

Intelligent Investor Australian Equity Income Fund

ARSN 620 031 414

Annual report

For the year ended 30 June 2023

For personal use only

Intelligent Investor Australian Equity Income Fund

ARSN 620 031 414

Annual report

For the year ended 30 June 2023

Contents	Page
Directors' report	2
Auditor's independence declaration	4
Statement of comprehensive income	5
Statement of financial position	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9
Directors' declaration	18
Independent auditor's report to the unit holders of Intelligent Investor Australian Equity Income Fund	19

This annual report covers Intelligent Investor Australian Equity Income Fund as an individual entity.

The Responsible Entity of Intelligent Investor Australian Equity Income Fund is InvestSMART Funds Management Ltd (ABN 62 067 751 759) (AFSL 246441).

The Responsible Entity's registered office is:
Suite 2, Level 2, 66 Clarence Street
Sydney, NSW 2000

Directors' report

The directors of InvestSMART Funds Management Ltd, the Responsible Entity of Intelligent Investor Australian Equity Income Fund (the "Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2023.

Principal activities

The Fund is an Australian registered managed investment scheme which was constituted on 6 July 2017, registered on 11 July 2017, commenced operations on 15 June 2018 and its units commenced trading on the Australian Securities Exchange (ASX: INIF) on 19 June 2018. The Fund is domiciled in Australia.

The Fund invests in a portfolio of between 10 and 35 Australian listed companies with market prices at material discounts to their estimated value in accordance with the Product Disclosure Statement ("PDS") and the Fund's Constitution.

The Fund did not have any employees during the year.

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

The various service providers for the Fund are detailed below:

Service	Provider
Responsible Entity	InvestSMART Funds Management Ltd
Investment Manager	Intelligent Investor Holdings Pty Limited
Custodian and Administrator	Apex Fund Services Pty Ltd (an Apex Group Company)*
Statutory Auditor	BDO Audit Pty Limited
Unit Registry	Link Market Services Ltd

*Effective on 21 October 2022, Mainstream Fund Services Pty Ltd changed its name to Apex Fund Services Pty Ltd.

Directors

The following persons held office as directors of InvestSMART Funds Management Ltd during the year or since the end of the year and up to the date of this report:

Alastair Davidson	Director
Peter Ron Hodge	Director
Andrew Ward	Director

Review and results of operations

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

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

	Year ended 30 June 2023	Year ended 30 June 2022
Operating profit/(loss) before finance costs attributable to unitholders (\$'000)	7,438	2,576
Distributions paid and payable (\$'000)	6,738	8,296
Distributions (cents per unit)	23.24	33.85

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 year ended 30 June 2023.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

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

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

Indemnification and insurance of officers

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

Directors' report (continued)

Indemnification of auditor

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

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

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in Note 15 to the financial statements.

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

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 15 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 7 to the financial statements.

The value of the Fund's assets and liabilities is disclosed on the statement of financial position and derived using the basis set out in Note 2 to the financial statements.

Environmental regulation

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

Rounding of amounts to the nearest thousand dollars

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

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of the directors of InvestSMART Funds Management Ltd.



Andrew Ward
Director

Sydney
20 September 2023

For personal use only

DECLARATION OF INDEPENDENCE BY TIM AMAN TO THE DIRECTORS OF INVESTSMART FUNDS
MANAGEMENT LTD AS THE RESPONSIBLE ENTITY OF INTELLIGENT INVESTOR AUSTRALIAN EQUITY
INCOME FUND

As lead auditor of Intelligent Investor Australian Equity Income Fund for the year ended 30 June 2023, I
declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in
relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.



Tim Aman
Director

BDO Audit Pty Ltd
Sydney
20 September 2023

Statement of comprehensive income

		Year ended 30 June 2023 \$'000	Year ended 30 June 2022 \$'000
Investment income	Note		
Interest revenue		103	-
Other income		20	22
Dividend and distribution income		3,610	3,132
Net gain/(loss) on financial instruments at fair value through profit or loss	5	4,621	261
Total investment income		8,354	3,415
Expenses			
Management fees	15	810	710
Transaction costs		101	126
Withholding tax on dividends		5	3
Total expenses		916	839
Profit/(loss) for the year		7,438	2,576
Other comprehensive income		-	-
Total comprehensive income/(loss)		7,438	2,576
Earnings/(loss) per unit for profit attributable to unit holders of the Fund			
Basic and diluted gain/(loss) per unit (cents)	9	25.82	10.69

