

# **Blue Sky Alliance Fund**

ARSN 140 253 685

## **Annual financial statements for the reporting period ended 30 June 2017**

# Blue Sky Alliance Fund

ARSN 140 253 685

## Annual financial statements for the reporting period ended 30 June 2017

### Contents

	Page
Directors' report	2
Auditor's independence declaration	5
Statement of comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	11
Directors' declaration	41
Independent auditor's report to the unitholders of Blue Sky Alliance Fund	42

These financial statements cover Blue Sky Alliance Fund as an individual entity.

The responsible entity of Blue Sky Alliance Fund is One Managed Investment Funds Limited (ABN 47 117 400 987).  
The responsible entity's registered office is Level 11, 20 Hunter Street, Sydney, NSW 2000.

## Directors' report

The directors of One Managed Investment Funds Limited, the responsible entity of Blue Sky Alliance Fund (ARSN 140 253 685) (the "Fund"), present their report together with the financial statements of the Fund for the reporting period ended 30 June 2017 (the "reporting period").

### Responsible entity

The responsible entity of the Blue Sky Alliance Fund is One Managed Investment Funds Limited (ABN 47 117 400 987) ("OMIFL" or the "Responsible Entity"). The Responsible Entity's registered office is Level 11, 20 Hunter Street, Sydney, NSW 2000.

### Principal activities

The Fund is a registered managed investment fund domiciled in Australia.

The principal activity of the Fund is to invest funds in accordance with its investment objectives and guidelines as set out in the Fund's product disclosure statement ("PDS") and in accordance with the provisions of the Constitution.

The Fund did not have any employees during the reporting period.

### Information about the Directors and senior management

The following names of the directors and company secretaries of OMIFL who held office during the reporting period and up to the date of this report:

Frank Tearle	Executive Director and Company Secretary
Justin Epstein	Executive Director
Elizabeth Reddy	Non-executive Director
Sarah Wiesener	Company Secretary

### Review and results of operations

There have been no significant changes to the operations of the Fund during the reporting period. The Fund continued to invest funds in accordance with target asset allocations as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

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

	For the reporting period ended	
	30 June 2017 \$'000	30 June 2016 \$'000
Profit/(loss) before finance costs attributable to unitholders	<u>(2,340)</u>	<u>2,938</u>
<i>Distributions - Absolute Return Class</i>		
Distributions paid and payable	827	1,942
Distributions (cents per unit - CPU)	6.5982	8.6256
<i>Distributions - Real Return Class</i>		
Distributions paid and payable	119	122
Distributions (cents per unit - CPU)	1.3445	1.3811
<i>Distributions - Dynamic Macro Class</i>		
Distributions paid and payable	-	-
Distributions (cents per unit - CPU)	-	-

## Directors' report (continued)

### Indirect Cost Ratio ("ICR")

	2017	2016
	%	%
Absolute Return Class	1.31	1.31
Real Return Class	1.16	1.11
Dynamic Macro Class (total)	1.67	3.11
Dynamic Macro Class (excluding performance fee)	1.67	1.75
Dynamic Macro Class (performance fee)	-	1.36
Diversified Quant Class (total)	-	1.74
Diversified Quant Class (excluding performance fee)	-	1.74
Diversified Quant Class (performance fee)	-	-

The ICR calculation includes fees charged to the Fund during the financial year, including those charged by the Responsible Entity directly for management of the assets. The fees charged to the Dynamic Macro Class include performance fees, no performance fees are charged to the Absolute Return and Real Return classes. The Diversified Quant Class was wound up on 13 May 2016 therefore the 2016 figures above are for information purposes only.

Expenses excluded from the ICR calculation are those that would have ordinarily been incurred by a direct investor in the underlying assets of the Fund, such as brokerage, transaction costs and government taxes.

The average unitholders' funds used to calculate the ICR is the average net assets of the Fund.

### Significant changes in state of affairs

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

### Events occurring after the reporting period

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

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

### 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 governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

Further information on likely developments in the operations of the Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

### Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of OMIFL or the auditors of the Fund. So long as the officers of OMIFL act in accordance with the Fund's Constitution and the *Corporations Act 2001*, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

## Directors' report (continued)

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

Fees paid to the Responsible Entity and its associates out of Fund property during the reporting period are disclosed in note 13 of the financial statements.

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

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the reporting period are disclosed in note 13 of the financial statements.

### Interests in the Fund

The movements in units on issue in the Fund during the reporting period are disclosed in note 5 of the financial statements.

The value of the Fund's assets and liabilities is disclosed in the Statement of financial position and derived using the basis set out in note 2 of the financial statements.

### Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory Law.

### Rounding of amounts to the nearest thousand dollars

The Fund is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (formerly Class Order 98/0100 (as amended)) issued by the Australian Securities and Investments Commission ("ASIC") relating to the "rounding off" of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with that ASIC instrument, unless otherwise indicated.

### Auditor's independence declaration

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

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



Frank Tearle  
Director

Sydney  
25 September 2017

**BLUE SKY ALLIANCE FUND**

**ARSN 140 253 658**

**AUDITOR'S INDEPENDENCE DECLARATION**

**To the Directors of One Managed Investment Funds Limited**

As lead auditor for the audit of the financial report of Blue Sky Alliance Fund for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

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



Sydney, NSW  
20 September 2017

**M D Muller**  
**Partner**

## Statement of comprehensive income

		For the reporting period ended	
		30 June 2017 \$'000	30 June 2016 \$'000
Notes			
<b>Investment income</b>			
		4	5
Interest income			
Trust distributions	3	720	2,897
Net gains/(losses) on financial instruments held at fair value through profit or loss		<u>(2,258)</u>	<u>1,321</u>
<b>Total investment income</b>		<u>(1,534)</u>	<u>4,223</u>
<b>Expenses</b>			
Management and performance fees	13	767	1,244
Other expenses		<u>39</u>	<u>41</u>
<b>Total expenses</b>		<u>806</u>	<u>1,285</u>
<b>Profit/(loss) before finance costs attributable to unitholders</b>		<u>(2,340)</u>	<u>2,938</u>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	6	946	2,064
Increase/(decrease) in net assets attributable to unitholders	5	<u>(3,286)</u>	<u>874</u>
<b>Profit/(loss) for the reporting period attributable to unitholders</b>		<u>-</u>	<u>-</u>
Other comprehensive income for the reporting period attributable to unitholders		<u>-</u>	<u>-</u>
<b>Total comprehensive income for the reporting period attributable to unitholders</b>		<u>-</u>	<u>-</u>

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

## Statement of financial position

		As at	
		30 June	30 June
		2017	2016
	Notes	\$'000	\$'000
<b>Assets</b>			
Cash and cash equivalents	7	362	285
Receivables		1,257	2,936
Financial assets held at fair value through profit or loss	8	<u>48,669</u>	<u>58,797</u>
<b>Total assets</b>		<u>50,288</u>	<u>62,018</u>
<b>Liabilities</b>			
Distributions payable	6	946	2,064
Payables		<u>650</u>	<u>83</u>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>1,596</u>	<u>2,147</u>
<b>Net assets attributable to unitholders - liability</b>	5	<u>48,692</u>	<u>59,871</u>

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



## Statement of changes in equity

	For the reporting period ended	
	30 June	30 June
	2017	2016
	\$'000	\$'000
<b>Total equity at the beginning of the reporting period</b>	-	-
Profit/(loss) for the reporting period attributable to unitholders	-	-
Other comprehensive income for the reporting period attributable to unitholders	-	-
Total comprehensive income for the reporting period attributable to unitholders	-	-
Transactions with owners in their capacity as owners	-	-
<b>Total equity at the end of the reporting period</b>	-	-

In accordance with AASB 132 *Financial Instruments: Presentation*, net assets attributable to unitholders are classified as a liability rather than equity. As a result, there was no equity at the beginning and the end of the reporting period.

Changes in net assets attributable to unitholders are disclosed in note 5.

