaration – Morgan Stanley Global Sustain Fund**

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the Directors of Equity Trustees Limited, the Responsible Entity, regarding the financial report of Morgan Stanley Global Sustain Fund (the "Fund").

As lead audit partner for the audit of the financial statements of the Fund for the financial year ended 30 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Adam Kuziow  
Partner  
Chartered Accountants

**STATEMENT OF COMPREHENSIVE INCOME**

|   | Note | For the period<br>24 April<br>2020<br>to<br>30 June<br>2021<br>\$ |
|---|------|---|
| <b>Investment income</b>  |      |   |
| Dividend and distribution income  |      | 34,768  |
| Net foreign exchange gain/(loss)  |      | 40,288  |
| Net gains/(losses) on financial instruments at fair value through profit or loss      |      | 370,140   |
| Management fees reimbursements  | 16   | 23,284  |
| Other income  |      | 855   |
| <b>Total investment income/(loss)</b>   |      | <b>469,335</b>  |
| <b>Expenses</b>   |      |   |
| Management costs  | 16   | 10,500  |
| Responsible Entity fees   |      | 1,013   |
| Custody and administration fees   |      | 22,979  |
| Transaction costs   |      | 1,525   |
| Withholding taxes   |      | 4,829   |
| Other expenses  |      | 17,515  |
| <b>Total expenses</b>   |      | <b>58,361</b>   |
| <b>Profit/(loss) before finance costs attributable to unit holders for the period</b> |      | <b>410,974</b>  |
| <b>Finance costs attributable to unit holders</b>                                     |      |   |
| Distributions to unit holders   | 10   | (65,293)  |
| (Increase)/decrease in net assets attributable to unit holders                        | 9    | (345,681)   |
| <b>Profit/(loss) for the period</b>   |      | <b>-</b>  |
| Other comprehensive income  |      | -   |
| <b>Total comprehensive income for the period</b>                                      |      | <b>-</b>  |

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

**STATEMENT OF FINANCIAL POSITION**

|  | Note | As at<br>30 June<br>2021<br>\$ |
|--|------|--------------------------------|
| <b>Assets</b>  |      |                                |
| Cash and cash equivalents  | 11   | 72,612                         |
| Receivables  | 13   | 16,080                         |
| Due from brokers - receivable for securities sold                            |      | 3,657                          |
| Financial assets at fair value through profit or loss                        | 6    | 3,458,045                      |
| <b>Total assets</b>  |      | <b>3,550,394</b>               |
| <b>Liabilities</b>   |      |                                |
| Distributions payable  | 10   | 65,293                         |
| Payables   | 14   | 11,201                         |
| Due to brokers - payable for securities purchased                            |      | 5,914                          |
| Financial liabilities at fair value through profit or loss                   | 7    | 17,753                         |
| <b>Total liabilities (excluding net assets attributable to unit holders)</b> |      | <b>100,161</b>                 |
| <b>Net assets attributable to unit holders – liability</b>                   | 9    | <b>3,450,233</b>               |

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



**STATEMENT OF CHANGES IN EQUITY**

|   | For the period<br>24 April<br>2020<br>to<br>30 June<br>2021<br>\$ |
|---|---|
| <b>Total equity at the beginning of the financial period*</b> | -   |
| Profit/(loss) for the period                                  | -   |
| Other comprehensive income                                    | -   |
| <b>Total comprehensive income</b>                             | -   |
| Transactions with owners in their capacity as owners          | -   |
| <b>Total equity at the end of the financial period*</b>       | -   |

