

Schroder Real Return (Managed Fund)

ARSN 612 309 332

Annual report
for the year ended 30 June 2023

For personal use only

Schroder Real Return (Managed Fund)

ARSN 612 309 332

Annual Report for the year ended 30 June 2023

For personal use only

Contents

	Page
Directors' report	1
Auditor's independence declaration	4
Statement of comprehensive income	5
Balance sheet	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9
Directors' declaration	30
Independent auditor's report to the unitholders of Schroder Real Return (Managed Fund)	31

These financial statements cover Schroder Real Return (Managed Fund) as a registered managed investment scheme. The Responsible Entity of Schroder Real Return (Managed Fund) is Schroder Investment Management Australia Limited. The Responsible Entity's registered office is Level 20, 123 Pitt Street, Sydney NSW 2000.

Directors' report

The directors of Schroder Investment Management Australia Limited ("Schroders"), the Responsible Entity of Schroder Real Return (Managed Fund), present their report together with the financial statements of Schroder Real Return (Managed Fund) (the "Fund"), for the year ended 30 June 2023.

Principal activities

The Fund continued to invest funds in accordance with the provisions of the Fund Constitution and the Product Disclosure Statement (PDS).

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.

Directors

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

S Doyle

R Mellor-Bessant

N Goldsmith (appointed on 28 February 2023)

N Morcos (appointed on 27 June 2023)

R Macken (appointed on 24 July 2023)

M W Conlon (resigned on 28 February 2023)

M Trinh (resigned on 28 February 2023)

J Soon (appointed on 28 February 2023, resigned on 9 March 2023)

S Hallinan (resigned on 19 June 2023)

This report is made in accordance with resolution of the Directors.

Review and results of operations

In the opinion of the directors, there were no significant changes to the Fund's investment strategy. The investment policy of the Fund continues to be in accordance with the provisions of the Fund Constitution and the PDS.

Results

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

	Year ended	
	30 June 2023	30 June 2022
Operating profit (\$'000)	<u>2,606</u>	<u>(3,557)</u>
<i>Distributions</i>		
Distributions paid and payable (\$'000)	<u>2,774</u>	<u>1,954</u>

Directors' report (continued)

Significant changes in state of affairs

Market disruptions associated with current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect asset values and thus the performance of the Fund. Management is continuing to monitor this development and evaluate its impact on the Fund.

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

Matters subsequent to the end of the financial year

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

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 Constitution and the PDS.

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.

Indemnity 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 Schroders or the auditors of the Fund. So long as the officers of Schroders act in accordance with the Fund 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. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

Fees paid to and interests held in the Fund by Schroders or its associates

Fees paid to Schroders and its associates out of the Fund's property during the year are disclosed in Note 16 to the financial statements.

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

The number of interests in the Fund held by Schroders or its associates as at the end of the financial year are also disclosed in Note 16 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 11 to the financial statements.

The value of the Fund's assets and liabilities is disclosed on the balance sheet 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 a 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.


For personal use only

Directors' report (continued)

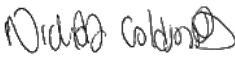
Auditor's independence declaration

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.

Director 

S Doyle

Director 

N Goldsmith

Sydney

28 September 2023

For personal use only



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Schroder Investment Management Australia Limited, the
Responsible Entity of Schroder Real Return (Managed Fund)

I declare that, to the best of my knowledge and belief, in relation to the audit of Schroder Real Return (Managed Fund) for the year ended 30 June 2023 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

K Hopkins

Karen Hopkins
Partner

Sydney
28 September 2023

For personal use only

Statement of comprehensive income

	Note	Year ended	
		30 June 2023 \$'000	30 June 2022 \$'000
Investment income			
Interest income from financial assets at fair value through profit or loss		460	176
Dividend income		425	414
Distribution income		1,084	943
Net gain/(loss) on financial instruments at fair value through profit or loss		1,167	(4,563)
Other operating income		<u>13</u>	<u>-</u>
Total net investment income/(expense)		<u>3,149</u>	<u>(3,030)</u>
Expenses			
Responsible Entity's fees	16	469	462
Custody fees		43	39
Transaction costs		29	23
Other operating expenses		<u>2</u>	<u>3</u>
Total operating expenses		<u>543</u>	<u>527</u>
Operating profit/(loss)		<u>2,606</u>	<u>(3,557)</u>
Profit/(Loss) for the year		2,606	(3,557)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u><u>2,606</u></u>	<u><u>(3,557)</u></u>

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

For personal use only

Balance sheet

		As at	
		30 June 2023	30 June 2022
	Note	\$'000	\$'000
Assets			
Cash and cash equivalents	13	2,465	3,292
Margin accounts		900	1,327
Receivables		27	41
Accrued income		107	78
Due from brokers - receivable for securities sold		2	2,172
Financial assets at fair value through profit or loss	6	<u>56,334</u>	<u>58,452</u>
Total assets		<u>59,835</u>	<u>65,362</u>
Liabilities			
Margin accounts		-	150
Distribution payable	12	1,342	961
Payables		65	564
Due to brokers - payable for securities purchased		2	-
Financial liabilities at fair value through profit or loss	7	<u>500</u>	<u>651</u>
Total liabilities		<u>1,909</u>	<u>2,326</u>
Net assets attributable to unitholders - Equity		<u>57,926</u>	<u>63,036</u>

The above balance sheet should be read in conjunction with the accompanying notes.