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

## Statement of cash flows

	Notes	For the reporting period ended	
		30 June 2017 \$'000	30 June 2016 \$'000
<b><i>Cash flows from operating activities</i></b>			
Proceeds from sale of financial instruments held at fair value through profit or loss		20,309	22,827
Purchase of financial instruments held at fair value through profit or loss		(10,447)	(19,691)
Trust distributions received		1,303	856
Interest received		4	5
Management fees paid		(692)	(1,213)
Payments of other expenses		(43)	(55)
<b>Net cash inflow/(outflow) from operating activities</b>	14(a)	<u>10,434</u>	<u>2,729</u>
<b><i>Cash flows from financing activities</i></b>			
Proceeds from applications by unitholders		9,617	18,862
Payments for redemptions by unitholders		(19,696)	(21,433)
Distributions paid		<u>(278)</u>	<u>(157)</u>
<b>Net cash inflow/(outflow) from financing activities</b>		<u>(10,357)</u>	<u>(2,728)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		77	1
Cash and cash equivalents at the beginning of the reporting period		<u>285</u>	<u>284</u>
<b>Cash and cash equivalents at the end of the reporting period</b>	7,14(b)	<u>362</u>	<u>285</u>
Non-cash financing activities	14(c)	<u>1,786</u>	<u>1,052</u>

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

## Contents

	<b>Page</b>
1 General information	11
2 Summary of significant accounting policies	11
3 Trust distributions	17
4 Auditor's remuneration	17
5 Net assets attributable to unitholders	18
6 Distributions to unitholders	18
7 Cash and cash equivalents	19
8 Financial assets held at fair value through profit or loss	19
9 Investments in controlled trusts	19
10 Derivative financial instruments	20
11 Financial risk management	21
12 Offsetting financial assets and financial liabilities	35
13 Related party transactions	37
14 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities	40
15 Events occurring after the reporting period	40
16 Contingent assets and liabilities and commitments	40

## 1 General information

These financial statements include separate financial statements for Blue Sky Alliance Fund (ARSN 140 253 685) (the "Fund") as an individual entity. The Fund was constituted on 26 June 2009.

The responsible entity of the Fund is One Managed Investment Funds Limited (ABN 47 117 400 987) ("OMIFL" or the "Responsible Entity"). The Responsible Entity's registered office is Level 11, 20 Hunter Street, Sydney, NSW 2000.

The Responsible Entity is incorporated and domiciled in Australia.

The financial statements are presented in the Australian currency.

The financial statements are for the period from 1 July 2016 to 30 June 2017 (the "reporting period").

The financial statements were authorised for issue by the directors on the date the directors' declaration was signed. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all reporting 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, other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001* in Australia.

The Fund is a for-profit entity for the purposes of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The Statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are generally expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months after the end of the reporting period cannot be reliably determined.

#### *Compliance with Australian Accounting Standards and International Financial Reporting Standards*

The financial statements of the Fund comply with Australian Accounting Standards as issued by the Australian Accounting Standards Board and also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

#### *New /Amended standards adopted by the Fund*

The Fund applied the following accounting standard amendments which became effective for the first time for the reporting period:

AASB 2015-1 *Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle* amends to clarify minor points in various accounting standards, including AASB 5, AASB 7, AASB 119 and AASB 134. The adoption of AASB 2015-1 did not have any significant impact on the Fund for the current period.

AASB 2015-2 amends AASB 101 *Presentation of Financial Statements* to clarify that entities should not disclose immaterial information and that the presentation in notes to the financial statements can and should be tailored to provide the report users with the clearest story of an entity's financial performance and financial position. The adoption of AASB 2015-2 did not have any significant impact on the presentation of the Fund's financial statements for the year ended 30 June 2017.

There were no other new or amended standards and interpretations that became effective for the first time for the reporting period that were relevant to the Fund.

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments

#### (i) Classification

- *Financial assets and liabilities held at fair value through profit or loss*

The Fund's investments are categorised as held at fair value through profit or loss. They comprise:

- *Financial instruments held for trading*

These may include derivative financial instruments including futures, forward contracts, options and interest rate swaps. The Fund does not designate any derivatives as hedges in a hedging relationship.

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

- *Financial instruments designated at fair value through profit or loss upon initial recognition*

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold. These may include investments in exchange traded debt and equity instruments, unlisted trusts, unlisted equity instruments and commercial paper.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

The information on the fair value basis is provided internally to the Fund's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

- *Loans and receivables/payables*

Loans and receivables/payables are non-derivative financial assets/liabilities with fixed or determinable payments that are not quoted in an active market. This category includes short-term receivables/payables.

#### (ii) Recognition/derecognition

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

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass through" agreement; or
- the Fund has transferred its rights to receive cash flows from the asset and either:
  - (a) has transferred substantially all the risks and rewards of the asset; or
  - (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) are included in the Statement of comprehensive income in the reporting period the asset is derecognised as realised gains or losses on financial instruments.

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

#### (iii) Measurement

- *Financial assets and liabilities held at fair value through profit or loss*

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of comprehensive income.

- *Fair value in an active market*

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. Financial assets are priced at current mid-market prices, while financial liabilities are priced at current asking prices.

A financial instrument is regarded as quoted in 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.

The Fund's financial instruments that are valued based on active markets generally include listed instruments, ranging from listed equity and/or debt securities to listed derivatives, where applicable.

- *Fair value in an inactive or unquoted market*

The fair value of financial assets and liabilities not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the end of the reporting period.

There may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Fund recognises the difference in the Statement of comprehensive income to reflect a change in factors, including time, which market participants would consider in setting a price.

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. The fair value of an option contract is determined by applying the most appropriate option valuation model.

Investments in unlisted unit trusts are recorded at the net asset value per unit as reported by the managers of such trusts.

The Fund's financial instruments that are valued based on inactive or unquoted markets generally include unlisted instruments ranging from investments in unlisted unit trusts, unlisted equity and/or debt securities to over the counter derivatives, where applicable.

- *Loans and receivables/payables*

Loans and receivables/payables are measured initially at fair value plus transaction costs.

Subsequently, loans are carried at amortised cost using the effective interest method, less impairment losses, if any. Short term receivables/payables are carried at their initial fair values.

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

- *Change in accounting policy*

During the year ended 30 June 2016 the Fund changed its accounting policy relating to valuing its financial assets traded in active markets and investments in unlisted unit trusts so that the values of these investments in the financial statements are consistent with the values used in pricing of the Fund's units.

Financial assets traded in active markets are priced at the current mid-market prices. Investments in unlisted unit trusts are recorded at the net asset value per unit.

### (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when, and only when, there is currently 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.

### (c) Net assets attributable to unitholders

Units are redeemable at the unitholders option and are classified as financial liabilities due to mandatory distributions. The units can be put back to the Fund at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their 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, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts, if any, are shown within borrowings in the Statement of financial position.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities.

### (e) Investment income

Interest income and interest expenses are recognised in the Statement of comprehensive income for all financial instruments on an accruals basis. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b).

Trust distributions are recognised on an entitlements basis.

Net gains/(losses) on financial assets and financial liabilities held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at the end of the reporting period and the fair value at the previous valuation point. Net gains/(losses) do not include interest or dividend/distribution income. Realised and unrealised gains/(losses) are shown in the notes to the financial statements.

### (f) Expenses

All expenses, including Responsible Entity's fees and custodian fees, 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 unitholders are presently entitled to the income of the Fund.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Fund is not subject to capital gains tax.

The benefit of imputation credits and foreign tax paid are passed on to unitholders.

## 2 Summary of significant accounting policies (continued)

### (h) Distributions

In accordance with the Fund's Constitution, the Fund distributes income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the Statement of comprehensive income as finance costs attributable to unitholders.

### (i) Increase/(decrease) in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the Statement of comprehensive income as finance costs.

### (j) Foreign currency translation

#### *(i) Functional and presentation currency*

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

#### *(ii) Transactions and balances*

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

The Fund does not isolate that portion of unrealised gains or losses on securities and derivative financial instruments that are measured at fair value through profit or loss and which is due to changes in foreign exchange rates from that which is due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss.

