

**Paragon Fund**

ARSN 161 565 920

**Annual Report**

**For the year ended 30 June 2015**

# Paragon Fund

ARSN 161 565 920

## Annual Report - 30 June 2015

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These financial statements cover Paragon Fund as an individual entity.

The Responsible Entity of Paragon Fund is Paragon Funds Management Ltd  
(ABN 42 159 623 873) (AFSL 426800). The Responsible Entity's registered office is:

Suite 2, Level 2  
1 Little Collins Street  
Melbourne VIC 3000

## Directors' Report

The Directors of Paragon Funds Management Ltd, the Responsible Entity of Paragon Fund, present their report together with the financial statements of Paragon Fund (the 'Fund') for the year ended 30 June 2015.

### Principal activities

The Fund's mandate is to invest in Australian listed equities focusing on core competencies in the resource and industrial sectors in accordance with the provisions of the Fund's Constitution. The objective of the Fund is to produce absolute returns and capital growth for unitholders over a 3 - 5 year investment horizon.

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 of the Fund are detailed below:

| <b>Service</b>              | <b>Provider</b>                                       |
|-----------------------------|---|
| Responsible Entity          | Paragon Funds Management Ltd                          |
| Investment Manager          | Paragon Funds Management Ltd                          |
| Prime Broker                | UBS AG, Australia Branch (Appointed 21 April 2015)    |
|                             | Merril Lynch International (Terminated 21 April 2015) |
| Custodian                   | UBS Nominees Pty Ltd (Appointed 21 April 2015)        |
|                             | Merril Lynch International (Terminated 21 April 2015) |
| Statutory Auditor           | Nexia Melbourne                                       |
| Administrator and Registrar | White Outsourcing Pty Limited                         |

### Directors

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

Mr John Deniz  
Mr Nick Reddaway  
Ms Hillier Deniz

### Review and results of operations

During the year, the Fund continued to invest in accordance with the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

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

|   | <b>Year ended</b>       |                         |
|---|-------------------------|-------------------------|
|   | <b>30 June<br/>2015</b> | <b>30 June<br/>2014</b> |
|   | <b>\$</b>               | <b>\$</b>               |
| Operating profit before finance costs attributable to unitholders | <b>2,228,709</b>        | 1,901,268               |
| <i>Distributions</i>  |                         |                         |
| Distributions payable   | <b>653,072</b>          | 447,426                 |
| Distributions (cents per unit)                                    | <b>3.1714</b>           | 4.9414                  |

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

On 29 August 2014, the Fund created a separate non-series based class of units to be issued to IDPS operators and IDPS-like schemes as permitted by the constitution. An amendment to the constitution was issued by way of a Supplementary Deed, covering the issue and nature of these B Class units. As the rights and benefits of direct retail and wholesale unit holders are not impacted by the new class, the Fund was not required to obtain approval from the members for this amendment.

A Supplementary Product Disclosure Statement (SPDS) dated 29 August 2014 was issued by the Responsible Entity, including disclosure details of this new class of units and the nature of the investment for indirect investors. The issue of B Class units remains at the discretion of the Responsible Entity, but is limited to IDPS operators and IDPS-like schemes in accordance with the offer documents of the Fund.

On 21 April 2015, the Fund appointed UBS AG, Australia Branch, as its prime broker, and UBS Nominees Pty Ltd, as its custodian, replacing Merrill Lynch International. Accordingly, on 27 April 2015, a new Product Disclosure Statement (PDS) for the fund was issued by the Responsible Entity. This offer document reflects updated disclosures as a result of the change in prime broker and custodian, as well as all changes previously reported in the supplementary PDS. All previous version of the PDS and SPDS became redundant.

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 matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may have a significant effect on:

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

### **Likely developments and expected results of operations**

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

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

### **Indemnification and insurance of officers**

The Responsible Entity has paid an insurance premium to insure its Directors under a combined Professional Indemnity and Directors and Officers Insurance policy. Details of the indemnity insurance are as follows:

- The Directors, the Fund and the Responsible Entity are indemnified to an aggregate amount of \$5million, against any liability arising from a claim brought against them by a third party, for losses arising from a wrongful act (as defined in the policy), in relation to the provision of professional services provided by the Responsible Entity.
- The policy further indemnifies each of the following Directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising from their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the Fund:

Mr John Deniz  
Mr Nick Reddaway  
Ms Hillier Deniz

The policy is a combined policy and as such, premiums for each Director cannot be quantified. Further disclosure of information relating to this policy is not permitted under the contract of insurance.