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

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

## STATEMENT OF CASH FLOWS

|   | Note  | For the period<br>24 April<br>2020<br>to<br>30 June<br>2021<br>\$ |
|---|-------|---|
| <b>Cash flows from operating activities</b>   |       |   |
| Proceeds from sale of financial instruments at fair value through profit or loss    |       | 368,563   |
| Payments for purchase of financial instruments at fair value through profit or loss |       | (3,436,458)   |
| Dividends and distributions received  |       | 26,785  |
| Other income received   |       | (1,664)   |
| Net foreign exchange gain/(loss)  |       | 40,288  |
| Management fees reimbursements received   |       | 13,578  |
| Responsible Entity fees paid  |       | (1,013)   |
| Custody and administration fees paid  |       | (22,979)  |
| Transaction costs   |       | (1,525)   |
| Other expenses paid   |       | (17,515)  |
| <b>Net cash inflow/(outflow) from operating activities</b>                          | 12(a) | <b>(3,031,940)</b>  |
| <b>Cash flows from financing activities</b>   |       |   |
| Proceeds from applications by unit holders  |       | 3,118,727   |
| Payments for redemptions by unit holders  |       | (14,175)  |
| Distributions paid to unit holders  |       | -   |
| <b>Net cash inflow/(outflow) from financing activities</b>                          |       | <b>3,104,552</b>  |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                         |       | <b>72,612</b>   |
| Cash and cash equivalents at the beginning of the period                            |       | -   |
| <b>Cash and cash equivalents at the end of the period</b>                           | 11    | <b>72,612</b>   |
| Non-cash operating and financing activities   | 12(b) | -   |

*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 Morgan Stanley Global Sustain Fund (the "Fund") as an individual entity. The Fund is an Australian registered managed investment scheme which was constituted on 24 April 2020 and will terminate in accordance with the provisions of the Fund's Constitution or by Law.

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

The Fund invests in a concentrated portfolio (25 to 50 stocks) of equity and equity related securities which are traded, listed or due to be listed on recognised stock exchanges throughout the world in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution. The Morgan Stanley Global Sustain Fund (Hedged) class may use derivatives to seek to reduce exposures to international currency volatility.

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 the period 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 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 January 2021 and have not been early adopted in preparing these financial statements.

None of these are expected to have a material effect on the financial statements of the Fund.

### **b. Financial instruments**

#### **i. Classification**

- Financial assets

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

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

The Fund classifies its financial assets based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets.

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

For equity securities and derivatives, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments are measured at fair value through profit or loss.

For 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 (due to brokers, distributions payable and management costs payable).

#### **ii. Recognition and derecognition**

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

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all the risks and rewards of ownership. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of comprehensive income.

#### **iii. Measurement**

- Financial instruments at fair value through profit or loss

At initial recognition, the Fund measures a financial asset and a financial liability at its fair value. Transaction costs of financial assets and liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets and liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of 'financial assets or liabilities at fair value through profit or loss' category are presented in the statement of comprehensive income within 'net gains/(losses) on financial instruments at fair value through profit or loss' in the period in which they arise.

For further details on how the fair value of financial instruments is determined please see Note 5 to the financial statements.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **b. Financial instruments (continued)**

#### **iii. Measurement (continued)**

- Financial instruments at amortised cost

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

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

#### **iv. 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, due from brokers 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

The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

#### **v. Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Fund has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

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

### **c. Net assets attributable to unit holders**

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

The units are classified as financial liabilities as the Fund is required to distribute its distributable income in accordance with the Fund's

The units can be put back to the Fund at any time for cash based on the redemption price which is equal to a proportionate share of the Fund's net asset value attributable to the unit holders.

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

### **d. Cash and cash equivalents**

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

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

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **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.

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.

Changes in fair value of financial instruments at fair value through profit or loss are recorded in accordance with the policies described in Note 2(b) to the financial statements.

#### **ii. Dividends and distributions**

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense. The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the statement of comprehensive income.

Trust distributions are recognised on an entitlement basis.

### **f. Expenses**

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

As per the Fund's Product Disclosure Statement (PDS), ordinary expenses such as investment management fees, Responsible Entity fees, custodian fees, administration fees, audit fees and other ordinary expenses of operating the Fund are covered by the management costs.

### **g. Income tax**

Under current legislation, the Fund is not subject to income tax provided it distributes the entirety of its taxable income to its unit holders on present entitlement basis.

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

### **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 comprehensive income as finance costs attributable to unit holders.

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

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

### **j. 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.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **j. Foreign currency translation (continued)**

#### **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 period 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.

#### **k. Due from/to brokers**

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

#### **l. Receivables**

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

#### **m. Payables**

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

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

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

#### **n. Applications and redemptions**

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

#### **o. 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.

#### **p. 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 period. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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



## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

### **p. Use of estimates and judgements (continued)**

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations, require management to make estimates 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 for more information on credit risk.

For more information on how fair value is calculated refer to Note 5 to the financial statements.