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

For personal use only

Statement of financial position

	Note	As at 30 June 2023 \$'000	As at 30 June 2022 \$'000
Assets			
Cash and cash equivalents	10	11,376	14,633
Receivables	11	148	253
Financial assets at fair value through profit or loss	6	<u>70,415</u>	<u>56,748</u>
Total assets		<u>81,939</u>	<u>71,634</u>
Liabilities			
Payables	12	199	69
Distribution payable	8	<u>4,989</u>	<u>7,736</u>
Total liabilities		<u>5,188</u>	<u>7,805</u>
Net assets attributable to unit holders – equity	7	<u>76,751</u>	<u>63,829</u>

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

For personal use only

Statement of changes in equity

		Year ended 30 June 2023 \$'000	Year ended 30 June 2022 \$'000
	Note		
Total equity at the beginning of the financial year		63,829	45,909
Profit/(loss) for the year		7,438	2,576
Other comprehensive income		-	-
Total comprehensive income/loss		7,438	2,576
Transactions with unit holders			
Applications	7	15,690	31,279
Redemptions	7	(5,880)	(7,821)
Reinvestment of distributions	13(b)	2,412	182
Distributions to unit holders	7	(6,738)	(8,296)
Total transactions with unit holders		5,484	15,344
Total equity at the end of the financial year		76,751	63,829

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

For personal use only

Statement of cash flows

	Year ended 30 June 2023 \$'000	Year ended 30 June 2022 \$'000
Note		
Cash flows from operating activities		
Proceeds from sale of financial instruments at fair value through profit or loss	19,797	32,412
Purchase of financial instruments at fair value through profit or loss	(28,843)	(46,728)
Interest income received	80	-
Other income received	18	18
Dividends and distributions received	3,597	3,115
Management fees paid	(802)	(690)
Transaction cost paid	(101)	(126)
Net cash inflow/(outflow) from operating activities	(6,254)	(11,999)
13(a)		
Cash flows from financing activities		
Proceeds from applications by unit holders	18,240	31,248
Payments for redemptions by unit holders	(5,758)	(7,809)
Distributions paid	(9,485)	(799)
Net cash inflow/(outflow) from financing activities	2,997	22,640
Net increase/(decrease) in cash and cash equivalents		
	(3,257)	10,641
Cash and cash equivalents at the beginning of the year	14,633	3,992
Cash and cash equivalents at the end of the year	11,376	14,633
10		
Non-cash operating and financing activities	2,412	182
13(b)		

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

For personal use only

1 General information

These financial statements cover Intelligent Investor Australian Equity Income Fund (the "Fund") as an individual entity. The Fund is an Australian registered managed investment scheme which was constituted on 6 July 2017, registered on 11 July 2017 and its units commenced trading on the Australian Securities Exchange (ASX: INIF) on 19 June 2018. The Fund is domiciled in Australia.

The Responsible Entity of the Fund is InvestSMART Funds Management Ltd (ABN 62 067 751 759) (AFSL 246441) (the "Responsible Entity"). The Responsible Entity's registered office is Suite 2, Level 2, 66 Clarence Street, Sydney, NSW 2000. These financial statements are presented in Australian dollars.

The Fund aims to invest in a portfolio of Australian listed companies in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

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

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the year presented, unless otherwise stated in the following text.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* in Australia.

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

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

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within 12 months, except for investments in financial assets.

The Fund manages financial assets at fair value through profit or loss based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within 12 months, however, an estimate of that amount cannot be determined as at reporting date.

In the case of net assets attributable to unit holders, the units are redeemable on demand at the unit holder's option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within 12 months cannot be reliably determined.

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

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

(ii) Adoption of New and Revised Accounting standards

The Fund has adopted all of the new and revised standards and interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting period. The adoption of new and revised standards and interpretations has not had a material impact on the Fund. Any other new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Fund.

(b) Financial instruments

(i) Classification

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

- Financial assets

The Fund classifies its investments based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Fund's portfolio of financial assets is managed and performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

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

(ii) Recognition/derecognition

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

Investments are derecognised when the right to receive cash flows from the investments has expired or the Fund has transferred substantially all risks and rewards of ownership.

(iii) Measurement

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

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

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Measurement (continued)

- Financial assets and liabilities at fair value through profit or loss (continued)

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise. The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets and liabilities is the last bid price for financial assets and the last offer price for financial liabilities.