**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 or 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 8 to the financial statements.

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

**Environmental regulation**

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

**Auditor's Independence Declaration**

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

This report is made in accordance with a resolution of the Directors of Paragon Funds Management Ltd.



Mr John Deniz  
Director

Melbourne, VIC  
18 September 2015

**AUDITOR'S INDEPENDENCE DECLARATION  
UNDER S 307C OF THE CORPORATIONS ACT 2001  
TO THE DIRECTORS OF PARAGON FUNDS MANAGEMENT LTD, THE RESPONSIBLE ENTITY**

I declare that, to the best of my knowledge and belief, during the period ended 30 June 2015, 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.



**NEXIA MELBOURNE**  
ABN 16 847 721 257



**GEORGE S DAKIS**  
**Partner**  
**Audit & Assurance Services**

Melbourne

18 September 2015

**Paragon Fund**  
**Statement of Comprehensive Income**  
**For the year ended 30 June 2015**

**Statement of Comprehensive Income**

|   |              | <b>Year ended</b> |                  |
|---|--------------|-------------------|------------------|
|   |              | <b>30 June</b>    | <b>30 June</b>   |
|   | <b>Notes</b> | <b>2015</b>       | <b>2014</b>      |
|   |              | <b>\$</b>         | <b>\$</b>        |
| <b>Investment income</b>  |              |                   |                  |
| Interest income   |              | 162,841           | 64,822           |
| Dividend income   |              | 296,469           | 56,435           |
| Unit trust distributions  |              | 54,975            | -                |
| Net gains/(losses) on financial instruments held at fair value through profit or loss | 5            | 2,965,861         | 2,459,056        |
| <b>Total net investment income</b>  |              | <b>3,480,146</b>  | <b>2,580,313</b> |
| <b>Expenses</b>   |              |                   |                  |
| Management fees   | 15           | 332,914           | 116,338          |
| Performance fees  | 15           | 546,873           | 480,733          |
| Interest expense  |              | 11,570            | 28               |
| Custody fees  |              | 5,021             | 652              |
| Transaction costs   |              | 89,079            | 29,924           |
| Stock loan fees   |              | 49,654            | 7,281            |
| Withholding tax on foreign dividends and interest                                     |              | 987               | 199              |
| Establishment cost expense  |              | 16,968            | -                |
| Short dividend expense  |              | 82,408            | 5,044            |
| Expense reimbursement fees  | 15           | 114,477           | 38,795           |
| Other operating expenses  |              | 1,486             | 51               |
| <b>Total operating expenses</b>   |              | <b>1,251,437</b>  | <b>679,045</b>   |
| <b>Operating profit</b>   |              | <b>2,228,709</b>  | <b>1,901,268</b> |
| <b>Finance costs attributable to unitholders</b>                                      |              |                   |                  |
| Distributions to unitholders  | 9            | (653,072)         | (447,426)        |
| Increase in net assets attributable to unitholders                                    | 8            | (1,575,637)       | (1,453,842)      |
| <b>Profit/(loss) for the year</b>   |              | <b>-</b>          | <b>-</b>         |
| <b>Other comprehensive income</b>   |              | <b>-</b>          | <b>-</b>         |
| <b>Total comprehensive income for the year</b>  |              | <b>-</b>          | <b>-</b>         |