### (k) Receivables

Receivables may include amounts for dividends, interest and securities sold where settlement has not yet occurred. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as Reduced Input Tax Credits ("RITC") and application monies receivable from unitholders.

### (l) Payables

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

Trades are recorded on trade date, and normally settled within two business days. Purchases of financial instruments that are unsettled at the end of each reporting period are included in payables.

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the Statement of financial position when unitholders are presently entitled to the distributable income under the Fund's Constitution.

### (m) 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.

Unit redemption prices are determined by reference to the net assets of the Fund divided by the number of units on issue.



## 2 Summary of significant accounting policies (continued)

### (n) Goods and Services Tax ("GST")

Expenses of various services provided to the Fund by third parties such as custodial services and investment management fees etc are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the related expense or cost item.

Accounts payable and receivable are stated inclusive of the GST receivable and payable. The net amount of GST recoverable from, or payable to, the taxation authority is included in receivables or payables in the Statement of financial position.

Cash flows relating to GST are included in the Statement of cash flows on a gross basis.

### (o) Use of estimates

The Fund does not make estimates and assumptions that affect the reported amounts of assets and liabilities at financial year end apart from the following:

For the Fund's managed fund investments, quoted redemption prices are readily available and for options and futures quoted market prices are readily available.

For certain other financial instruments, including amounts due from/to brokers, accounts payable and accounts receivable, the carrying amounts equate with fair value due to the immediate or short-term nature of these financial instruments.

### (p) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2017 reporting period and have not yet been applied in the financial statements. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

#### (i) AASB 9 *Financial Instruments* (and applicable amendments) (effective from 1 January 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. It has now also introduced revised rules for hedge accounting and impairment. The Standard is not applicable until 1 January 2018 but is available for early adoption. The Fund does not expect this to have a significant impact on the recognition and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements, and the Fund does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Fund's investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Fund. The Fund does not intend to early adopt AASB 9. The Fund will apply AASB 9 in its financial statements for the reporting period commencing from 1 July 2018.

#### (ii) AASB 15 *Revenue from Contracts with Customers* (effective from 1 January 2018)

The AASB has issued a new standard for the recognition of revenue. Once applied or effective, AASB 15 will replace AASB 118 *Revenue* which covers contracts for goods and services and AASB 111 *Construction Contracts* which covers construction contracts. AASB 15 is based on the notion that revenue is recognised when control of a good or service transfers to a customer. This notion of control replaces the existing notion of risks and rewards. The Fund's main source of income includes interest, dividends/distributions and gains on financial instruments held at fair value through profit or loss. All of these are outside the scope of the Revenue standard. Consequently, the Fund does not expect AASB 15 to have a significant impact on the Fund's financial statements. The Fund does not intend to early adopt AASB 15. The Fund will apply AASB 15 in its financial statements for the reporting period commencing from 1 July 2018.

#### (iii) AASB 2016-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107* (effective from 1 January 2017)

AASB 2016-2 amends AASB 107 *Statements of Cash Flows* to require entities to provide disclosure that enable users of financial statements to evaluate cash and non-cash changes in their financing activities. No significant impact is expected upon adoption of the amendments. The Fund does not intend to early adopt AASB 2016-2. The Fund will apply AASB 2016-2 in its financial statements for the reporting period commencing from 1 July 2017.

## 2 Summary of significant accounting policies (continued)

### (p) New accounting standards and interpretations (continued)

(iv) AASB 2016-3 *Amendments to Australian Accounting Standards - Clarifications to AASB 15* (effective from 1 January 2018)

AASB 2016-3 amends AASB 15 Revenue from Contracts with Customers to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. It also provides further practical expedients on transition to AASB 15. No significant impact is expected upon adoption of the amendments. The Fund does not intend to early adopt AASB 2016-3. The Fund will apply AASB 2016-3 in its financial statements for the reporting period commencing from 1 July 2018.

### (q) Rounding of amounts

The Fund is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (formerly Class Order 98/0100 (as amended)), issued by the Australian Securities and Investments Commission ("ASIC"), relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that ASIC Instrument to the nearest thousand dollars, unless otherwise indicated.

### (r) Margin accounts

Margin accounts comprise of cash held as collateral for derivative transactions and short sales. The cash is held by the broker in client segregated accounts and is only available to meet margin calls.

## 3 Trust distributions

	For the reporting period ended	
	30 June 2017 \$'000	30 June 2016 \$'000
<b>Trust distributions</b>		
Unlisted unit trusts	<u>720</u>	<u>2,897</u>
	<u>720</u>	<u>2,897</u>

## 4 Auditor's remuneration

From 1 July 2016, in accordance with the new PDS, the audit fees are now payable from the Fund.

No audit fees were incurred by the Fund during the reporting period ended 30 June 2016. The auditor of the Fund is HLB Mann Judd. The audit fees of the Fund were paid by Blue Sky Investment Science Asset Management Pty Ltd ("BSISAM"). The Responsible Entity has the right to charge audit fees directly to the Fund.

The fees paid/payable in relation to audit services during the year ended 30 June 2017 were:

	For the reporting period ended	
	30 June 2017 \$	30 June 2016 \$
<b>Audit and other assurance services</b>		
HLB Mann Judd	24,500	-
PwC	<u>2,040</u>	<u>-</u>
Total remuneration for audit and other assurance services	<u>26,540</u>	<u>-</u>

## 5 Net assets attributable to unitholders

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

	For the reporting period ended			
	30 June	30 June	30 June	30 June
	2017	2016	2017	2016
	No.'000	No.'000	\$'000	\$'000
<b>Net assets attributable to unitholders</b>				
Opening balance	52,177	56,912	59,871	60,516
Applications	8,215	15,888	10,075	18,862
Redemptions	(19,448)	(21,737)	(19,754)	(21,433)
Units issued upon reinvestment of distributions	1,990	1,114	1,786	1,052
Increase/(decrease) in net assets attributable to unitholders	-	-	(3,286)	874
<b>Closing balance</b>	<b>42,934</b>	<b>52,177</b>	<b>48,692</b>	<b>59,871</b>

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does extend to a right to the underlying assets of the Fund. There are three separate classes of units in the Fund to 30 June 2017. Each unit within the same class has the same rights as all other units within that class. Except for different management and performance fee rates, the different classes have the same preferences and restrictions.

## Capital risk management

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

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

## 6 Distributions to unitholders

The distributions were paid/payable as follows:

	For the reporting period ended			
	30 June	30 June	30 June	30 June
	2017	2017	2016	2016
	\$'000	CPU	\$'000	CPU
<b>Distributions - Absolute Return Class</b>				
Distribution paid and payable	827	6.5982	1,942	8.6256
<b>Distributions - Real Return Class</b>				
Distribution paid and payable	119	1.3445	122	1.3811
<b>Distributions - Dynamic Macro Class</b>				
Distribution paid and payable	-	-	-	-
	<b>946</b>		<b>2,064</b>	

## 7 Cash and cash equivalents

	As at	
	30 June	30 June
	2017	2016
	\$'000	\$'000
Cash at bank	<u>362</u>	<u>285</u>
	<u>362</u>	<u>285</u>

## 8 Financial assets held at fair value through profit or loss

	As at	
	30 June	30 June
	2017	2016
	\$'000	\$'000
<b>Designated at fair value through profit or loss</b>		
Unlisted unit trusts	<u>48,669</u>	<u>58,797</u>
Total designated at fair value through profit or loss	<u>48,669</u>	<u>58,797</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>48,669</u>	<u>58,797</u>

An overview of the risk exposures relating to financial assets at fair value through profit or loss is included in note 11.

## 9 Investments in controlled trusts

Investments in controlled trusts are recorded in the Fund within financial assets held at fair value through profit or loss.

	Fair value		Equity holding **	
	30 June	30 June	30 June	30 June
	2017	2016	2017	2016
	\$'000	\$'000	%	%
<b>Blue Sky Alliance Fund</b>				
Absolute Return	10,387	20,516	100	100
Real Return	9,260	9,412	100	100
Dynamic Macro	29,022	28,869	100	100

\*\* The proportion of ownership interest is equal to the proportion of voting power held.