(iv) Impairment

At each reporting date, the Fund shall measure the loss allowance on financial assets at amortised cost (cash, due from broker and receivables) at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counter party, probability that the counter party will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

The Fund considers a financial asset to be in default when internal or external information indicates that the Fund is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Fund. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

(c) Net assets attributable to unit holders

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

The units can be put back to the Fund at any time for cash based on the redemption price. The units are carried at the redemption amount that is payable at balance sheet date if the holder exercises the right to put them back to the Fund.

The attribution managed investment trust regime ("AMIT") allows managed investment Trust ("MITs") to make an irrevocable choice to be an AMIT. The Fund adopted AMIT from 1 July 2019. Under AMIT income is attributed to unitholders on a fair and reasonable basis, as determined by the Responsible Entity.

Units are classified as equity when they satisfy the following criteria under AASB 132 *Financial instruments: Presentation*:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Fund's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund, and is not a contract settled in the Fund's own equity;
- the total expected cash flows attributable to the instrument over the life of the instrument are based substantially on the profit or loss, the change in the recognised net assets or the change in the fair value of the recognised and unrecognised net assets of the entity over the life of the instrument (excluding any effects of the instrument).

Having satisfied all the above criteria, the Fund's units were classified as equity at 30 June 2023 and 30 June 2022.

(d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include 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.

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

(e) Investment income

(i) Interest revenue

Interest revenue on cash and cash equivalents is recognised in the statement of comprehensive income on an accruals basis.

(ii) Dividends and distributions

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

Trust distributions are recognised on an entitlement basis.

(f) Expenses

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

(g) Income tax

Under current legislation, the Fund is not subject to income tax as unit holders are presently entitled to the income of the fund.

2 Summary of significant accounting policies (continued)

(h) Distributions

In accordance with the Fund Constitution, the Fund distributes income adjusted for amounts determined by the Responsible Entity, to unit holders by cash or reinvestment. The distributions are recognised in the statement of changes in equity.

(i) Increase/decrease in net asset attributable to unit holders

Income not distributed is included in net assets attributable to unit holders. Movements in net assets attributable to unit holders are recognised in the statement of equity.

(j) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by period end. Trades are recorded on trade date, and normally settled within two business days. For information on how impairment is assessed please refer to Note 2 (b)(iv).

(k) Receivables and accrued income

Receivables may include amounts for dividends, interest and trust distributions. 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. Amounts are generally received within 30 days of being recorded as receivables. For information on how impairment is assessed please refer to Note 2 (b)(iv).

(l) Payables

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

As the Fund has a contractual obligation to distribute its distributable income, a separate distribution payable is recognised in the statement of financial position as at the end of each reporting period where this amount remains unpaid as at the end of the reporting period.

(m) Applications and redemptions

Applications received for units in the Fund are recorded at the application value received prior to the issue of units in the Fund. Redemptions from the Fund are recorded at redemption value payable after the cancellation of units redeemed.

(n) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as investment management fees and transaction costs have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of 55% or 75%; hence all expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the balance sheet. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

(o) Rounding of amounts

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

(p) Use of estimates

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

The Fund's financial assets and liabilities are not subject to significant judgement or complexity. Investments are in listed equities valued using independent pricing sources and cash and cash equivalents are held with financial institutions with a rating of AA or higher. Where listed equities have no active market fair value is determined with reference to external observable information.

3 Financial risk management

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

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

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

(a) Market risk

(i) Price risk

The Fund is exposed to price risk on equity securities listed or quoted on recognised securities exchanges. Price risk arises from investments held by the Fund for which prices in the future are uncertain.

Price risk is mitigated through diversification and a careful selection of securities within specified limits. The Fund's overall market positions and compliance with exposure limits and guidelines is monitored on a daily basis by the Investment Manager and reported to the Investment Committee. Compliance with the PDS and the Fund Constitution is reported to the Responsible Entity Compliance Committee and, ultimately, the Board.

The table at Note 3(b) summarises the sensitivities of the Fund's assets and liabilities to price risk. The analysis is based on the assumption that the equities in which the Fund invests moves by +/- 15% (2022: +/-15%).

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Currency risk

The Fund had no direct foreign exchange risk as at 30 June 2023.

(iii) Interest rate risk

Interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates. The amount of cash held by the Fund may vary dependent upon the judgement of the Investment Manager and the level of recent capital flows into and out of the fund. At reporting date an increase of 100 basis points in floating interest rates would increase the Fund's operating profit and net assets attributable to unitholders by \$112,771 annually (2022: \$147,943). A decrease of 100 basis points in floating interest rates would have an equal but opposite effect. The Fund does not have borrowings or other financial assets or liabilities with direct exposure to changes in interest rates.