*The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.*

**Paragon Fund**  
**Statement of Financial Position**  
**As at 30 June 2015**

**Statement of Financial Position**

|   |              | <b>As at</b>      |                   |
|---|--------------|-------------------|-------------------|
|   |              | <b>30 June</b>    | <b>30 June</b>    |
|   | <b>Notes</b> | <b>2015</b>       | <b>2014</b>       |
|   |              | <b>\$</b>         | <b>\$</b>         |
| <b>Assets</b>   |              |                   |                   |
| Cash and cash equivalents   | 10           | 7,952,197         | 5,342,494         |
| Receivables   | 12           | 225,280           | 55,362            |
| Due from brokers - receivable for securities sold                           |              | 6,551,002         | 984,601           |
| Financial assets held at fair value through profit or loss                  | 6            | 31,086,146        | 9,821,575         |
| <b>Total assets</b>   |              | <b>45,814,625</b> | <b>16,204,032</b> |
| <b>Liabilities</b>  |              |                   |                   |
| Distributions payable   | 9            | 653,072           | 447,426           |
| Payables  | 13           | 732,799           | 987,402           |
| Due to brokers - payable for securities purchased                           |              | 5,325,072         | 1,274,462         |
| Financial liabilities held at fair value through profit or loss             | 7            | 10,055,820        | 2,056,000         |
| <b>Total liabilities (excluding net assets attributable to unitholders)</b> |              | <b>16,766,763</b> | <b>4,765,290</b>  |
| <b>Net assets attributable to unitholders - liability</b>                   |              | <b>29,047,862</b> | <b>11,438,742</b> |

*The above Statement of Financial Position should be read in conjunction with the accompanying notes.*



**Paragon Fund**  
**Statement of Changes in Equity**  
**For the year ended 30 June 2015**

**Statement of Changes in Equity**

|  | <b>Year ended</b> |                |
|--|-------------------|----------------|
|  | <b>30 June</b>    | <b>30 June</b> |
|  | <b>2015</b>       | <b>2014</b>    |
|  | <b>\$</b>         | <b>\$</b>      |
| <b>Total equity at the beginning of the year</b>     | -                 | -              |
| Profit/(loss) for the year                           | -                 | -              |
| Other comprehensive income                           | -                 | -              |
| <b>Total comprehensive income</b>                    | -                 | -              |
| Transactions with owners in their capacity as owners | -                 | -              |
| <b>Total equity at the end of the year</b>           | -                 | -              |

Under Australian Accounting Standards, net assets attributable to unitholders are classified as a liability rather than equity. As a result, there was no equity at the start or the end of the year.

*The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.*

**Paragon Fund**  
**Statement of Cash Flows**  
**For the year ended 30 June 2015**

**Statement of Cash Flows**

|   | <b>Year ended</b>         |                    |
|---|---------------------------|--------------------|
|   | <b>30 June</b>            | <b>30 June</b>     |
|   | <b>2015</b>               | <b>2014</b>        |
| Notes   | <b>\$</b>                 | <b>\$</b>          |
| <b>Cash flows from operating activities</b>   |                           |                    |
| Proceeds from sale of financial assets held at fair value through profit or loss            | 73,324,488                | 41,094,087         |
| Purchase of financial assets held at fair value through profit or loss                      | (93,171,503)              | (46,647,606)       |
| Re-purchase of financial liabilities held at fair value through profit or loss              | 51,674,577                | 11,637,338         |
| Proceeds from short sale of financial liabilities held at fair value through profit or loss | (43,644,853)              | (10,521,473)       |
| Interest income received  | 147,067                   | 75,471             |
| Dividends and distributions received  | 250,348                   | 52,288             |
| Performance fees paid   | (429,295)                 | (230,830)          |
| Management fees paid  | (330,904)                 | (114,878)          |
| Transaction costs paid  | (97,343)                  | (33,209)           |
| Stock loan fees paid  | (44,403)                  | (7,785)            |
| Custody fees paid   | (4,901)                   | (652)              |
| Expense reimbursement fees paid   | (107,844)                 | (35,197)           |
| Establishment cost expense paid   | (8,484)                   | -                  |
| Short dividends paid  | (52,798)                  | (6,894)            |
| Other operating expenses paid   | (9,906)                   | (411)              |
| <b>Net cash outflow from operating activities</b>   | 11(a) <b>(12,505,754)</b> | <b>(4,739,751)</b> |
| <b>Cash flows from financing activities</b>   |                           |                    |
| Proceeds from applications by unitholders   | 15,625,800                | 6,048,740          |
| Payments for redemptions by unitholders   | (311,653)                 | -                  |
| Distributions paid from operating activities  | (186,285)                 | -                  |
| Withholding tax paid on distributions   | (12,405)                  | -                  |
| <b>Net cash inflow from financing activities</b>  | <b>15,115,457</b>         | <b>6,048,740</b>   |
| <b>Net increase in cash and cash equivalents</b>  | <b>2,609,703</b>          | <b>1,308,989</b>   |
| Cash and cash equivalents at the beginning of the year                                      | 5,342,494                 | 4,033,505          |
| <b>Cash and cash equivalents at the end of the year</b>                                     | 10 <b>7,952,197</b>       | <b>5,342,494</b>   |
| Non-cash financing activities   | 11(b) <b>248,736</b>      | <b>-</b>           |