For personal use only

Statement of changes in equity

	Notes	Year ended	
		30 June 2023 \$'000	30 June 2022 \$'000
Total equity at the beginning of the financial year		63,036	50,168
Comprehensive income for the year			
Profit/(Loss) for the year	11	2,606	(3,557)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		2,606	(3,557)
Transactions with unitholders			
Applications	11	7,151	26,942
Redemptions	11	(12,093)	(8,563)
Distributions paid and payable	12	(2,774)	(1,954)
Total transactions with unitholders		(7,716)	16,425
Total equity at the end of the financial year	11	<u>57,926</u>	<u>63,036</u>

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

For personal use only

Statement of cash flows

	Note	Year ended	
		30 June 2023 \$'000	30 June 2022 \$'000
Cash flows from operating activities			
Proceeds from sale of financial instruments at fair value through profit or loss		87,103	58,919
Purchase of financial instruments at fair value through profit or loss		(81,410)	(74,355)
Transaction costs		(29)	(23)
Dividends received		431	403
Distributions received		912	789
Interest received		423	155
Other income received		16	-
Responsible Entity's fees paid		(472)	(453)
Payment of other expenses		(45)	(46)
Net cash inflow/(outflow) from operating activities	14	<u>6,929</u>	<u>(14,611)</u>
Cash flows from financing activities			
Proceeds from applications by unitholders		7,164	26,911
Payments for redemptions by unitholders		(12,589)	(8,039)
Distributions paid from operating activities		(2,393)	(1,871)
Net cash (outflow)/inflow from financing activities		<u>(7,818)</u>	<u>17,001</u>
Net (decrease)/increase in cash and cash equivalents		(889)	2,390
Cash and cash equivalents at the beginning of the year		3,292	869
Effects of foreign currency exchange rate changes on cash and cash equivalents		62	33
Cash and cash equivalents at the end of the year	13	<u><u>2,465</u></u>	<u><u>3,292</u></u>

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 the Schroder Real Return (Managed Fund) (the "Fund") as a registered managed investment scheme. The Fund was constituted on 9 August, 2016.

The Responsible Entity of the Fund is Schroder Investment Management Australia Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 20, 123 Pitt Street, Sydney NSW 2000. The financial statements are presented in the Australian currency.

There were no significant changes to the Fund's investment strategy. The investment policy of the Fund continues to be in accordance with the provisions of the Fund Constitution and the Product Disclosure Statement (PDS).

The financial statements were authorised for issue by the directors on 28 September 2023. 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 years 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 and the *Corporations Act 2001* in Australia. The Fund is a for-profit unit trust 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 balance sheet 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 material balances are 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 each reporting period cannot be reliably determined.

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 balance sheet date.

In the case of net assets attributable to unitholders, the units are redeemed on demand at the unitholders' 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

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

(ii) New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2022 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

(iii) New standards, amendments and interpretations effective after 1 July 2022 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2022, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

(b) Financial instruments

(i) Classification

The Fund classifies its investments based on its business model for managing those financial instruments and the contractual cash flow characteristics of the financial instruments. The Fund's portfolio of financial instruments 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 instruments primarily on a fair value basis, with the supporting use of other related financial information.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Classification (continued)

Equity securities and derivatives are measured at fair value through profit or loss.

For debt securities, the contractual cash flows are solely payments of principal and interest, however they are neither held for collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, the debt securities are measured 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 instrument at its fair value. Custody transaction costs of financial instruments carried at fair value through profit or loss are expensed in the statement of comprehensive income.

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 or financial liabilities at fair value through profit or loss' category are presented in the statement of comprehensive income within net gains/(losses) on financial instruments at fair value through profit or loss in the period in which they arise.

Further details on how the fair values of financial instruments are determined are disclosed in Note 5 to the financial statements.

(iv) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Refer to Note 4 to the financial statements for further information.

(c) Net assets attributable to unit holders

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

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

The units are carried at the redemption amount that is payable at the balance sheet date if the holder exercises the right to put the unit back to the Fund. This amount represents the expected cash flows on redemption of these units.

Units are classified as equity when they satisfy the following criteria under AASB132 *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 it is not a contract settled in the Fund's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

For personal use only

2 Summary of significant accounting policies (continued)

(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.

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) Margin accounts

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

(f) Investment income

Interest income from financial assets at amortised cost is recognised on a time-proportionate basis using the effective interest method and includes interest from cash and cash equivalents.

Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities.

Dividend and distribution income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within dividend income and distribution income when the Fund's right to receive payments is established.

Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2(b) of the financial statements.

(g) Expenses

All expenses, including Responsible Entity's fees, are recognised in the statement of comprehensive income on an accruals basis.

(h) Income tax

Under current legislation, the Fund is not subject to income tax provided it attributes the entirety of its taxable income to unitholders.

(i) Distributions

Distributions are payable as set out in the Fund's Offer Document. Such distributions are determined by the Responsible Entity of the Fund. Distributable income includes capital gains arising from the disposal of financial assets and liabilities held for trading. Unrealised gains and losses on financial assets and liabilities held for trading that are recognised as income are transferred to net assets attributable to unitholders and are not assessable and distributable until realised. Capital losses are not distributed to unitholders but are retained to be offset against any realised capital gains.