(iv) Market making risk

The Responsible Entity, on behalf of the Fund, provides liquidity to investors by acting as a buyer and seller of the Funds units on the ASX. Market making risk is the risk of an error in the execution or settlement of the underlying Fund units. The Responsible Entity, on behalf of the Fund, mitigates this risk by having the power to increase the spread at which it makes a market and the right to cease making a market (subject to its obligations under AQUA Rules and ASX Operating Rules). The Responsible Entity has appointed an independent market participant to act as its agent to transact and facilitate settlement on its behalf.

(b) Summarised sensitivity analysis

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

	Impact on operating profit before finance costs attributable to unitholders/net assets attributable to unit holders	
	Price risk -15% \$'000	Price risk 15% \$'000
As at 30 June 2023	(10,562)	10,562
As at 30 June 2022	(8,512)	8,512

(c) Credit risk

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

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

(i) Settlement of securities transactions

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

(ii) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have at least a rating of AA.

(iii) Other

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

(d) Liquidity risk

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

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

Liquidity risk is mitigated by holding investments listed on the ASX and maintaining sufficient cash and reserves to meet its normal operating requirements.

In order to manage the Fund's overall liquidity, the Responsible Entity has the discretion to reject an application for units and to defer or adjust redemption of units if the exercise of such discretion is in the best interests of unit holders. The Fund did not reject or withhold any redemptions during 2023 and 2022.

For personal use only

3 Financial risk management (continued)

(d) Liquidity risk (continued)

(i) Maturities of non-derivative financial liabilities

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

	Less than 1 month \$'000	1 to 6 months \$'000	6 to 12 months \$'000	Over 12 months \$'000	Total \$'000
As at 30 June 2023					
Payables	199	-	-	-	199
Distribution payable	4,989	-	-	-	4,989
Contractual cash flows (excluding derivatives)	<u>5,188</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,188</u>
As at 30 June 2022					
Payables	69	-	-	-	69
Distribution payable	7,736	-	-	-	7,736
Contractual cash flows (excluding derivatives)	<u>7,805</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,805</u>

Distributions payable includes amounts that are reinvested under the dividend reinvestment plan (DRP) subsequent to year end. The amount reinvested in units under the DRP in July 2023 is \$1,135,872 (2022: \$2,042,207).

4 Fair value measurement

The Fund measures and recognises financial assets and liabilities held at fair value through profit or loss on a recurring basis. The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(a) Fair value in an active market (level 1)

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

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

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

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

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

(b) Recognised fair value measurements

The table below presents the Fund's financial assets and liabilities measured and recognised at fair value as at 30 June 2023 and 30 June 2022.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
As at 30 June 2023				
Financial assets				
Financial assets at fair value through profit or loss:				
Listed equity securities	70,415	-	-	70,415
Total financial assets	<u>70,415</u>	<u>-</u>	<u>-</u>	<u>70,415</u>
As at 30 June 2022				
Financial assets				
Financial assets at fair value through profit or loss:				
Listed equity securities	56,748	-	-	56,748
Total financial assets	<u>56,748</u>	<u>-</u>	<u>-</u>	<u>56,748</u>

(c) Transfer between levels

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

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

4 Fair value measurement (continued)

(d) Financial instruments not carried at fair value

The carrying value of receivables and payables are assumed to approximate their fair values.

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

5 Net gains/(losses) on financial instruments at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and liabilities at fair value through profit or loss:

	Year ended 30 June 2023 \$'000	Year ended 30 June 2022 \$'000
Financial assets		
Net realised gain/(loss) on financial assets at fair value through profit or loss	3,771	6,710
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	850	(6,449)
Net gain/(loss) on financial assets at fair value through profit or loss	4,621	261

6 Financial assets at fair value through profit or loss

	As at 30 June 2023 \$'000	As at 30 June 2022 \$'000
Fair value through profit or loss		
Listed equity securities	70,415	56,748
Total fair value through profit or loss	70,415	56,748
Total financial assets at fair value through profit or loss	70,415	56,748

7 Net assets attributable to unit holders

Under AASB 132 *Financial Instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Fund shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions set out in Note 2(c).