*The above Statement of Cash Flows should be read in conjunction with the accompanying notes.*

## **Notes to the Financial Statements**

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## **1 General information**

These financial statements cover Paragon Fund (the 'Fund') as an individual entity. The Fund was constituted on 6 December 2012, registered with the Australian Securities and Investments Commission on 20 December 2012 and commenced operations on 1 March 2013. The Fund will terminate on 5 December 2092 unless terminated earlier in accordance with the provisions of the Fund's Constitution.

Paragon Fund is a registered managed investment scheme under the *Corporations Act 2001*.

The Responsible Entity of the Fund is Paragon Funds Management Ltd (ABN 42 159 623 873) (AFSL 426800) (the 'Responsible Entity'). The Responsible Entity's registered office is Suite 2, Level 2, 1 Little Collins Street, Melbourne, VIC 3000. The financial statements are presented in Australian Dollars unless otherwise noted.

The Fund's mandate is to invest in Australian listed equities focusing on core competencies in the resource and industrial sectors in accordance with the provisions of the Fund's Constitution. The objective of the Fund is to produce absolute returns and capital growth for unitholders over a 3 - 5 year investment horizon.

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

## **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all 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 (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 twelve months, except for investments in financial assets and liabilities 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 reporting date.

### **(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).

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

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

#### *(ii) New and amended standards adopted by the Fund*

The Fund has applied the following new and revised accounting standard which became effective for the annual reporting period commencing on 1 July 2014:

- *AASB 2013-5 Amendments to Australian Accounting Standards - Investment Entities*

The amendments made by AASB 2013-5 introduce an exception from the consolidation requirements for investment entities. The amendment provides relief from the requirement to consolidate any investment in subsidiaries. The Fund meets the definition of an investment entity under the standard. Therefore, any investment in subsidiaries (other than those subsidiaries that provide investment related services) must be measured as fair value through profit and loss. The adoption of the amendment has no impact as the Fund does not have investments in subsidiaries.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2014 that have a material impact on the Fund.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting period and have not been early adopted by the Fund. The Directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

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

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

- *AASB 15 Revenue from Contracts with Customers* (effective from 1 January 2017)

AASB 15 will replace AASB 118 *Revenue* which covers contracts for goods and services and AASB 111 *Construction Contracts* which covers construction contracts. AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

The Fund's main sources of income are interest, dividends and distributions and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the Directors do not expect the adoption of AASB 15 to have a significant impact on the Fund's accounting policies or the amounts recognised in the financial statements. The Fund has not yet decided when to adopt AASB 15.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

### **(b) Financial instruments**

#### *(i) Classification*

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

- Financial instruments held for trading

These are investments in derivative financial instruments such as futures. The Fund does not designate any derivatives as hedges in a hedging relationship.

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

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

#### *(i) Classification (continued)*

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

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

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

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

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

#### *(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.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liabilities are discharged.

#### *(iii) Measurement*

##### *Financial instruments held at fair value through profit or loss*

At initial recognition, the Fund measures financial assets and financial liabilities at fair value. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

Subsequent to initial recognition, all financial assets and 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 held at fair value through profit or loss in the period in which they arise. Dividend expense on short sales of securities, which have been classified at fair value through profit or loss, is presented as expense in the Statement of Comprehensive Income.

For further details on how the fair value of financial instruments is determined, please see Note 4 to the financial statements.

#### *(iv) Offsetting financial instruments*

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

As at the end of the reporting period, there are no financial assets or liabilities offset or which could be offset in the Statement of Financial Position.

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

### **(c) Net assets attributable to unitholders**

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 are classified as financial liabilities as the Fund is required to distribute its distributable income. The units can be put back to the Fund at any time for cash based on the redemption price. The value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if the unitholders exercised their right to redeem units in the Fund.