### **q. Comparative period**

The Fund was constituted on 24 April 2020 and commenced operations on 2 July 2020. The reporting period covers the period 24 April 2020 to 30 June 2021, hence there is no comparative information.

### **r. Rounding of amounts**

The Fund is an entity of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest dollar unless otherwise indicated.

## **3. FINANCIAL RISK MANAGEMENT**

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

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

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

The investments of the Fund, and associated risks, are managed by a specialist Investment Manager, SG Hiscock & Company Limited (SGH) 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. SG Hiscock & Company Limited have appointed a Sub-Investment Manager, Morgan Stanley Investment Management (Australia) Pty Limited, under a Sub-Investment Management Agreement (sub IMA).

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

### **a. Market risk**

#### **i. Price risk**

The Fund is exposed to price risk on equity securities listed or quoted on recognised securities exchanges. 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.

SGH seeks to mitigate price risk by ensuring that the Fund is managed in line with IMA, including a restriction on the maximum holding as a percentage of the overall Fund of any single security (which is 10%). SGH monitors the portfolio on a daily basis to ensure compliance with IMA requirements.

The Fund also actively maintains a high level of diversification in its holdings, thus potentially reducing the amount of risk in the Fund. The Investment Manager's process seeks to exploit the inefficient pricing of securities of similar companies. Its investment process aims to construct a portfolio intended to have the maximum potential to outperform while minimizing risk.

Price risk is managed by the reasonably possible movements approach. This approach is determined based on management's best estimate, having regard to a number of factors, including the historical correlation of the Fund's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

### 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### a. Market risk (continued)

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

The table at Note 3(b) summarises the sensitivities of the Fund's assets and liabilities to price risk. The analysis is based on the reasonably possible shift that the investment portfolio in which the Fund invests moves by +/-10%.

##### ii. Foreign exchange risk

The Fund operates internationally and holds both monetary and non-monetary assets dominated 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 entering into forward currency contracts that hedge any movement in exchange rates with respect to the Australian dollar.

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.

| As at 30 June 2021  | US<br>Dollars<br>A\$ | British<br>Pounds<br>A\$ | Euros<br>A\$   | Canada<br>Dollars<br>A\$ | HK<br>Dollars<br>A\$ |
|---|----------------------|--------------------------|----------------|--------------------------|----------------------|
| Cash and cash equivalents   | 49,479               | 3,124                    | -              | -                        | -                    |
| Receivables   | 2,859                | 221                      | -              | 74                       | -                    |
| Due from brokers - receivable for securities sold                   | -                    | -                        | 3,613          | -                        | -                    |
| Financial assets at fair value through profit or loss               | 2,527,692            | 326,243                  | 431,529        | 112,921                  | 59,586               |
| Due to brokers - payable for securities purchased                   | (5,914)              | -                        | -              | -                        | -                    |
| <b>Net exposure</b>   | <b>2,574,116</b>     | <b>329,588</b>           | <b>435,142</b> | <b>112,995</b>           | <b>59,586</b>        |
| Net increase/(decrease) in exposure from forward currency contracts | (13,912)             | 67                       | (3,267)        | (186)                    | (381)                |
| <b>Net exposure including forward currency contracts</b>            | <b>2,560,204</b>     | <b>329,655</b>           | <b>431,875</b> | <b>112,809</b>           | <b>59,205</b>        |

The table at Note 3(b) summarises the sensitivities of the Fund's monetary assets and liabilities to foreign exchange risk. The analysis is based on the reasonably possible shift that the Australian dollar weakened and strengthened by 10% against the material foreign currencies to which the Fund is exposed.

##### iii. Interest rate risk

The Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk.

The Fund's interest bearing financial 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 impact of the interest rate risk on profit and net assets attributable to unit holders is considered immaterial to the Fund.

Interest rate risk management is undertaken by maintaining as close to a fully invested position as possible, thus limiting the exposure of the Fund to interest rate risk.