For personal use only

2 Summary of significant accounting policies (continued)

(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 date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

Non monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in the statement of comprehensive income on a net basis within gains/(losses) on financial instruments at fair value through profit or loss.

(k) Due to/from brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund measures the loss allowance on amounts due from broker 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 measures the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the broker, probability that the broker 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.

(l) 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 payment in accordance with the policy set out in Note 2(f) above. Amounts are generally received within 30 days of being recorded as receivables.

(m) Payables

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

A separate distribution payable is recognised in the balance sheet as at the end of each reporting period where this amount remains unpaid.

(n) 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 rate payable after the cancellation of units redeemed.

(o) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services, 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.

For personal use only

2 Summary of significant accounting policies (continued)

(p) Use of estimates

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

For the majority of the Fund's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued based on independent valuations from third party pricing vendors. Where independent third party valuations are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity.

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to short-term nature of these financial instruments.

(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*, relating to the "rounding off" amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

3 Financial risk management

The Fund's activities 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. These risk disclosures have been prepared on the basis of the Fund's direct investments and not on a look through basis to investments held via interposed investments (if any).

Market disruptions associated with current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect asset values and thus the performance of the Fund. Management is continuing to monitor this development and evaluate its impact on the Fund.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Offer Document and seeks to achieve the Fund's investment objectives for the level of risk to which the Fund is exposed. The Fund may use derivative financial instruments to moderate and create certain risk exposures. Financial risk management is carried out by the investment management department of Schroders under policies approved by the Board of Directors of the Responsible Entity (the "Board").

Schroders uses different methods to measure different types of risks to which the Fund is exposed. Rating analysis and maturity analysis is used for credit risk and liquidity risk respectively. Sensitivity analysis is used for price risk, foreign exchange risk and interest rate risk. Schroders considers that using Value at Risk (VaR) which measures the level of risk within the portfolio provides a reasonable and objective assessment of the Fund's risk determinants.

(a) Market risk

(i) Price risk

The Fund is exposed to equity securities and derivative price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Where non-monetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates. The foreign exchange risk relating to non monetary assets and liabilities is a component of price risk and reflected in the price risk analysis below. Paragraph (ii) below sets out how this component of price risk is managed and measured. Investments are classified in the balance sheet as at fair value through profit or loss. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments as at 30 June 2023 and 30 June 2022.

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Price Risk (continued)

At 30 June, the Fund's overall exposure to securities which are subject to price risk including notional exposure on derivative contracts was as follows:

	30 June 2023 \$'000	30 June 2022 \$'000
Equity securities at fair value through profit or loss	6,684	10,726
Listed unit trusts at fair value through profit or loss	32,994	27,823
Equity derivatives either short or long	<u>(6,453)</u>	<u>(7,179)</u>
Net total	<u>33,225</u>	<u>31,370</u>

The table presented in note 3(b) summarises the impact on operating profit attributable to unitholders and liabilities attributable to unitholders from possible changes in market prices that were reasonably based on the risk that the Fund was exposed to at reporting date.

(ii) Foreign exchange risk

The Fund has exposure to foreign assets and holds both monetary and non-monetary assets denominated in currencies other than the Australian dollar. Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk not foreign exchange risk. The risk is measured using sensitivity analysis.

Any currency hedging to minimise the impact of foreign exchange risk has not been incorporated into the disclosures unless the derivatives are held directly in this Fund.

In accordance with the Fund's policy, the investment manager monitors the Fund's foreign exchange exposure on a daily basis.

The tables below summarise the Fund's assets and liabilities that are denominated in a currency other than the Australian dollar.

30 June 2023	US Dollars \$'000	Euros \$'000	British Pounds \$'000	Japanese Yen \$'000	Other currencies \$'000
Assets					
Cash and cash equivalents	276	14	24	-	-
Margin accounts	117	-	-	10	-
Accrued income	12	-	-	-	-
Financial assets at fair value through profit or loss	<u>16,465</u>	<u>1,853</u>	<u>-</u>	<u>42</u>	<u>-</u>
Total assets	<u>16,870</u>	<u>1,867</u>	<u>24</u>	<u>52</u>	<u>-</u>
Liabilities					
Financial liabilities at fair value through profit or loss	<u>(222)</u>	<u>(7)</u>	<u>(9)</u>	<u>-</u>	<u>(1)</u>
Total liabilities	<u>(222)</u>	<u>(7)</u>	<u>(9)</u>	<u>-</u>	<u>(1)</u>
Net increase/(decrease) in exposure from foreign currency derivatives					
- Sell foreign currency	(11,296)	(2,642)	(407)	-	(1,476)
- Buy foreign currency	<u>1,698</u>	<u>1,226</u>	<u>-</u>	<u>2,648</u>	<u>-</u>
Net exposure including foreign currency derivatives	<u>7,050</u>	<u>444</u>	<u>(392)</u>	<u>2,700</u>	<u>(1,477)</u>