The Fund acquires units in the above entities at their redemption price which reflects the fair value of the underlying investments.

The Fund qualifies for and has applied the investment entity exemption and therefore is no longer required to consolidate its controlled trusts. The Fund accounts for the above investments at fair value through profit or loss and includes them as part of the financial statement caption of "financial assets held at fair value through profit or loss", with any changes in its fair value are taken to profit or loss and recorded as part of "net gains/(losses) on financial instruments held at fair value through profit or loss".

The Fund's exposure to certain risks is a result of financial instruments held by its controlled trusts, hence, the risks associated with both the Fund and the controlled trusts will be reported in the "Derivative financial instruments" and "Financial risk management" notes.

## 10 Derivative financial instruments

The Fund does not hold any derivative financial instruments directly, but it is exposed to certain risks due to derivatives held by its controlled trusts. 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 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, the Absolute Return and Real Return Portfolios do not employ leverage directly. However, the controlled trusts and managed accounts in which they invest may employ leverage.

The Dynamic Macro Portfolio is leveraged through the use of derivatives and short selling to implement the investment strategy, subject to a long term volatility target of 16% per annum. The volatility target implicitly constrains the level of leverage within these Portfolios. The Diversified Quant Portfolio was also leveraged prior to being wound up.

The controlled trusts holds the following derivative instruments:

### (a) Futures and commodities

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 on futures

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

The controlled trusts' derivative financial instruments at reporting period end are detailed below:

	Fair Values	
	Assets \$'000	Liabilities \$'000
<b>30 June 2017</b>		
Futures	4,336	3,306
<b>Closing balance</b>	<u>4,336</u>	<u>3,306</u>
	Fair Values	
	Assets \$'000	Liabilities \$'000
<b>30 June 2016</b>		
Futures	7,766	6,534
<b>Closing balance</b>	<u>7,766</u>	<u>6,534</u>

## 11 Financial risk management

### (a) Objectives, strategies, policies and processes

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

The Fund's overall risk management program focuses on ensuring compliance with the Fund's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Financial risk management is carried out by Blue Sky Investment Science Asset Management Pty Ltd, the Fund's investment manager (the "Investment Manager") under policies approved by the board of directors of the Responsible Entity (the "Board") and the parent company of the Investment Manager.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, and ratings analysis for credit risk.

As part of its risk management strategy, the Fund may use derivatives and other investments, including share price and bond futures, interest rate swaps and forward currency contracts, to manage exposures resulting from changes in interest rates, foreign currencies, equity price risks, and exposures arising from forecast transactions.

### (b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: price risk, foreign exchange risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

The market risk disclosures are prepared on the basis of the Fund's and controlled trusts' direct investments and not on a look-through basis for investments held in the Fund or controlled trusts.

The sensitivity of the Fund's and controlled trusts' net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) to price risk, foreign exchange risk and interest rate risk is measured by the reasonably possible movements approach. This approach is determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and foreign exchange rates, historical correlation of the Fund's and controlled trusts' 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 and controlled trusts invest. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

The overall market exposures were as follows:

	Fund		Controlled trusts	
	As at		As at	
	30 June	30 June	30 June	30 June
	2017	2016	2017	2016
	\$'000	\$'000	\$'000	\$'000
Derivatives assets held for trading	-	-	4,336	7,766
Derivatives liabilities held for trading	-	-	(3,306)	(6,534)
Financial assets designated at fair value through profit or loss	<u>48,669</u>	<u>58,797</u>	<u>18,797</u>	<u>23,819</u>
	<u>48,669</u>	<u>58,797</u>	<u>19,827</u>	<u>25,051</u>

## 11 Financial risk management (continued)

### (b) Market risk (continued)

#### (i) Price risk

Price risk is the risk that the fair value or future cash flows of equities will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or by factors affecting all similar financial instruments traded in the market.

Price risk exposure arises from the Fund's investment portfolio. The investments are classified on the Statement of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

The Investment Manager mitigates this price risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the Board.

The Fund's and controlled trusts' overall market positions are monitored on a regular basis by the Fund's Investment Manager. This information and the compliance with the Fund's Product Disclosure Statement are reported to the relevant parties on a regular basis as deemed appropriate such as the compliance manager, other key management personnel, compliance committees and ultimately the Board.

At 30 June 2017, if the equity prices had increased/(decreased) by the percentage indicated below, with all other variables held constant, the net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) would have changed by the following amounts, approximately and respectively:

Fund	As at 30 June 2017		As at 30 June 2016	
	Increased by 5% \$'000	Decreased by 5% \$'000	Increased by 5% \$'000	Decreased by 5% \$'000
<b>Increase/(decrease) in net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders)</b>	<b>2,433</b>	<b>(2,433)</b>	<b>2,940</b>	<b>(2,940)</b>

The analysis is performed on the same basis for 2017 and 2016.

#### (ii) Foreign exchange risk

The foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund holds no direct assets denominated in currencies other than the Australian dollar, the functional currency, however is exposed to future movements in foreign currency rates due to holdings of the controlled trusts. The controlled trusts are exposed to foreign exchange risk, as the value of the future cash flows of the securities denominated in other currencies will fluctuate due to changes in exchange rates. The risk is measured using sensitivity analysis.

As stated in section (a) above, as part of its risk management strategy, the Fund uses forward currency contracts to manage exposures resulting from changes in foreign currencies. On this basis, the Fund's overall exposure to foreign exchange risk is considered minimal after taking into account the forward currency contracts.

In accordance with the controlled trusts' policy, the Investment Manager monitors the controlled trusts' currency position on a regular basis. This information and the compliance with the controlled trusts' policy are reported to the relevant parties on a regular basis as deemed appropriate such as the compliance manager, other key management personnel, compliance committees and ultimately the Board.

The foreign exchange risk disclosures have been prepared on the basis of the controlled trusts' direct investment and not on a look-through basis for investments held indirectly through unit trusts. Consequently the disclosure of currency risk in the note may not represent the true currency risk profile of the controlled trusts where the controlled trusts have significant investments in indirect trusts which also have exposure to the currency markets.

## 11 Financial risk management (continued)

### (b) Market risk (continued)

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

When the Investment Manager formulates a view on the future direction of foreign exchange rates and the potential impact on the Fund, the Investment Manager factors that into its portfolio allocation decisions. While the controlled trusts have direct exposure to foreign exchange rate changes on the price of non-Australian dollar-denominated securities, it may also be indirectly affected for example, by the impact of foreign exchange rate changes on the earnings of certain entities in which the controlled trusts invest, even if those entities' securities are denominated in Australian dollars. For that reason, the sensitivity analysis may not necessarily indicate the total effect on the controlled trusts' net assets attributable to unitholders of future movements in foreign exchange rates.

The table below summarises the controlled trusts' assets and liabilities which are denominated in Australian and non-Australian currencies:

#### Controlled trusts

30 June 2017	Australian Dollars A\$'000	US Dollars A\$'000	Euro A\$'000	Japanese Yen A\$'000	Other currencies A\$'000	Total A\$'000
<b>Assets</b>						
Cash and cash equivalents	26,052	3,115	132	28	245	29,572
Receivables	1,131	-	-	-	-	1,131
Financial assets held at fair value through profit or loss						
Held for trading						
Futures	304	2,800	77	-	1,155	4,336
Designated at fair value through profit or loss						
Unlisted equities	1,915	-	-	-	-	1,915
Unlisted unit trusts	16,882	-	-	-	-	16,882
<b>Total assets</b>	<b>46,284</b>	<b>5,915</b>	<b>209</b>	<b>28</b>	<b>1,400</b>	<b>53,836</b>
<b>Liabilities</b>						
Distributions payable	720	-	-	-	-	720
Payables	58	-	-	-	-	58
Financial liabilities held at fair value through profit or loss						
Held for trading						
Futures	406	1,420	116	5	1,359	3,306
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>1,184</b>	<b>1,420</b>	<b>116</b>	<b>5</b>	<b>1,359</b>	<b>4,084</b>
<b>Net assets attributable to unitholders</b>	<b>45,100</b>	<b>4,495</b>	<b>93</b>	<b>23</b>	<b>41</b>	<b>49,752</b>