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

	Year ended 30 June 2023		Year ended 30 June 2022	
	Units '000	\$'000	Units '000	\$'000
Opening balance	24,474	63,829	16,326	45,909
Applications	5,536	15,690	10,719	31,279
Redemptions	(1,994)	(5,880)	(2,631)	(7,821)
Reinvestment of distributions	906	2,412	60	182
Distributions paid and payable	-	(6,738)	-	(8,296)
Profit/(loss) for the year	-	7,438	-	2,576
Closing balance	28,922	76,751	24,474	63,829

Distributions payable includes amounts that are reinvested under the dividend reinvestment plan (DRP) subsequent to year end. The amount reinvested in units under the DRP in July 2023 is \$1,135,872 (2022: \$2,042,207).

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

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

Units are redeemed on demand at the unit holder's option. However, holders of these instruments typically retain them for the medium to long term. As such amounts expected to be settled within 12 months cannot be reliably determined.

Capital risk management

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

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

8 Distributions to unit holders

The distributions declared during the year were as follows:

Distributions	Year ended 30 June 2023		Year ended 30 June 2022	
	\$'000	CPU	\$'000	CPU
December	1,749	5.99	560	2.24
June (payable)	4,989	17.25	7,736	31.61
Total distributions	6,738	23.24	8,296	33.85

Distributions payable includes amounts that are reinvested under the dividend reinvestment plan (DRP) subsequent to year end. The amount reinvested in units under the DRP in July 2023 is \$1,135,872 (2022: \$2,042,207).

9 Earnings per unit

Earnings per unit amounts are calculated by dividing net profit/(loss) attributable to unit holders before distributions by the weighted average number of units outstanding during the year.

	Year ended 30 June 2023	Year ended 30 June 2022
Operating earnings/(loss) (\$'000)	7,438	2,576
Weighted average number of units on issue ('000)	28,811	24,095
Basic and diluted earnings per unit (cents)	25.82	10.69

As the fund has no potential dilutive units, basic and diluted EPU are equal.

10 Cash and cash equivalents

	As at 30 June 2023 \$'000	As at 30 June 2022 \$'000
Cash at bank	11,376	14,633
	11,376	14,633

11 Receivables

	As at 30 June 2023 \$'000	As at 30 June 2022 \$'000
Dividend receivable	74	66
Interest receivable	23	-
GST receivable	15	13
Applications receivable	36	174
Total receivables	148	253

12 Payables

	As at 30 June 2023 \$'000	As at 30 June 2022 \$'000
Management fees payable	65	57
Redemptions payable	134	12
Total payables	199	69

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

	Year ended 30 June 2023 \$'000	Year ended 30 June 2022 \$'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Operating profit/(loss) for the year	7,438	2,576
Proceeds from sale of financial instruments at fair value through profit or loss	19,797	32,412
Purchase of financial instruments at fair value through profit or loss	(28,843)	(46,728)
Net gains/(losses) on financial instruments at fair value through profit or loss	(4,621)	(261)
Net change in receivables	(33)	(18)
Net change in payables	8	20
Net cash inflow/(outflow) from operating activities	(6,254)	(11,999)

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

	Year ended 30 June 2023 \$'000	Year ended 30 June 2022 \$'000
(b) Non-cash operating and financing activities		
The following purchases of investments were satisfied by the participation in dividend and distribution reinvestment plans.	2,412	182
Total non-cash operating and financing activities	2,412	182

As described in Note 2(i), income not distributed is included in net assets attributable to unit holders.

14 Remuneration of auditor

	Year ended 30 June 2023 \$	Year ended 30 June 2022 \$
BDO Audit Pty Limited		
<i>Audit and other assurance services</i>		
Audit and review of financial statements	-	-
Audit of compliance plan	-	-
Total remuneration for audit and other assurance services	-	-
Total remuneration	-	-

BDO Audit Pty Ltd received audit fees for the audit of schemes issued by InvestSMART Funds Management Limited, the Group audit of InvestSMART Group Ltd and assurance services for InvestSMART Group Ltd Australian Financial Services Licensees. The fees for these services are not broken down as they are bundled. Refer to the InvestSMART Group Ltd annual report for further information.

15 Related party transactions

The Responsible Entity of the Fund is InvestSMART Funds Management Ltd, a wholly owned subsidiary of InvestSMART Group (ABN 6211172359). Accordingly, transactions with entities related to InvestSMART Funds Management Ltd are disclosed below.