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

30 June 2022	US Dollars \$'000	Euros \$'000	British Pounds \$'000	Japanese Yen \$'000	Other currencies \$'000
Assets					
Cash and cash equivalents	933	96	21	-	-
Margin accounts	280	124		2	-
Accrued income	12	-	-	-	-
Due from brokers - receivable for securities sold	99	-	-	-	-
Financial assets at fair value through profit or loss	<u>12,229</u>	<u>1,045</u>	<u>101</u>	<u>16</u>	<u>6</u>
Total assets	<u>13,553</u>	<u>1,265</u>	<u>122</u>	<u>18</u>	<u>6</u>
Liabilities					
Margin accounts	-	-	-	-	(150)
Financial liabilities at fair value through profit or loss	<u>(425)</u>	<u>(48)</u>	<u>-</u>	<u>-</u>	<u>(28)</u>
Total liabilities	<u>(425)</u>	<u>(48)</u>	<u>-</u>	<u>-</u>	<u>(178)</u>
Net increase/(decrease) in exposure from foreign currency derivatives					
- Sell foreign currency	(20,526)	(4,947)	(124)	(3,259)	(1,311)
- Buy foreign currency	<u>14,667</u>	<u>3,053</u>	<u>-</u>	<u>5,929</u>	<u>1,306</u>
Net exposure including foreign currency derivatives	<u>7,269</u>	<u>(677)</u>	<u>(2)</u>	<u>2,688</u>	<u>(177)</u>

The table presented in note 3(b) summarises sensitivity analysis to foreign exchange risk.

(iii) Cash flow and fair value interest rate risk

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

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

The Fund's interest bearing financial 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 risk is measured using sensitivity analysis.

For personal use only

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk (continued)

The tables below summarise the Fund's year end assets and liabilities that have floating interest rates, fixed interest rates or are non interest bearing.

30 June 2023	Floating interest rate \$'000	Fixed interest rate \$'000	Non interest bearing \$'000	Total \$'000
Financial assets				
Cash and cash equivalents	2,465	-	-	2,465
Margin accounts	900	-	-	900
Receivables	-	-	27	27
Accrued income	-	-	107	107
Due from brokers - receivable for securities sold	-	-	2	2
Financial assets at fair value through profit or loss	<u>11,494</u>	<u>5,045</u>	<u>39,795</u>	<u>56,334</u>
Total financial assets	<u>14,859</u>	<u>5,045</u>	<u>39,931</u>	<u>59,835</u>
Financial liabilities				
Distribution payable	-	-	1,342	1,342
Payables	-	-	65	65
Due to brokers - payable for securities purchased	-	-	2	2
Financial liabilities at fair value through profit or loss	<u>-</u>	<u>130</u>	<u>370</u>	<u>500</u>
Total financial liabilities	<u>-</u>	<u>130</u>	<u>1,779</u>	<u>1,909</u>
Net assets attributable to unitholders - equity	<u>14,859</u>	<u>4,915</u>	<u>38,152</u>	<u>57,926</u>
Net increase/(decrease) in exposure from Australian fixed interest futures	-	(576)	-	(576)
Net increase/(decrease) in exposure from International fixed interest futures	<u>-</u>	<u>10,775</u>	<u>-</u>	<u>10,775</u>
Net exposure	<u>14,859</u>	<u>15,114</u>	<u>38,152</u>	<u>68,125</u>

For personal use only

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value interest rate risk (continued)

30 June 2022	Floating interest rate \$'000	Fixed interest rate \$'000	Non interest bearing \$'000	Total \$'000
Financial assets				
Cash and cash equivalents	3,292	-	-	3,292
Margin accounts	1,327	-	-	1,327
Receivables	-	-	41	41
Accrued income	-	-	78	78
Due from brokers - receivable for securities sold	-	-	2,172	2,172
Financial assets at fair value through profit or loss	<u>16,687</u>	<u>2,668</u>	<u>39,097</u>	<u>58,452</u>
Total financial assets	<u>21,306</u>	<u>2,668</u>	<u>41,388</u>	<u>65,362</u>
Financial liabilities				
Margin accounts	150	-	-	150
Distribution payable	-	-	961	961
Payables	-	-	564	564
Financial liabilities at fair value through profit or loss	<u>-</u>	<u>19</u>	<u>632</u>	<u>651</u>
Total financial liabilities	<u>150</u>	<u>19</u>	<u>2,157</u>	<u>2,326</u>
Net assets attributable to unitholders - equity	<u>21,156</u>	<u>2,649</u>	<u>39,231</u>	<u>63,036</u>
Net increase/(decrease) in exposure from Australian fixed interest futures	-	4,543	-	4,543
Net increase/(decrease) in exposure from International fixed interest futures	<u>-</u>	<u>1,896</u>	<u>-</u>	<u>1,896</u>
Net exposure	<u>21,156</u>	<u>9,088</u>	<u>39,231</u>	<u>69,475</u>

An analysis of financial liabilities by maturities is provided in Note 3(d).

For personal use only

3 Financial risk management (continued)

(b) Summarised sensitivity analysis

For the years ended 30 June 2023 and 30 June 2022, Schroders has adopted the VaR model and risk factors of its investment platform to determine the impact of price risk, interest rate risk and foreign exchange risk on the net assets of the Fund. VaR is a statistical technique that estimates the exposure of a given portfolio to market risk by making assumptions about the expected probability distribution of future portfolio returns. VaR represents an estimate of the minimum loss that could be experienced during a given period to a given confidence level. Importantly, it does not represent the maximum loss that an investor could experience.