## 11 Financial risk management (continued)

### (b) Market risk (continued)

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

##### Controlled trusts

30 June 2016	Australian Dollars A\$'000	US Dollars A\$'000	Euro A\$'000	Japanese Yen A\$'000	Other currencies A\$'000	Total A\$'000
<b>Assets</b>						
Cash and cash equivalents	34,485	(3,360)	1,366	472	714	33,677
Receivables	3,871	-	-	-	-	3,871
Financial assets held at fair value through profit or loss						
Held for trading						
Futures	583	4,931	1,108	7	1,137	7,766
Designated at fair value through profit or loss						
Unlisted equities	1,880	-	-	-	-	1,880
Unlisted unit trusts	21,034	-	-	-	-	21,034
<b>Total assets</b>	<b>61,853</b>	<b>1,571</b>	<b>2,474</b>	<b>479</b>	<b>1,851</b>	<b>68,228</b>
<b>Liabilities</b>						
Distributions payable	2,897	-	-	-	-	2,897
Payables	-	-	-	-	-	-
Financial liabilities held at fair value through profit or loss						
Held for trading						
Futures	402	4,937	149	320	726	6,534
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>3,299</b>	<b>4,937</b>	<b>149</b>	<b>320</b>	<b>726</b>	<b>9,431</b>
<b>Net assets attributable to unitholders</b>	<b>58,554</b>	<b>(3,366)</b>	<b>2,325</b>	<b>159</b>	<b>1,125</b>	<b>58,797</b>

At 30 June 2017, had the Australian dollar weakened/strengthened as illustrated below against the various currencies to which the controlled trusts are exposed, with all other variables held constant, the net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) would have changed by the following amounts, approximately and respectively:

	AUD Weakened Increase/(decrease) in net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders)		AUD Strengthened Increase/(decrease) in net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders)	
	30 June 2017 \$'000	30 June 2016 \$'000	30 June 2017 \$'000	30 June 2016 \$'000
<b>Controlled trusts</b>				
5% AUD to foreign currency (2016:5%)	49	2	(44)	(3)

The possible impact against other currencies is considered immaterial individually and therefore has not been included in the above table. The analysis is performed on the same basis for 2017 and 2016.

## 11 Financial risk management (continued)

### (b) Market risk (continued)

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

#### (iii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's and controlled trusts' interest-bearing financial assets and financial liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Fund and controlled trusts have established limits on investments in interest-bearing assets, which are monitored on a daily basis. The controlled trusts may use derivatives to hedge against unexpected increases in interest rates and/or multiple rollover dates for debt instruments to manage repricing risk. The interest rate risk is measured using sensitivity analysis.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's and controlled trusts' overall interest sensitivity on a regular basis. This information and the compliance with the Fund's policy are reported to the relevant parties on a regular basis as deemed appropriate such as the compliance manager, other key management personnel, compliance committees and ultimately the Board.

The Fund and controlled trusts have direct exposure to interest rate changes on the valuation and cash flows of its interest bearing assets and liabilities. However, it may also be indirectly affected by the impact of interest rate changes on the earnings of certain entities in which the Fund invests and impact on the valuation of certain assets that use interest rates as an input in their valuation model. Therefore, the sensitivity analysis may not fully indicate the total effect on the Fund's and controlled trusts' net assets attributable to unitholders of future movements in interest rates.

The table below summarises the Fund's and controlled trusts' exposure to interest rate risks. It includes the Fund's assets and liabilities at fair values, categorised by the maturity dates:

#### Fund

		Fixed interest rate					
	Floating interest rate	3 months or less	4 to 12 months	1 to 5 years	Over 5 years	Non- interest bearing	Total
30 June 2017	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>							
Cash and cash equivalents	362	-	-	-	-	-	362
Receivables	-	-	-	-	-	1,257	1,257
Financial assets held at fair value through profit or loss							
Designated as at fair value through profit and loss							
Unlisted unit trusts	-	-	-	-	-	48,669	48,669
<b>Total assets</b>	<b>362</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49,926</b>	<b>50,288</b>
<b>Liabilities</b>							
Distributions payable	-	-	-	-	-	946	946
Payables	-	-	-	-	-	650	650
<b>Total liabilities</b> (excluding net assets attributable to unitholders)	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,596</b>	<b>1,596</b>
<b>Net assets attributable to unitholders</b>	<b>362</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>48,330</b>	<b>48,692</b>

## 11 Financial risk management (continued)

### (b) Market risk (continued)

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

Fund

		Fixed interest rate					
	Floating interest rate	3 months or less	4 to 12 months	1 to 5 years	Over 5 years	Non- interest bearing	Total
30 June 2016	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>							
Cash and cash equivalents	285	-	-	-	-	-	285
Receivables	-	-	-	-	-	2,936	2,936
Financial assets held at fair value through profit or loss							
Designated as at fair value through profit and loss							
Unlisted unit trusts	-	-	-	-	-	58,797	58,797
<b>Total assets</b>	<u>285</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>61,733</u>	<u>62,018</u>
<b>Liabilities</b>							
Distributions payable	-	-	-	-	-	2,064	2,064
Payables	-	-	-	-	-	83	83
Total liabilities (excluding net assets attributable to unitholders)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,147</u>	<u>2,147</u>
<b>Net assets attributable to unitholders</b>	<u>285</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>59,586</u>	<u>59,871</u>

## 11 Financial risk management (continued)

### (b) Market risk (continued)

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

##### Controlled trusts

30 June 2017	Floating interest rate \$'000	Fixed interest rate				Non- interest bearing \$'000	Total \$'000
		3 months or less \$'000	4 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000		
<b>Assets</b>							
Cash and cash equivalents	19,282	10,290	-	-	-	-	29,572
Receivables	-	-	-	-	-	1,131	1,131
Financial assets held at fair value through profit or loss							
Held for Trading							
Futures	2,143	-	-	-	-	2,193	4,336
Designated as at fair value through profit and loss							
Unlisted equities	-	-	-	-	-	1,915	1,915
Unlisted unit trusts	-	-	-	-	-	16,882	16,882
<b>Total assets</b>	<u>21,425</u>	<u>10,290</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,121</u>	<u>53,836</u>
<b>Liabilities</b>							
Distributions payable	-	-	-	-	-	720	720
Payables	-	-	-	-	-	58	58
Financial liabilities held at fair value through profit or loss							
Held for Trading							
Futures	2,179	-	-	-	-	1,127	3,306
<b>Total liabilities</b> (excluding net assets attributable to unitholders)	<u>2,179</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,905</u>	<u>4,084</u>
<b>Net assets attributable to unitholders</b>	<u>19,246</u>	<u>10,290</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,216</u>	<u>49,752</u>

## 11 Financial risk management (continued)

### (b) Market risk (continued)

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

Controlled trusts

30 June 2016	Floating interest rate \$'000	3 months or less \$'000	4 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Non- interest bearing \$'000	Total \$'000
<b>Assets</b>							
Cash and cash equivalents	16,772	16,905	-	-	-	-	33,677
Receivables	-	-	-	-	-	3,871	3,871
Financial assets held at fair value through profit or loss							
Held for Trading							
Futures	3,968	-	-	-	-	3,798	7,766
Designated as at fair value through profit and loss							
Unlisted Equities	-	-	-	-	-	1,880	1,880
Unlisted unit trusts	-	-	-	-	-	21,034	21,034
<b>Total assets</b>	<b>20,740</b>	<b>16,905</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>30,583</b>	<b>68,228</b>
<b>Liabilities</b>							
Distributions payable	-	-	-	-	-	2,897	2,897
Payables	-	-	-	-	-	-	-
Financial liabilities held at fair value through profit or loss							
Held for Trading							
Futures	3,196	-	-	-	-	3,338	6,534
<b>Total liabilities (excluding net assets attributable to unitholders)</b>	<b>3,196</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6,235</b>	<b>9,431</b>
<b>Net assets attributable to unitholders</b>	<b>17,544</b>	<b>16,905</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>24,348</b>	<b>58,797</b>