The Responsible Entity has contracted services to Intelligent Investor Holdings Pty Limited, a wholly owned subsidiary of InvestSMART Group (ABN 6211172359) to act as Investment Manager for the Fund. The contracts are on normal commercial terms and conditions.

(a) Key management personnel

The Responsible Entity is regarded to be the key management personnel of the Fund.

(i) Directors

Key management personnel include persons who were directors of InvestSMART Funds Management Ltd at any time during or since the end of the financial year and up to the date of this report.

Alastair Davidson
Peter Ron Hodge
Andrew Ward

(b) Key management personnel unit holdings

Key management personnel held the following units at year end:

Unit holder	Number of units held opening	Number of units held closing	Fair value of investment \$	Interest held %	Number of units acquired	Number of units disposed	Distributions paid/payable by the Fund \$
As at 30 June 2023							
Alastair Davidson	14,691	16,801	44,786	0.06	2,110	-	8,528
Andrew Ward	8,106	9,269	24,708	0.03	1,163	-	3,664
Ron Hodge	17,293	-	-	0.00	2,088	19,381	5,466
As at 30 June 2022							
Alastair Davidson	14,499	14,691	38,448	0.06	192	-	5,217
Andrew Ward	7,007	8,106	21,214	0.03	1,099	-	1,843
Ron Hodge	-	17,293	45,258	0.07	17,293	-	5,466

(d) Key management personnel compensation

Key management personnel are paid by InvestSMART Group Limited. Payments made from the Fund to InvestSMART Funds Management Ltd do not include any amounts directly attributable to the compensation of key management personnel.

(e) Key management personnel loans

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

For personal use only

15 Related party transactions (continued)

(f) Other transactions within the Fund

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

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

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

During the year ended 30 June 2023, InvestSMART Funds Management Ltd received an all-inclusive management fee of 0.97% (2022:0.97%) of Net Asset Value (inclusive of GST, net of RITC available to the Fund).

	Year ended 30 June 2023 \$	Year ended 30 June 2022 \$
Investment management fees paid and payable	809,815	709,645
Total fees payable to the Responsible Entity at year end	65,012	57,414

All related party transactions are conducted on normal commercial terms and conditions.

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

(h) Related party unit holdings

Except for key management personnel unit holdings, parties related to the Fund (including InvestSMART Funds Management Ltd, its related parties and other schemes managed by InvestSMART LTD and the Investment Manager) held no units in the Fund as at 30 June 2023.

(i) Investments

The Fund did not hold any investments in InvestSMART Funds Management Ltd or its related parties during 2023 and 2022.

16 Events occurring after the reporting period

No significant events have occurred since the end of the year which would impact on the financial position of the Fund as disclosed in the statement of financial position as at 30 June 2023 or on the results and cash flows of the Fund for the year ended on that date.

17 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2023 and 30 June 2022.

For personal use only

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 5 to 17 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 2023 and of its performance for the financial year ended on that date.
- (b) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
- (c) Note 2(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors of InvestSMART Funds Management Ltd.



Andrew Ward
Director

Sydney
20 September 2023

For personal use only

INDEPENDENT AUDITOR'S REPORT

To the unitholders of Intelligent Investor Australian Equity Income Fund

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Intelligent Investor Australian Equity Income Fund (the Fund), which comprises the statement of financial position as at 30 June 2023, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) Giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of InvestSMART Funds Management Ltd, as the Responsible Entity of the Fund, 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of



our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Financial Assets

<i>Key audit matter</i>	<i>How the matter was addressed in our audit</i>
As at 30 June 2023 the Fund held financial assets of \$70,415,000, consisting of listed equity securities as disclosed in Note 6. Our focus in relation to this matter was to consider whether the financial assets were carried at fair value through profit or loss in accordance with Australian Accounting Standards. Due to the significant balance, this was considered to be of most importance to the audit and therefore determined to be a key audit matter.	To determine whether the carrying amount of financial assets held at fair value through profit or loss was appropriate at reporting date we undertook, amongst others, the following audit procedures: <ul style="list-style-type: none">• For each security we agreed the number of units held to information provided directly by the custodian;• Agreed market value to independently sourced market prices; and• Ensured the adequacy of the disclosures relating to the assets within the financial report against the requirements of the Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information in the Fund's annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Responsibilities of the directors for the Financial Report

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



In preparing the financial report, the directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd

BDO

A handwritten signature in black ink, appearing to read 'Tim Aman', is written over a horizontal line.

Tim Aman
Director

Sydney, 20 September 2023