#### b. Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unit holders to market risks. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in foreign exchange rates, interest rates and the historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market movements resulting from changes in the performance of and/or correlation between the performances of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variances in the risk variables.

|                    | Impact on operating profit/net assets attributable to unit holders |              |                       |              |
|--------------------|--|--------------|-----------------------|--------------|
|                    | Price risk   |              | Foreign exchange risk |              |
|                    | +10%   | -10%         | +10%                  | -10%         |
| As at 30 June 2021 | \$ 344,029   | \$ (344,029) | \$ 139,690            | \$ (139,690) |

### **3. FINANCIAL RISK MANAGEMENT (CONTINUED)**

#### **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 Fund does not have a significant concentration of credit risk that arises from an exposure to a single counterparty or group of counterparties having similar characteristics. The main concentration of credit risk, to which the Fund is exposed, arises from cash and cash equivalents and amounts due from brokers balances. None of these assets are impaired nor past their due date. The maximum exposure to credit risk is carrying of these balances at reporting date.

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

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 2021, all receivables, amounts due from brokers, cash and short-term deposits are held with counterparties with a credit rating of AA/Aa 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. Derivative financial instruments**

The Fund also restricts its exposure to credit losses on the trading of derivative instruments it holds by entering into master netting arrangements with counterparties (approved brokers) with whom it undertakes a significant volume of transactions. Credit risk associated with favourable contracts is reduced by master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are closed and settled on a net basis. The Fund's overall exposure to credit risk on derivative instruments subject to a master netting arrangement can change substantially within a short period, as it is affected by each transaction subject to the arrangements. Refer to Note 4 to the financial statements for further analysis of the Fund's master netting arrangements.

#### **ii. Settlement of securities transactions**

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

#### **iii. Cash and cash equivalents**

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

#### **iv. Maximum exposure to credit risk**

The maximum exposure to credit risk before any credit enhancements at the end of reporting period is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

#### **d. Liquidity risk**

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

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

Liquidity risk is managed by the Fund's investment in financial instruments, which under normal market conditions are readily convertible to cash, as the majority are listed on the Australian Securities Exchange (ASX). In addition, the Fund maintains sufficient cash and cash equivalents to meet normal operating requirements.

In order to manage the Fund's overall liquidity, the Responsible Entity has the discretion to reject an application for units and to defer or adjust redemption of units if the exercise of such discretion is in the best interests of unit holders. The Fund did not reject or withhold any redemptions during 2021.

### 3. FINANCIAL RISK MANAGEMENT (CONTINUED)

#### d. Liquidity risk (continued)

##### i. Maturities of non-derivative financial liabilities

All non-derivative financial liabilities of the Fund in the current period have maturities of less than 1 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<br>month<br>\$ | 1 to 6<br>months<br>\$ | 6 to 12<br>months<br>\$ | Over 12<br>months<br>\$ | Total<br>\$     |
|--------------------------------------|----------------------------|------------------------|-------------------------|-------------------------|-----------------|
| <b>As at 30 June 2021</b>            |                            |                        |                         |                         |                 |
| Net settled derivatives              |                            |                        |                         |                         |                 |
| Forward currency contracts           | (17,679)                   | -                      | -                       | -                       | (17,679)        |
| <b>Total net settled derivatives</b> | <b>(17,679)</b>            | <b>-</b>               | <b>-</b>                | <b>-</b>                | <b>(17,679)</b> |

### 4. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the statement of financial position are disclosed in the first three columns of the tables below.

|                              | Effects of offsetting on the statement of<br>financial position |   |  | Related amounts not offset                                   |  |                  |
|------------------------------|---|---|--|--|--|------------------|
|                              | Gross<br>amounts of<br>financial<br>instruments<br>\$           | Gross<br>amounts set<br>off in the<br>statement of<br>financial<br>position<br>\$ | Net amount<br>of financial<br>instruments<br>presented in<br>the statement<br>of financial<br>position<br>\$ | Amounts<br>subject to<br>master netting<br>arrangement<br>\$ | Collateral<br>received/<br>pledged<br>\$ | Net amount<br>\$ |
| <b>As at 30 June 2021</b>    |   |   |  |  |  |                  |
| <b>Financial assets</b>      |   |   |  |  |  |                  |
| Forward currency contracts   | 74  | -   | 74   | -  | -  | 74               |
| <b>Total</b>                 | <b>74</b>   | <b>-</b>  | <b>74</b>  | <b>-</b>   | <b>-</b>                                 | <b>74</b>        |
| <b>Financial liabilities</b> |   |   |  |  |  |                  |
| Forward currency contracts   | 17,753  | -   | 17,753   | -  | -  | 17,753           |
| <b>Total</b>                 | <b>17,753</b>   | <b>-</b>  | <b>17,753</b>  | <b>-</b>   | <b>-</b>                                 | <b>17,753</b>    |

#### a. Master netting arrangement – not currently enforceable

Agreements with derivative counterparties are based on the International Swaps and Derivatives Association (ISDA) Master Agreement. Under the terms of these arrangements, only when certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Fund does not presently have a legally enforceable right of set-off, these amounts have not been offset in the statement of financial position, but have been presented separately in the above table.