At 30 June 2017, should interest rates have (decreased)/increased by the basis points indicated below, with all other variables held constant, the net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders) would have changed by the following amounts, approximately and respectively:

Fund	As at 30 June 2017		As at 30 June 2016	
	Increased by 25bps \$'000	Decreased by 25bps \$'000	Increased by 25bps \$'000	Decreased by 25bps \$'000
<b>Increase/(decrease) in net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders)</b>	<b>0.9</b>	<b>(0.9)</b>	<b>0.7</b>	<b>(0.7)</b>
Controlled trusts	As at 30 June 2017		As at 30 June 2016	
	Increased by 25bps \$'000	Decreased by 25bps \$'000	Increased by 25bps \$'000	Decreased by 25bps \$'000
<b>Increase/(decrease) in net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders)</b>	<b>(48)</b>	<b>48</b>	<b>(44)</b>	<b>44</b>

## 11 Financial risk management (continued)

### (c) Credit risk

Credit risk is the risk that primarily arises from deposits held with banks and other financial institutions and from trading derivative products.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. An analysis of exposures by rating is set out in the table below:

Fund	AA- \$'000	A \$'000	BBB+ \$'000	Total \$'000
<b>At 30 June 2017</b>				
Australian cash deposits	362	-	-	362
Total	362	-	-	362

Fund	AA- \$'000	A \$'000	BBB+ \$'000	Total \$'000
<b>At 30 June 2016</b>				
Australian cash deposits	285	-	-	285
Total	285	-	-	285

Controlled trusts	AA- \$'000	A \$'000	BBB+ \$'000	Total \$'000
<b>At 30 June 2017</b>				
Australian cash deposits	19,282	9,294	996	29,752
Total	19,282	9,294	996	29,752

Controlled trusts	AA- \$'000	A \$'000	BBB+ \$'000	Total \$'000
<b>At 30 June 2016</b>				
Australian cash deposits	16,772	7,510	9,385	33,667
Total	16,772	7,510	9,385	33,667

### (d) Concentrations of risk

Concentrations of risk arise when a number of financial instruments are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic conditions. These similarities would cause the counterparties' liabilities to meet the contractual obligations to be similarly affected by certain changes in the risk variables.

The concentrations of risk are monitored by the Investment Manager to ensure they are within acceptable limits by reducing the exposures or by other means as deemed appropriate.

Concentrations of risk are managed by industry sector for equity instruments and by counterparty for debt instruments and selected derivatives.

There were no significant concentrations of risk to any particular industry at 30 June 2017 and 30 June 2016.

## 11 Financial risk management (continued)

### (e) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. This risk is controlled through the Fund's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Fund maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Fund and controlled trusts may be exposed to daily cash redemptions of redeemable units and daily margin calls on derivatives. It therefore primarily holds investments that are traded in active markets and can be readily disposed of.

Investments may include listed securities that are considered readily realisable, as they are listed on recognised stock exchanges.

The Fund and controlled trusts may invest in investments in unlisted unit trusts that expose the Fund to the risk that the Fund or Investment Manager of those trusts may be unwilling or unable to fulfil the redemption requests within the timeframe requested by the Fund or controlled trusts.

The controlled trusts may, from time to time, invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the controlled trusts may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer. No such investments were held at the end of the reporting period.

The Fund's policy is to hold a significant proportion of its investments in liquid assets.

Under the terms of its Constitution, the Fund has the ability to manage liquidity risk by delaying redemptions to unitholders, if necessary, until the funds are available to pay them.

Units are redeemed on demand at the unitholder's option. However, the Board does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's and controlled trusts' liquidity position on a regular basis. This information and the compliance with the Fund's policy are reported to the relevant parties on a regular basis as deemed appropriate such as the compliance manager, other key management personnel, compliance committees and ultimately the Board.

The table below analyses the Fund's and controlled trusts' non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

## 11 Financial risk management (continued)

### (e) Liquidity risk (continued)

Fund	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	More than 12 months \$'000
<b>At 30 June 2017</b>				
Distributions payable	946	-	-	-
Payables	650	-	-	-
Net assets attributable to unitholders	<u>48,692</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total financial liabilities</b>	<u>50,288</u>	<u>-</u>	<u>-</u>	<u>-</u>

Fund	Less than 1 month \$	1-3 months \$	3-12 months \$	More than 12 months \$
<b>At 30 June 2016</b>				
Distributions payable	2,064	-	-	-
Payables	83	-	-	-
Net assets attributable to unitholders	<u>59,871</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total financial liabilities</b>	<u>62,018</u>	<u>-</u>	<u>-</u>	<u>-</u>

Controlled trusts	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	More than 12 months \$'000
<b>At 30 June 2017</b>				
Distributions payable	720	-	-	-
Payables	58	-	-	-
Held for trading - futures	(5)	(596)	(1,136)	(1,569)
Net assets attributable to unitholders	<u>49,752</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total financial liabilities</b>	<u>50,525</u>	<u>(596)</u>	<u>(1,136)</u>	<u>(1,569)</u>

Controlled trusts	Less than 1 month \$	1-3 months \$	3-12 months \$	More than 12 months \$
<b>At 30 June 2016</b>				
Distributions payable	2,897	-	-	-
Held for trading - futures	(427)	(2,049)	(2,761)	(1,297)
Net assets attributable to unitholders	<u>58,797</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total financial liabilities</b>	<u>61,267</u>	<u>(2,049)</u>	<u>(2,761)</u>	<u>(1,297)</u>



## 11 Financial risk management (continued)

### (e) Liquidity risk (continued)

The table below analyses the controlled trusts' derivative financial instruments into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	More than 12 months \$'000
<b>Controlled trusts</b>				
<b>At 30 June 2017</b>				
Futures				
- (Outflows)	(5)	(596)	(1,136)	(1,569)
- Inflows	<u>75</u>	<u>1,482</u>	<u>1,774</u>	<u>1,005</u>
	<u>70</u>	<u>886</u>	<u>638</u>	<u>(564)</u>
	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	More than 12 months \$'000
<b>Controlled trusts</b>				
<b>At 30 June 2016</b>				
- (Outflows)	(427)	(2,049)	(2,761)	(1,297)
- Inflows	<u>46</u>	<u>2,765</u>	<u>3,269</u>	<u>1,686</u>
	<u>(381)</u>	<u>716</u>	<u>508</u>	<u>389</u>

### (f) Estimation of fair values of financial assets and liabilities

The carrying amounts of all the Fund's financial assets and financial liabilities at the end of the reporting period approximated their fair values.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Fund's accounting policy on fair value measurement is set out in note 2(b). The methods and assumptions used in the determination of the fair value of each class of financial instruments are also set out in note 2(b).

Note 2(o) outlines further the nature of management's judgements, estimates and assumptions that might have been used in the determination of the fair values of these financial instruments.

#### Velocity Fund Investments

The Absolute Return Fund and the Real Return Fund held investments in the Velocity Fund on 1 July 2015. The responsible entity of the Velocity Fund ("Velocity Fund RE") issued a notification to unitholders that the Fund was to be wound up and realised cash distributed to unitholders however a number of unlisted and non liquid assets could not be realised. The Velocity Fund RE appointed Price Waterhouse Coopers to conduct a secondary market sale, which due to current market conditions, was unsuccessful and as a result these assets were valued at zero in the Velocity Fund June 2015 Financial Report. At a meeting in November 2015 the unitholders approved an in specie distribution of the non liquid shares to enable the Velocity Fund to be wound up. In June 2016 OMIFL received confirmation of the in specie distribution of the following unlisted and non liquid assets: Coal of Queensland Holdings Pty Ltd; One Asia Resources Limited; Ignite Energy Resources Limited and Ambre Energy Limited which were subsequently transferred and valued at zero value.

## 11 Financial risk management (continued)

### (g) Fair value hierarchy

The Fund is required to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); quoted prices for similar securities in active and/or inactive markets; market-corroborated inputs; inputs that are developed based on available market data and reflect assumptions that markets would use when pricing similar securities.
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgement by the Fund. The Fund considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Fund's and controlled trusts' financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at the reporting date.