To calculate VaR, the Responsible Entity uses the historic price volatility and correlations of current portfolio holdings to calculate both the historic average return and the historic standard deviation of returns around the average. These statistics are then extrapolated into the future using the assumption of normal distribution to calculate an expected loss if the future portfolio return volatility behaves according to these assumptions.

Schroders' VaR model utilises over 3,000 risk factors to calculate risk measures including portfolio risk, tracking error (ex-ante) and stress testing across fixed income, equity, foreign exchange and alternative products. Its valuation models decompose securities into a vector of exposures to risk factors. The model then calculates each instrument's standalone risk and contribution to portfolio risk with a higher weight given to the volatility experienced over the most recent 12 month period. The VaR values used in the sensitivity analysis are based on a 12 month interval at a 90% confidence level. In relation to sensitivity of the Fund's operating profit and net assets attributable to unitholders to price risk, interest rate risk and foreign exchange risk, this means there is a 10% probability of incurring losses in excess of the statistical VaR value as summarised in the table below.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the following:

- A 10-day holding period assumes that it is possible to hedge or dispose of positions within that period. This may not be the case for certain highly illiquid assets or in situations in which there is severe general market illiquidity.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent on the Fund's position and the volatility of market prices.
- The VaR of an unchanged position reduces if market price volatility declines, and vice versa.

	30 June 2023	30 June 2022
Value at Risk at 90% confidence	5%	4%
Equivalent decrease in net assets attributed to unitholders (\$'000)	2,896	2,521

(c) Credit risk

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

The main concentration of credit risk, to which the Fund is exposed, arises from the Fund's investments in debt securities. The Fund may also be exposed to counterparty credit risk on derivative financial instruments, cash and cash equivalents, margin accounts, amounts due from brokers and other receivables. None of these assets are impaired nor past due but not impaired.

Credit risk is managed by ensuring that:

- Counterparty credit limits are established and approved by Schroders as the Responsible Entity
- Exposures in derivative positions are fully collateralised; and
- Transactions are undertaken with a number of counterparties to address concentration risk.

For personal use only

3 Financial risk management (continued)

(c) Credit risk (continued)

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. An analysis of directly held fixed and floating rate interest securities by rating is set out in the table below:

Rating	30 June 2023 \$'000	30 June 2022 \$'000
AAA	3,101	1,448
AA-	1,957	-
A-1+	-	10,971
A+	990	-
A-	3,366	381
A-2	-	2,975
BBB+	3,285	979
BBB	1,675	431
BBB-	1,762	1,781
BB+	271	263
Not rated*	<u>125</u>	<u>121</u>
Total	<u>16,532</u>	<u>19,350</u>

* For the year ended 30 June 2023, the securities classified as not rated relate to Australian floating rate note \$125,384 (2022: \$120,881).

(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.

The Fund is exposed to daily cash redemptions of redeemable units.

Schroders monitors liquidity of the Fund on a daily basis. In order to manage the Fund's overall liquidity, the Fund has the ability to suspend unit pricing and hence suspend redemption requests. The Fund did not suspend redemptions as a result of suspending unit pricing in the current or prior year.

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

30 June 2023	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
Financial liabilities at fair value through profit or loss	244	256	-	-	500
Distribution payable	1,342	-	-	-	1,342
Payables	65	-	-	-	65
Due to brokers - payable for securities purchased	<u>2</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2</u>
Total	<u>1,653</u>	<u>256</u>	<u>-</u>	<u>-</u>	<u>1,909</u>

3 Financial risk management (continued)

(d) Liquidity risk (continued)

30 June 2022	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
Financial liabilities at fair value through profit or loss	58	593	-	-	651
Margin accounts	150	-	-	-	150
Distribution payable	961	-	-	-	961
Payables	<u>564</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>564</u>
Total	<u>1,733</u>	<u>593</u>	<u>-</u>	<u>-</u>	<u>2,326</u>

4 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Fund has not offset any financial assets and liabilities at 30 June 2023 or 30 June 2022, nor are there significant amounts subject to enforceable netting arrangements at those dates.

5 Fair value measurement

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis

- Financial assets / liabilities at fair value through profit or loss (FVPL) (see note 6 and 7)
- Derivative financial instruments (see note 9)

AASB 13 requires disclosure of fair value measurements by level of the following fair value hierarchy;

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

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.

The Fund values its investments in accordance with the accounting policies set out in Note 2. 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 appropriate quoted market price for financial liabilities is the current asking price. When the Fund holds derivatives with offsetting market risks, it uses mid market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

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

- (ii) *Fair value in an inactive or unquoted market (level 2 and level 3)*

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

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

5 Fair value measurement (continued)

For other pricing models, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

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.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such funds.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Fund for similar financial instruments.

(a) Fair value hierarchy

Recognised fair value measurements

The tables below set out the Fund's financial assets and financial liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2023 and 30 June 2022.