### **(d) Cash and cash equivalents**

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

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

### **(e) Investment income**

Interest income earned on cash and cash equivalents is recognised in the Statement of Comprehensive Income on an accruals basis.

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

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.

Dividends declared on securities sold short are recorded as a dividend expense on the ex-dividend date.

Trust distributions are recognised on an entitlement basis.

Other income is recognised on an accruals 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 unitholders are presently entitled to the income of the Fund.

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

### **(h) Distributions**

The Fund distributes its distributable income annually in accordance with the Fund's Constitution, to unitholders by cash or reinvestment. The distributions are recognised in the Statement of Comprehensive Income as finance costs attributable to unitholders.

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

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

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

### **(j) Due from/to brokers**

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and for equities normally settled within three business days. A provision for impairment of amounts due from brokers is recognised in the Statement of Comprehensive Income when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter into bankruptcy or financial reorganisation and default in payments.

### **(k) Receivables**

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Where applicable, interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in Note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables also include such items as Reduced Input Tax Credits (RITC).

Collectability of receivables is reviewed on an ongoing basis. Receivables which are known to be uncollectable are written off by reducing the carrying amount directly. The amount of the impairment loss is recognised in the Statement of Comprehensive Income within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses in the Statement of Comprehensive Income.

### **(l) Payables**

Payables include liabilities and accrued expenses owed 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.

Distributions declared effective 30 June in relation to unitholders who have previously elected to reinvest distributions are recognised as reinvested effective 1 July of the following financial year. Distributions will be automatically reinvested unless elected to be paid out in accordance with the Fund's PDS.

### **(m) Applications and redemptions**

Unit application and redemption prices are determined by reference to the net assets of the Fund divided by the number of units on issue, adjusted for buy/sell spreads.

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

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services, investment management fees and performance fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 55%; hence investment management fees, performance fees, custodial fees and other 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 Statement of Financial Position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

### **(o) Use of estimates**

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated 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.

For more information on how fair value is calculated please refer to Note 4 to the financial statements.



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

### **(p) Significant judgments made in the application of accounting policies**

#### *Related party relationship and control - managed investment schemes*

While the Responsible Entity controls the financial and operating activities of the Fund in accordance with the Fund's Constitution and Product Disclosure Statement, the Responsible Entity's fiduciary obligations to the unitholders of the Fund prevent it from benefiting directly from the activities of the Fund. Instead, the Responsible Entity governs the financial and operating activities of the Fund for the sole purpose of fulfilling its fiduciary obligation of acting in the best interest of the unitholders in its capacity as the Responsible Entity. Accordingly, the Directors do not consider that the Responsible Entity controls the Fund as defined in AASB 127:

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However, for the purpose of AASB 124: *Related Party Disclosures*, the Directors consider that the Responsible Entity is a related party of the Fund as it is the management entity that provides key management personnel services to the Fund. Accordingly, both the Responsible Entity and its Directors are considered to be key management personnel of the Fund.

## **3 Financial risk management**

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

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

The Fund invests in a diversified portfolio of long and short stocks comprising equities that are listed on the Australian Securities Exchange ('ASX'). The Fund may use exchange traded derivatives to gain exposure to the underlying physical investments and for hedging purposes. Derivatives are not used speculatively. The Fund may also invest a small portion of the Fund's assets in equities of unlisted Australian companies expected to list in 12 months.

The investment objective of the Fund is to produce absolute returns and capital growth for unitholders over a 3-5 year investment horizon before taking into account Fund fees and expenses.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of market risk and ratings analysis for credit risk.

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

Market risk is the risk that changes in market prices, such as interest rates and other market prices will affect the Fund's income or the carrying value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Responsible Entity intends to limit this risk by ensuring strict adherence to the Fund's investment guidelines.

#### *(i) Price risk*

The Fund is exposed to price risk on equity securities listed or quoted on recognised securities exchange. Price risk arises from investments held by the Fund for which prices in the future are uncertain. Other market price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the majority of the Fund's investments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect net investment income.

All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from equities sold short can be unlimited.

### 3 Financial risk management (continued)

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

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

The Fund mitigates this price risk through diversification, in terms of company, industry, sector, and selection of securities in accordance with the Fund's investment guidelines.