## **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. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

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

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

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

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

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

### **b. Fair value in an inactive or unquoted market (level 2)**

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

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date.

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)

### c. Recognised fair value measurements

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

|                                    | Level 1<br>\$    | Level 2<br>\$ | Level 3<br>\$ | Total<br>\$      |
|------------------------------------|------------------|---------------|---------------|------------------|
| <b>As at 30 June 2021</b>          |                  |               |               |                  |
| <b>Financial assets</b>            |                  |               |               |                  |
| Listed equity securities           | 3,457,971        | -             | -             | 3,457,971        |
| Forward currency contracts         | -                | 74            | -             | 74               |
| <b>Total financial assets</b>      | <b>3,457,971</b> | <b>74</b>     | <b>-</b>      | <b>3,458,045</b> |
| <b>Financial liabilities</b>       |                  |               |               |                  |
| Forward currency contracts         | -                | 17,753        | -             | 17,753           |
| <b>Total financial liabilities</b> | <b>-</b>         | <b>17,753</b> | <b>-</b>      | <b>17,753</b>    |

### d. Transfer between levels

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

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

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

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

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

## 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

|  | As at<br>30 June<br>2021<br>\$ |
|--|--------------------------------|
| Listed equity securities   | 3,457,971                      |
| Forward currency contracts   | 74                             |
| <b>Total financial assets at fair value through profit or loss</b> | <b>3,458,045</b>               |

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

## 7. FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

|   | As at<br>30 June<br>2021<br>\$ |
|---|--------------------------------|
| Forward currency contracts  | 17,753                         |
| <b>Total financial liabilities at fair value through profit or loss</b> | <b>17,753</b>                  |

An overview of the risk exposures and fair value measurements relating to financial liabilities at fair value through profit or loss is included in Note 3 and Note 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 and options. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Fund's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Fund against a fluctuation in market values, foreign exchange risk or to reduce volatility;
- a substitution for trading of physical securities; and
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

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

The Fund holds the following derivatives:

### Forward currency contracts

Forward currency contracts are primarily used by the Fund to economically hedge against foreign currency exchange rate risks on its non-Australian dollar denominated trading securities. The Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing bid price at the end of each reporting period. The Fund recognises a gain or loss equal to the change in fair value at the end of each reporting period.

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

|                            | Contractual/<br>notional<br>\$ | Assets<br>\$ | Liabilities<br>\$ |
|----------------------------|--------------------------------|--------------|-------------------|
| <b>As at 30 June 2021</b>  |                                |              |                   |
| Forward currency contracts | 2,081,586                      | 74           | 17,753            |
| <b>Total derivatives</b>   | <b>2,081,586</b>               | <b>74</b>    | <b>17,753</b>     |

Information about the Fund's exposure to credit risk, foreign exchange risk, interest rate risk and about the methods and assumptions used in determining fair values is provided in Note 3 and Note 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 - LIABILITY

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

|  | For the period                                     |   |
|--|--|---|
|  | 24 April<br>2020<br>to<br>30 June<br>2021<br>Units | 24 April<br>2020<br>to<br>30 June<br>2021<br>\$ |
| <b>Morgan Stanley Global Sustain Fund</b>                      |  |   |
| Opening balance  | -  | -   |
| Applications   | 1,245,676  | 1,268,659                                       |
| Redemptions  | -  | -   |
| Reinvestment of distributions                                  | -  | -   |
| Increase/(decrease) in net assets attributable to unit holders | -  | 160,249   |
| <b>Closing balance</b>   | <b>1,245,676</b>                                   | <b>1,428,908</b>                                |