30 June 2023	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial assets				
Financial assets at fair value through profit or loss:				
Derivatives				
Forward currency contracts	-	75	-	75
Share price index futures	42	-	-	42
Fixed interest futures	7	-	-	7
Equity securities	6,684	-	-	6,684
Interest bearing securities	-	9,616	-	9,616
Listed unit trusts	32,994	-	-	32,994
Money market securities	<u>6,916</u>	<u>-</u>	<u>-</u>	<u>6,916</u>
Total	<u>46,643</u>	<u>9,691</u>	<u>-</u>	<u>56,334</u>
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
Derivatives				
Forward currency contracts	-	244	-	244
Share price index futures	126	-	-	126
Fixed interest futures	<u>130</u>	<u>-</u>	<u>-</u>	<u>130</u>
Total	<u>256</u>	<u>244</u>	<u>-</u>	<u>500</u>

For personal use only

5 Fair value measurement (continued)

(a) Fair value hierarchy (continued)

Recognised fair value measurements (continued)

30 June 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets at fair value through profit or loss:				
Derivatives				
Forward currency contracts	-	428	-	428
Share price index futures	75	-	-	75
Fixed interest futures	5	-	-	5
Exchange traded options	45	-	-	45
Equity securities	10,726	-	-	10,726
Interest bearing securities	-	5,404	-	5,404
Listed unit trusts	27,823	-	-	27,823
Money market securities	<u>10,971</u>	<u>2,975</u>	-	<u>13,946</u>
Total	<u>49,645</u>	<u>8,807</u>	-	<u>58,452</u>
Financial liabilities				
Financial liabilities at fair value through profit or loss:				
Derivatives				
Forward currency contracts	-	594	-	594
Share price index futures	38	-	-	38
Fixed interest futures	<u>19</u>	<u>-</u>	<u>-</u>	<u>19</u>
Total	<u>57</u>	<u>594</u>	-	<u>651</u>

The Fund did not hold any level 3 instruments during the year ended 30 June 2023 and 30 June 2022.

(iii) Transfers between levels

There were no transfers between the levels of the fair value hierarchy during the year ended 30 June 2023 and 30 June 2022.

For personal use only

6 Financial assets at fair value through profit or loss

	As at	
	30 June 2023 Fair value \$'000	30 June 2022 Fair value \$'000
Financial assets at fair value through profit or loss		
Derivatives	124	553
Equity securities	6,684	10,726
Interest bearing securities	9,616	5,404
Listed unit trusts	32,994	27,823
Money market securities	6,916	13,946
Total financial assets at fair value through profit or loss	56,334	58,452
Comprising:		
Derivatives		
Forward currency contracts	75	428
Australian share price index futures	-	75
International share price index futures	42	-
Australian fixed interest futures	7	5
International exchange traded options	-	45
Total derivatives	124	553
Equity securities		
Australian equity securities listed on a prescribed stock exchange	6,684	10,726
Total equity securities	6,684	10,726
Interest bearing securities		
Australian other public sector bonds	3,101	435
Australian corporate bonds	1,937	1,216
Australian floating rate notes	3,918	2,097
International floating rate notes	660	644
Australian other fixed interest securities	-	1,012
Total interest bearing securities	9,616	5,404
Listed unit trusts		
Australian listed trusts	15,200	15,168
International listed trusts	17,620	12,279
Australian listed property trusts	174	376
Total listed unit trusts	32,994	27,823
Money market securities		
Australian money market securities	6,916	13,946
Total money market securities	6,916	13,946
Total financial assets at fair value through profit or loss	56,334	58,452

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

For personal use only

7 Financial liabilities at fair value through profit or loss

	As at	
	30 June 2023	30 June 2022
	Fair value \$'000	Fair value \$'000
Financial liabilities at fair value through profit or loss		
Derivatives	<u>500</u>	<u>651</u>
Total financial liabilities at fair value through profit or loss	<u><u>500</u></u>	<u><u>651</u></u>
Comprising:		
Derivatives		
Forward currency contracts	244	594
Australian share price index futures	30	-
International share price index futures	96	38
Australian fixed interest futures	5	-
International fixed interest futures	<u>125</u>	<u>19</u>
Total derivatives	<u>500</u>	<u>651</u>
Total financial liabilities at fair value through profit or loss	<u><u>500</u></u>	<u><u>651</u></u>

An overview of the risk exposures relating to financial liabilities at fair value through profit or loss is included in Note 3.

8 Financial assets and financial liabilities at amortised cost

The following financial assets and financial liabilities disclosed in the balance sheet are measured at amortised cost: cash and cash equivalents; receivables; accrued income; due from brokers - receivable for securities sold; margin accounts; distribution payable; payables; and due to brokers - payable for securities purchased.

Credit risk

The Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 30 June 2023 and 30 June 2022, all receivables, amounts due from brokers, and cash with counterparties with investment grade rating and are either callable on demand or due to be settled within 1 week. Management consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

9 Derivative financial instruments

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

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include many different instruments, such as forwards, futures and options. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Fund's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

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

9 Derivative financial instruments (continued)

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

The Fund holds the following derivative financial instruments:

Forward currency contracts

Forward currency contracts are primarily used by the Fund to manage against foreign currency risks on its investments. The Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing bid price at the end of each reporting period. The Fund recognises a gain or loss equal to the change in fair value at the end of each reporting period.

Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

Options

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

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

	30 June 2023			30 June 2022		
	Contract/ Notional \$'000	Fair values		Contract/ Notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000		Assets \$'000	Liabilities \$'000
Forward currency contracts	(10,249)	75	244	(5,210)	428	594
Australian share price index futures	(3,581)	-	30	(6,461)	75	-
International share price index futures	(2,872)	42	96	(787)	-	38
Australian fixed interest futures	(576)	7	5	4,543	5	-
International fixed interest futures	10,775	-	125	1,896	-	19
International exchange traded options	-	-	-	68	45	-
	<u>(6,503)</u>	<u>124</u>	<u>500</u>	<u>(5,951)</u>	<u>553</u>	<u>651</u>

Risk exposures and fair value measurements

Information about the Fund's exposure to credit risk, foreign exchange risk, and interest rate risk and about the methods and assumptions used in determining fair values is provided in note 3 to the financial statements. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial instruments disclosed above.

10 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual arrangements.

An interest in a structured entity is any form of contractual or non contractual arrangement with an entity which creates variability in returns from the performance of the arrangement for the Fund.

The Fund may invest in related and unrelated managed funds and considers these underlying fund investments to be interests in structured entities. The Fund generally has no involvement with these structured entities other than the securities it holds as part of its investments. The maximum exposure to loss on investments in structured entities is restricted to the carrying value of the asset.

11 Net assets attributable to unitholders

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 classifies a financial instrument as an equity instrument as it meets requirements under AASB 132 as described in Note 2(c).

Movement in number of units and net assets attributable to unitholders during the year were as follows:

	As at			
	30 June 2023 No.'000	30 June 2022 No.'000	30 June 2023 \$'000	30 June 2022 \$'000
Opening balance	18,053	13,245	63,036	50,168
Applications	2,018	7,118	7,151	26,942
Redemptions	(3,427)	(2,310)	(12,093)	(8,563)
Distributions paid and payable	-	-	(2,774)	(1,954)
Profit for the year	-	-	2,606	(3,557)
Closing balance	<u>16,644</u>	<u>18,053</u>	<u>57,926</u>	<u>63,036</u>

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 to 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.

Capital Risk Management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as equity. 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.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by Schroders. Under the terms of the Fund Constitution, Schroders 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.

For personal use only

12 Distributions to unitholders

The distributions during the year were as follows:

	Year ended			
	30 June 2023		30 June 2022	
	\$'000	CPU	\$'000	CPU
Distributions paid				
- 31 December	1,432	8.02	993	5.77
Distributions payable				
- 30 June*	<u>1,342</u>	8.06	<u>961</u>	5.33
	<u><u>2,774</u></u>		<u><u>1,954</u></u>	

*CPU shown is the rate applicable to the sum of distributions paid and payable.

13 Cash and cash equivalents

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Domestic cash at bank	2,151	2,241
Foreign cash at bank	<u>314</u>	<u>1,051</u>
Total cash and cash equivalents	<u><u>2,465</u></u>	<u><u>3,292</u></u>

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

	Year ended	
	30 June 2023	30 June 2022
	\$'000	\$'000
Operating profit/(loss) for the year	2,606	(3,557)
Net (gain)/loss on financial instruments at fair value through profit or loss	(1,167)	4,563
Proceeds from sale of financial instruments at fair value through profit or loss	87,103	58,919
Purchase of financial instruments at fair value through profit or loss	(81,410)	(74,356)
Net change in accrued income and receivables	(25)	(34)
Net change in payables	(3)	9
Distributions reinvested	<u>(175)</u>	<u>(155)</u>
Net cash inflow/(outflow) from operating activities	<u><u>6,929</u></u>	<u><u>(14,611)</u></u>

For personal use only

15 Remuneration of auditors

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

	Year ended	
	30 June 2023	30 June 2022
	\$	\$
Audit and other assurance services*		
Audit and review of financial reports - KPMG	12,942	-
Audit and review of financial reports - PwC	<u>11,218</u>	<u>25,255</u>
Total remuneration for audit and other assurance services	<u>24,160</u>	25,255
Other non-audit services		
Tax compliance services - PwC*	<u>6,699</u>	<u>4,125</u>
Total remuneration for other non-audit services	<u>6,699</u>	<u>4,125</u>
Total remuneration	<u>30,859</u>	<u>29,380</u>

All audit and tax fees were borne by Schroders during the years ended 30 June 2023 and 30 June 2022.

*Schroders has changed Audit and review of financial reports from PricewaterhouseCoopers (PwC) to KPMG for Financial year ended 30 June 2023. PwC will remain as tax service providers. The amounts presented were those paid to PwC while they were Auditor of the Fund up until 1 July 2023.

16 Related party transactions

Responsible Entity

The Responsible Entity of the Fund is Schroders, a wholly owned subsidiary of Schroder Australia Holdings Pty Limited (ABN 83 008 423 738).