All fair value measurements disclosed are recurring fair value measurements.

#### Fund

At 30 June 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
-----------------	-------------------	-------------------	-------------------	-----------------

#### Financial assets

Financial assets designated at fair value through profit or loss at inception:

Unlisted unit trusts	-	48,669	-	48,669
<b>Total</b>	<b>-</b>	<b>48,669</b>	<b>-</b>	<b>48,669</b>

#### Fund

At 30 June 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
-----------------	-------------------	-------------------	-------------------	-----------------

#### Financial assets

Financial assets designated at fair value through profit or loss at inception:

Unlisted unit trusts	-	58,797	-	58,797
<b>Total</b>	<b>-</b>	<b>58,797</b>	<b>-</b>	<b>58,797</b>

## 11 Financial risk management (continued)

### (g) Fair value hierarchy (continued)

#### Controlled trusts

At 30 June 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
-----------------	-------------------	-------------------	-------------------	-----------------

#### Financial assets

Financial assets held for trading:

Futures	4,336	-	-	4,336
---------	-------	---	---	-------

Financial assets designated at fair value through profit or loss at inception:

Unlisted equities	-	1,915	-	1,915
Unlisted unit trusts	-	16,882	-	16,882

<b>Total</b>	<b>4,336</b>	<b>18,797</b>	<b>-</b>	<b>23,133</b>
--------------	--------------	---------------	----------	---------------

#### Financial liabilities

Financial liabilities held for trading:

Futures	3,306	-	-	3,306
---------	-------	---	---	-------

<b>Total</b>	<b>3,306</b>	<b>-</b>	<b>-</b>	<b>3,306</b>
--------------	--------------	----------	----------	--------------

#### Controlled trusts

At 30 June 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
-----------------	-------------------	-------------------	-------------------	-----------------

#### Financial assets

Financial assets held for trading:

Futures	7,766	-	-	7,766
---------	-------	---	---	-------

Financial assets designated at fair value through profit or loss at inception:

Unlisted equities	-	1,880	-	1,880
Unlisted unit trusts	-	21,034	-	21,034

<b>Total</b>	<b>7,766</b>	<b>22,914</b>	<b>-</b>	<b>30,680</b>
--------------	--------------	---------------	----------	---------------

#### Financial liabilities

Held for trading:

Futures	6,534	-	-	6,534
---------	-------	---	---	-------

<b>Total</b>	<b>6,534</b>	<b>-</b>	<b>-</b>	<b>6,534</b>
--------------	--------------	----------	----------	--------------

The pricing for the majority of the Fund's and controlled trusts' investments is generally sourced from independent pricing sources, the relevant Investment Managers or reliable brokers' quotes.

Investments whose values are based on quoted market prices in active markets, e.g. recognised stock exchanges, and therefore classified within level 1, include active listed equities and exchange traded derivatives.

## 11 Financial risk management (continued)

### (g) Fair value hierarchy (continued)

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. The observable inputs include prices and/or those derived from prices. The level 2 instruments include bonds and over-the-counter derivatives.

Level 2 investments could include those that are not traded in active markets and/or are subject to transfer restrictions (e.g. redemption restrictions). Valuations for these investments may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information. Typically, prices of units in unlisted managed investment trusts that are either published on the relevant investment manager's website and/or circulated among market participants as executable quotes are categorised as level 2.

## 12 Offsetting financial assets and financial liabilities

None of the financial instruments are currently offset in the Statement of financial position. The disclosures set out in the tables below include financial assets and financial liabilities that are subject to enforceable master netting agreements (or similar) irrespective of whether they are offset:

### Controlled trusts

	Gross amounts	Gross amounts of recognised financial assets set off in the Statement of financial position	Net amounts of financial assets presented in Statement of financial position	Amounts subject to master netting agreements	Cash collateral	Marketable security collateral	Net amount
Financial assets - 30 June 2017	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Derivatives	4,336	-	4,336	3,306	-	-	1,030
Closing balance	4,336	-	4,336	3,306	-	-	1,030

	Gross amounts	Gross amounts of recognised financial liabilities set off in the Statement of financial position	Net amounts of financial liabilities presented in Statement of financial position	Amounts subject to master netting agreements	Cash collateral	Marketable security collateral	Net amount
Financial liabilities - 30 June 2017	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Derivatives	3,306	-	3,306	3,306	-	-	-
Closing balance	3,306	-	3,306	3,306	-	-	-

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

### Controlled trusts

	Gross amounts	Gross amounts of recognised financial assets set off in the Statement of financial position	Net amounts of financial assets presented in Statement of financial position	Amounts subject to master netting agreements	Cash collateral	Marketable security collateral	Net amount
Financial assets - 30 June 2016	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Derivatives	<u>7,766</u>	<u>-</u>	<u>7,766</u>	<u>6,503</u>	<u>-</u>	<u>-</u>	<u>1,263</u>
<b>Closing balance</b>	<u>7,766</u>	<u>-</u>	<u>7,766</u>	<u>6,503</u>	<u>-</u>	<u>-</u>	<u>1,263</u>
	Gross amounts	Gross amounts of recognised financial liabilities set off in the Statement of financial position	Net amounts of financial liabilities presented in Statement of financial position	Amounts subject to master netting agreements	Cash collateral	Marketable security collateral	Net amount
Financial liabilities - 30 June 2016	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Derivatives	<u>6,534</u>	<u>-</u>	<u>6,534</u>	<u>6,503</u>	<u>-</u>	<u>-</u>	<u>31</u>
<b>Closing balance</b>	<u>6,534</u>	<u>-</u>	<u>6,534</u>	<u>6,503</u>	<u>-</u>	<u>-</u>	<u>31</u>

The agreements, where relevant, could include derivative clearing agreements, global master repurchase agreements and others. Similar financial instruments could include derivatives, sale and repurchase agreements, reverse sale and repurchase agreements, securities lending agreements, short sales etc.

The International Swaps and Derivatives Association ("ISDA"), master netting agreements or similar agreements do not generally meet the criteria for offsetting. This is because they create a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the entity or the counterparties.

From time to time, the Fund may receive or pledge collateral which could be in the form of cash or marketable securities or both in respect of the above instruments. Such collateral, if transacted, is generally subject to the standard industry terms of ISDA's Credit Support Annex. This means that collateral received/pledged can be re-pledged or sold during the term of the transaction but have to be returned on maturity of the transaction. The terms also generally give each counterparty the right to terminate the related transactions on the counterparty's failure to post collateral.

## 13 Related party transactions

### Controlled trusts

Interests in controlled trusts are set out in note 9.

### Responsible Entity

The responsible entity of Blue Sky Alliance Fund is OMIFL.

### Key management personnel

#### (a) Directors/Company secretaries

Key management personnel includes persons who were directors and company secretaries of OMIFL during the reporting period.

#### (b) Other key management personnel

David Toohey up to 2 May 2016 and Simon Kitson, both authorised persons of the Investment Manager were considered key management personnel in light of authorities given under the investment management agreements entered into with the Responsible Entity.

Neil Power (appointed 6 March 2015) and James MacGinley (appointed 14 November 2016) were directors of the Investment Manager and are considered key management personnel.

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the reporting period.

### Key management personnel unitholdings

David Toohey who was associated with Blue Sky Investment Science Asset Management Pty Ltd up to 2 May 2016, the Investment Manager of Blue Sky Alliance Fund held units in the Blue Sky Alliance Fund up to 2 May 2016. Also, Denis and Margaret Toohey Superannuation Fund, a related party of David Toohey, held units in the Blue Sky Alliance Fund up to 2 May 2016. Simon Kitson holds units in the Blue Sky Alliance Fund through a related entity, Quadrant Dynamic Risk Allocation Pty Ltd. Neil Power and James MacGinley also hold units in the Blue Sky Alliance Fund.