## 9. NET ASSETS ATTRIBUTABLE TO UNIT HOLDERS - LIABILITY (CONTINUED)

|  | For the period                                     |   |
|--|--|---|
|  | 24 April<br>2020<br>to<br>30 June<br>2021<br>Units | 24 April<br>2020<br>to<br>30 June<br>2021<br>\$ |
| <b>Morgan Stanley Global Sustain Fund (Hedged)</b>             |  |   |
| Opening balance  | -  | -   |
| Applications   | 1,721,784  | 1,850,068                                       |
| Redemptions  | (12,300)   | (14,175)  |
| Reinvestment of distributions                                  | -  | -   |
| Increase/(decrease) in net assets attributable to unit holders | -  | 185,432   |
| <b>Closing balance</b>   | <b>1,709,484</b>                                   | <b>2,021,325</b>                                |
| <b>Closing balance</b>   |  | <b>3,450,233</b>                                |

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

There are two separate classes of units. Each unit within the same class has the same rights as all other units within that class. Each unit class has a same management fee rate.

Units are redeemed on demand at the unit holders' option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within twelve months after the end of the reporting period cannot be reliably determined.

### Capital risk management

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

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust redemption of units if the exercise of such discretion is in the best interests of unit holders.

## 10. DISTRIBUTIONS TO UNIT HOLDERS

The distributions declared during the period were as follows:

|  | For the period                                  |  |
|--|---|--|
|  | 24 April<br>2020<br>to<br>30 June<br>2021<br>\$ | 24 April<br>2020<br>to<br>30 June<br>2021<br>CPU |
| <b>Distributions - Morgan Stanley Global Sustain Fund</b>          |   |  |
| June (payable)   | 9,448   | 0.76   |
| <b>Total distributions</b>   | <b>9,448</b>                                    | <b>0.76</b>                                      |
| <b>Distributions - Morgan Stanley Global Sustain Fund (Hedged)</b> |   |  |
| June (payable)   | 55,845  | 3.30   |
| <b>Total distributions</b>   | <b>55,845</b>                                   | <b>3.30</b>                                      |
| <b>Total distributions</b>   | <b>65,293</b>                                   |  |



## 11. CASH AND CASH EQUIVALENTS

|  | As at<br>30 June<br>2021<br>\$ |
|--|--------------------------------|
| Cash at bank                           | 72,612                         |
| <b>Total cash and cash equivalents</b> | <b>72,612</b>                  |

## 12. RECONCILIATION OF PROFIT/(LOSS) TO NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES

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

The above figures reconcile to the amount of cash shown in the statement of cash flows at the end of the period as follows:

|   | For the period<br>24 April<br>2020<br>to<br>30 June<br>2021<br>\$ |
|---|---|
| Profit/(loss) for the period  | -   |
| Increase/(decrease) in net assets attributable to unit holders                      | 345,681   |
| Distributions to unit holders   | 65,293  |
| Proceeds from sale of financial instruments at fair value through profit or loss    | 368,563   |
| Payments for purchase of financial instruments at fair value through profit or loss | (3,436,458)   |
| Net foreign exchange (gain)/loss  | (370,140)   |
| Net change in receivables   | (16,080)  |
| Net change in payables  | 11,201  |
| <b>Net cash inflow/(outflow) from operating activities</b>                          | <b>(3,031,940)</b>  |

### b. 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

|  |          |
|--|----------|
|  | -        |
| <b>Total non-cash operating and financing activities</b> | <b>-</b> |

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

## 13. RECEIVABLES

|  | As at<br>30 June<br>2021<br>\$ |
|--|--------------------------------|
| Dividends and distributions receivable   | 3,154                          |
| GST receivable                           | 493                            |
| Management fees reimbursement receivable | 10,407                         |
| Other receivable                         | 2,026                          |
| <b>Total receivables</b>                 | <b>16,080</b>                  |

## 14. PAYABLES

|   | As at<br>30 June<br>2021<br>\$ |
|---|--------------------------------|
| Management costs payable                | 10,500                         |
| Responsible Entity fees payable         | 478                            |
| Custody and administration fees payable | 223                            |
| <b>Total payables</b>                   | <b>11,201</b>                  |