Key management personnel

The Fund does not employ personnel in its own right. However, it is required to have an incorporated Responsible Entity to manage the activities of the Fund and this is considered to be key management personnel. The directors of the Responsible Entity, which are key management personnel of the Responsible Entity, during or since the end of the financial year are:

S Doyle

R Mellor-Bessant

N Goldsmith (appointed on 28 February 2023)

N Morcos (appointed on 27 June 2023)

R Macken (appointed on 24 July 2023)

M W Conlon (resigned on 28 February 2023)

M Trinh (resigned on 28 February 2023)

J Soon (appointed on 28 February 2023, resigned on 9 March 2023)

S Hallinan (resigned on 19 June 2023)

There was no other persons with responsibility for planning, directing and controlling the activities of the Responsible Entity of the Fund, directly or indirectly during the financial year.

16 Related party transactions (continued)

Responsible Entity's fees and other transactions

During the year ended 30 June 2023, Schroders received an all inclusive management fee of 0.75% (2022: 0.75%) of Net Asset Value (inclusive of GST net of RITC available to the Fund).

All related party transactions are conducted on arm's length commercial terms and conditions. The transactions during the year and amounts payable at year end between the Fund and Schroders are as follows:

	30 June 2023	30 June 2022
	\$	\$
Management fees for the year incurred by the Fund	469,257	462,198
Management fees payable to Schroders at the reporting date	36,866	40,140

Key management personnel unitholdings

At 30 June 2023 no key management personnel held units in the Fund (30 June 2022: Nil).

Key management personnel remuneration

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

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

Apart from those details disclosed in this Note, no directors have entered into a material contract with the Fund during the financial year and there were no material contracts involving director's interests subsisting at year end.

17 Events occurring after the reporting period

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

18 Contingent assets, liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2023 (2022: Nil).

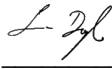
For personal use only

Directors' declaration

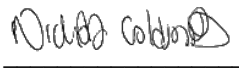
In the opinion of the Directors of Schroder Investment Management Australia Limited:

- (a) the financial statements and notes set out on pages 5 to 29 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with 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 30 June 2023;
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (c) Note 2(a) confirms that the financial statements 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.

Director 

S Doyle

Director 

N Goldsmith

Sydney
28 September 2023

For personal use only



Independent Auditor's Report

To the unitholders of Schroder Real Return (Managed Fund)

Opinion

We have audited the **Financial Report** of Schroder Real Return (Managed Fund) (the Fund).

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

- 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
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Balance sheet as at 30 June 2023
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 fulfilled our other ethical responsibilities in accordance with these requirements.

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.

This matter was 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 this matter.

Valuation and existence of Financial assets at fair value through profit or loss (\$56,334,000)

Refer to Notes 2(b), 5, 6 and 9 to the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p>Financial assets at fair value through profit or loss comprise investments in Derivatives, Equity securities, Interest bearing securities, Listed unit trusts and Money market securities (“investments”).</p> <p>The Fund outsources certain processes and controls relevant to:</p> <ul style="list-style-type: none"> • Initiating and executing the purchase and sale of investments and recording and valuing investments to the Fund’s Administrator; and • Maintaining custody and underlying records of investments to the Fund’s Custodian. <p>Valuation and existence of investments is a key audit matter due to the:</p> <ul style="list-style-type: none"> • Size of the Fund’s portfolio of investments. These investments represent 94.1% of the Fund’s total assets at year end; • Various types of investments held by the Fund and range of data inputs and sources used to value them; and • Importance of the performance of these investments in driving the Fund’s investment income and capital performance, as reported in the Financial Report. <p>As a result, this was the area with greatest effect on our overall audit strategy and allocation of resources in planning and performing our audit.</p> <p>In assessing this Key Audit Matter, we involved our valuation specialists, who understand the Fund’s investment profile and business and economic environment it operates in.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • We assessed the appropriateness of the accounting policies applied by the Fund, including those relevant to the fair value of investments, against the requirements of the accounting standards. • We obtained and read the Fund’s Administrator and Custodian’s ASAE 3150 (<i>Assurance Engagements on Controls</i>) and SOC 1 (<i>System and Organization Controls</i> 1) assurance reports for the period from 1 April 2022 to 31 March 2023 to understand the processes and assess the controls relevant to the: <ul style="list-style-type: none"> - Administrator – to initiate and execute the purchase and sale of and record and value the Fund’s investments; and - Custodian – to maintain custody and underlying records of the Fund’s investments. • We obtained and read the Fund’s Administrator and Custodian’s bridging letters over the period not covered by the ASAE 3150 and SOC1 assurance reports. We compared the processes and controls in the bridging letters for consistency with those in the ASAE 3150 and SOC 1 assurance reports. • We assessed the reputation, professional competence and independence of the auditors of the ASAE 3150 and SOC 1 assurance reports. • We checked the existence of investments being the ownership and quantity held to external custody and broker reports as at 30 June 2023. • With the involvement of our valuation specialists, we independently valued the Fund’s investments and compared these to the Fund’s valuation of investments as recorded in the general ledger as at 30 June 2023. We used inputs and prices from publicly available market data including stock exchanges and currency markets. • We evaluated the Fund’s disclosures of investments, using our understanding obtained from our testing, against the requirements of the accounting standards.

For personal use only

Other Information

Other Information is financial and non-financial information in the Fund's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Schroder Investment Management Australia Limited (the Responsible Entity) are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors of the Responsible Entity are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Fund's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they 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 objective is:

- 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. They 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 the 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 at: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our Auditor's Report.

KPMG

Karen Hopkins
Partner
Sydney
28 September 2023

For personal use only