As at 30 June 2017, the unit holdings of related parties are as follows:

30 June 2017 Unitholder	No. of units held opening (Units)	No. of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	No. of units acquired (Units)	No. of units disposed (Units)	Distributions paid/payable by the Fund (\$)
Neil Power	-	14,723	19,099	0.07	14,723	-	-
James MacGinley	-	15,717	20,388	0.07	15,717	-	-
Quadrant Dynamic Risk Allocation Pty Ltd	28,345	203,056	263,404	0.47	174,711	-	-
Total	28,345	233,496	302,891	0.61	205,151	-	-

### 13 Related party transactions (continued)

30 June 2016	No. of units held opening	No. of units held closing	Fair value of investment	Interest held	No. of units acquired	No. of units disposed	Distributions paid/payable by the Fund
Unitholder	(Units)	(Units)	(\$)	(%)	(Units)	(Units)	(\$)
David Patrick Toohey*	41,199	-	-	-	-	41,199	-
Toohey Superannuation Fund*	152,616	153,256	-	-	640	-	-
Denis & Margaret Toohey Superannuation Fund*	350,220	350,220	-	-	-	-	-
Quadrant Dynamic Risk Allocation Pty Ltd	28,345	28,345	40,198	0.054	-	-	-
	<u>572,380</u>	<u>531,821</u>	<u>40,198</u>	<u>0.054</u>	<u>640</u>	<u>41,199</u>	<u>-</u>

\* Until 2 May 2016

#### Key management personnel compensation

Key management personnel are not paid by the Fund. Payments made from the Fund to OMIFL do not include any amounts directly attributable to the compensation of key management personnel.

#### Key management personnel loan disclosures

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

#### Other transactions within the Fund

From time to time directors of the Responsible Entity or other related entities, may invest in or withdraw from the Fund. These investments or withdrawals are on the same terms and conditions as those entered into by other Fund investors.

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

#### Responsible Entity's/manager's fees and other transactions

Under the terms of the Fund's Constitution and the PDS for the Fund, management fees are payable monthly to the Investment Manager of 0.90% per annum (excluding GST) for the Absolute Return and Real Return unit classes and 1.10% per annum (excluding GST) for the Dynamic Macro unit class. Administration costs (including fees payable to the Responsible Entity) are paid separately and these expenses are capped at 0.35% per annum (excluding GST) for the Absolute Return and Real Return unit classes and 0.50% per annum (excluding GST) for the Dynamic Macro unit class. Both the management fees and the administration costs are calculated based on the net asset value of each class of units attributable to unitholders. The Investment Manager pays administration costs in excess of the expense cap.

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

	30 June 2017 \$'000	30 June 2016 \$'000
Management fees for the reporting period	<u>767</u>	<u>1,244</u>
Aggregate amounts payable at the end of the reporting period	<u>135</u>	<u>83</u>

### 13 Related party transactions (continued)

#### Responsible Entity's/manager's fees and other transactions (continued)

##### Other fees paid to related parties

The Responsible Entity has appointed third party service providers to the Fund, some of whom are related parties of the Responsible Entity. The following entities, which are associated parties of the Responsible Entity, have provided services to the Fund during the financial year ended 30 June 2017:

- ♦ Unity Tax Services Pty Limited (ACN 147 393 557) - taxation services \$16,548

The above service provider was either paid by the Fund as administration costs or as abnormal expenses.

No amounts were paid by the Fund directly to the key management personnel of OMIFL to the date of this report. Fee cap on expenses shortfall will be borne by the Investment Manager from the Investment Manager fee. If the shortfall is not paid, the Responsible Entity can seek payment from the Fund.

##### Unitholdings of related party entities

Blue Sky Alternatives Access Funds Limited is a related party entity of the Investment Manager and held units in the Blue Sky Alliance Fund as below:

30 June 2017 Unitholder	No. of units held opening (Units)	No. of units held closing (Units)	Fair value of investment \$	Interest held %	No. of units acquired (Units)	No. of units disposed (Units)	Distributions paid/payable by the Fund \$
Blue Sky Alternatives Access Funds Limited	3,808,653	-	-	-	-	3,808,653	-

30 June 2016 Unitholder	No. of units held opening (Units)	No. of units held closing (Units)	Fair value of investment \$	Interest held %	No. of units acquired (Units)	No. of units disposed (Units)	Distributions paid/payable by the Fund \$
Blue Sky Alternatives Access Funds Limited	5,079,864	3,808,653	5,401,432	7.299	6,873,631	8,144,842	-

##### Related party unitholdings

Parties related to the Fund (including OMIFL, its related parties and other Funds managed by OMIFL), hold no units in the Fund at the end of the reporting period, other than as disclosed above.

##### Investments

The Fund did not hold any investments in OMIFL or its related parties during the reporting period.



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

	For the reporting period ended	
	30 June	30 June
	2017	2016
	\$'000	\$'000
<b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Profit/(loss) for the reporting period attributable to unitholders	-	-
Increase/(decrease) in net assets attributable to unitholders	(3,286)	874
Proceeds from sale of financial instruments held at fair value through profit or loss	20,309	22,827
Purchase of financial instruments held at fair value through profit or loss	(10,447)	(19,691)
Distribution to unitholders	946	2,064
Net gains/(losses) on financial instruments held at fair value through profit or loss	2,258	(1,321)
Net change in receivables and other assets	2,194	(997)
Net change in payables and other liabilities	53	2
Reinvested income	(1,593)	(1,029)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>10,434</b>	<b>2,729</b>
<b>(b) Components of cash and cash equivalents</b>		
Cash as at the end of the reporting period as shown in the Statement of cash flows is reconciled to the Statement of financial position as follows:		
Cash and cash equivalents	362	285
	<u>362</u>	<u>285</u>
<b>(c) Non-cash financing activities</b>		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan		
	1,786	1,052
	<u>1,786</u>	<u>1,052</u>

#### 15 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the Statement of financial position as at 30 June 2017 or on the results and cash flows of the Fund for the reporting period ended on that date.

#### 16 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2017 and 30 June 2016.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 40 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 2017 and of its performance, as represented by the results of its operations and cash flows, for the reporting 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) the financial statements are in accordance with the Fund's Constitution.
- (d) 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.



Frank Tearle  
Director

Sydney  
25 September 2017

**BLUE SKY ALLIANCE FUND****ARSN 140 253 658****INDEPENDENT AUDITOR'S REPORT**

To unit holders of Blue Sky Alliance Fund:

**Opinion**

We have audited the financial report of Blue Sky Alliance Fund ("the Fund") which comprises the statement of financial position as at 30 June 2017, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors of the Responsible Entity's declaration for, Blue Sky Alliance Fund.

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

- (a) giving a true and fair view of the Fund's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

**Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("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 on 20 September 2017, would be in the same terms if given to the 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.

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

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Fund's directors' report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

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

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.

**HLB Mann Judd (NSW Partnership) ABN 34 482 821 289**

Level 19 207 Kent Street Sydney NSW 2000 Australia | Telephone +61 (0)2 9020 4000 | Fax +61 (0)2 9020 4190

Email: [mailbox@hlbnsw.com.au](mailto:mailbox@hlbnsw.com.au) | Website: [www.hlb.com.au](http://www.hlb.com.au)

Liability limited by a scheme approved under Professional Standards Legislation

**BLUE SKY ALLIANCE FUND**

**ARSN 140 253 658**

**INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

**Information Other than the Financial Report and Auditor's Report Thereon (continued)**

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard

**Responsibilities of the Directors for the Financial Report**

The directors of the Responsible Entity of the Fund are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the 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 have no realistic alternative but to do so.

**Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

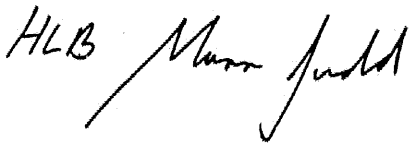
As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- 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.

**BLUE SKY ALLIANCE FUND****ARSN 140 253 658****INDEPENDENT AUDITOR'S REPORT (CONTINUED)**

We communicate with the directors of the Responsible Entity 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.

We also provide the directors of the Responsible Entity with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



**HLB Mann Judd**  
**Chartered Accountants**

**Sydney, NSW**  
**25 September 2017**



**M D Muller**  
**Partner**