## 15. REMUNERATION OF AUDITORS

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

|   | For the period<br>24 April<br>2020<br>to<br>30 June<br>2021<br>\$ |
|---|---|
| <b>Deloitte Touche Tohmatsu</b>                         |   |
| <i>Audit and other assurance services</i>               |   |
| Audit of financial statements                           | 12,700  |
| Total auditor remuneration and other assurance services | 12,700  |
| <i>Taxation services</i>                                |   |
| Tax compliance services                                 | 10,500  |
| Total remuneration for taxation services                | 10,500  |
| <b>Total remuneration of Deloitte Touche Tohmatsu</b>   | <b>23,200</b>   |
| <b>PricewaterhouseCoopers</b>                           |   |
| <i>Audit and other assurance services</i>               |   |
| Audit of compliance plan                                | 2,346   |
| Total auditor remuneration and other assurance services | 2,346   |
| <b>Total remuneration of PricewaterhouseCoopers</b>     | <b>2,346</b>  |

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

## 16. RELATED PARTY TRANSACTIONS

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

The Responsible Entity has contracted services to SG Hiscock & Company Limited to act as Investment Manager for the Fund, State Street Australia Limited to act as Custodian, and Mainstream Fund Services Pty Ltd to act as Administrator for the Fund. The contracts are on normal commercial terms and conditions.

### a. Key management personnel

#### i. Directors

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

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

#### ii. Responsible Entity

Other than fees paid to the Responsible Entity, there were no other transactions.

#### iii. 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 period.

### b. Transactions with key management personnel

There were no transactions with key management personnel during the reporting period.

## 16. RELATED PARTY TRANSACTIONS (CONTINUED)

### c. Key management personnel unit holdings

Key management personnel did not hold units in the Fund as at 30 June 2021.

### d. Key management personnel compensation

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

### e. Key management personnel loans

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the 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 period and there were no material contracts involving management personnel's interests existing at period end.

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

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

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

|  | For the period<br>24 April<br>2020<br>to<br>30 June<br>2021<br>\$ |
|--|---|
| Management fees for the period                         | 10,500  |
| Responsible Entity fees for the period                 | 1,013   |
| Custody and administration fees for the period         | 22,979  |
| Management fees reimbursements for the year            | 23,284  |
| Management fees payable at period end                  | 10,500  |
| Responsible Entity fees payable at period end          | 478   |
| Custody and administration fees payable at period end  | 223   |
| Management fees reimbursement receivable at period end | 10,407  |

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

### h. Related party unit holdings

Parties related to the Fund (including Equity Trustees Limited, its related parties and other schemes managed by Equity Trustees Limited and the Investment Manager) held no units in the Fund as at 30 June 2021 (30 June 2020: nil).

### i. Investments

The Fund did not hold any investments in Equity Trustees Limited or its related parties during the period.

## 17. EVENTS OCCURRING AFTER THE REPORTING PERIOD

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

## 18. CONTINGENT ASSETS AND LIABILITIES AND COMMITMENTS

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

## DIRECTORS' DECLARATION

In the opinion of the directors of the Responsible Entity:

- a. The financial statements and notes set out on pages 6 to 27 are in accordance with the *Corporations Act 2001*, including:
  - i. complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
  - ii. giving a true and fair view of the Fund's financial position as at 30 June 2021 and of its performance for the financial period ended on that date.
- b. There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- c. Note 2(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Philip D Gentry  
Chairman

Melbourne  
28 September 2021

## Independent Auditor's Report to the Unit Holders of Morgan Stanley Global Sustain Fund

### *Opinion*

We have audited the financial report of Morgan Stanley Global Sustain Fund (the "Fund") which comprises the statement of financial position as at 30 June 2021, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the period ending on that date, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the Directors' declaration.

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

- (i) giving a true and fair view of the Fund's financial position as at 30 June 2021 and of its financial performance for the year then ended; and
- (ii) 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Responsible Entity of the Fund (the "Directors"), would be in the same terms if given to Directors as at the time of this auditor's report.

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

### *Other Information*

The Directors are responsible for the other information. The other information comprises the information included in the Directors' report for the period ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and 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 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 ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Fund or to cease operations, or has 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 judgement 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.

# Deloitte.

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.

*Deloitte Touche Tohmatsu*

DELOITTE TOUCHE TOHMATSU

*Adam Kuziow*

Adam Kuziow  
Partner  
Chartered Accountants

Melbourne, 28 September 2021