The Fund has built in procedures to ensure adherence to the Fund's investment guidelines at all times.

At 30 June, the overall net market exposures were as follows:

|                            | <b>As at</b>            |                         |
|----------------------------|-------------------------|-------------------------|
|                            | <b>30 June<br/>2015</b> | <b>30 June<br/>2014</b> |
|                            | <b>\$</b>               | <b>\$</b>               |
| Listed equities            | <b>31,086,146</b>       | 9,341,575               |
| Listed equities sold short | <b>(7,435,320)</b>      | (2,056,000)             |
| Listed trusts              | -                       | 480,000                 |
| Listed trusts sold short   | <b>(2,620,500)</b>      | -                       |
| <b>Total</b>               | <b>21,030,326</b>       | <b>7,765,575</b>        |

The Fund manages its exposure to price risk by analysing the investment portfolio by industrial sector. The table below is a summary of the significant sector concentrations within the equity portfolio, net of securities sold short.

|                             | <b>As at<br/>30 June<br/>2015</b>  | <b>As at<br/>30 June<br/>2014</b>  |
|-----------------------------|------------------------------------|------------------------------------|
|                             | <b>Fund's equity<br/>portfolio</b> | <b>Fund's equity<br/>portfolio</b> |
| <b>Sector</b>               | <b>(%)</b>                         | <b>(%)</b>                         |
| Information technology      | <b>11.8</b>                        | 10.5                               |
| Financial services          | <b>24.3</b>                        | 6.7                                |
| Energy                      | <b>(0.7)</b>                       | 9.1                                |
| Health care                 | <b>26.5</b>                        | 4.0                                |
| Consumer staples            | <b>2.9</b>                         | (0.1)                              |
| Industrials                 | <b>(2.6)</b>                       | 7.0                                |
| Consumer discretionary      | <b>9.7</b>                         | 14.6                               |
| Utilities                   | <b>(7.2)</b>                       | -                                  |
| Materials                   | <b>35.3</b>                        | 52.1                               |
| Telecommunications services | <b>0.0</b>                         | (3.9)                              |
| <b>Total</b>                | <b>100.0</b>                       | <b>100.0</b>                       |

The table in 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 markets in which the Fund invests move by +/- 15% (2014: +/- 15%).

### 3 Financial risk management (continued)

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

##### (ii) Cash flow and fair value interest rate risk

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

The Fund 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 table below summarises the Fund's exposure to interest rate risk. It includes the Fund's assets and liabilities at fair values, categorised by the earlier of contractual repricing or maturity dates.

As at 30 June 2015

|   | Floating<br>interest rate<br>\$ | Fixed<br>interest rate<br>\$ | Non-<br>interest<br>bearing<br>\$ | Total<br>\$         |
|---|---------------------------------|------------------------------|-----------------------------------|---------------------|
| <b>Assets</b>   |                                 |                              |                                   |                     |
| Cash and cash equivalents   | 7,952,197                       | -                            | -                                 | 7,952,197           |
| Receivables   | -                               | -                            | 225,280                           | 225,280             |
| Due from brokers - receivable for securities sold                           | -                               | -                            | 6,551,002                         | 6,551,002           |
| Financial assets held at fair value through profit or loss                  | -                               | -                            | 31,086,146                        | 31,086,146          |
| <b>Total assets</b>   | <b>7,952,197</b>                | <b>-</b>                     | <b>37,862,428</b>                 | <b>45,814,625</b>   |
| <b>Liabilities</b>  |                                 |                              |                                   |                     |
| Distributions payable   | -                               | -                            | (653,072)                         | (653,072)           |
| Payables  | -                               | -                            | (732,799)                         | (732,799)           |
| Due to brokers - payable for securities purchased                           | -                               | -                            | (5,325,072)                       | (5,325,072)         |
| Financial liabilities held at fair value through profit or loss             | -                               | -                            | (10,055,820)                      | (10,055,820)        |
| <b>Total liabilities (excluding net assets attributable to unitholders)</b> | <b>-</b>                        | <b>-</b>                     | <b>(16,766,763)</b>               | <b>(16,766,763)</b> |
| <b>Net exposure</b>   | <b>7,952,197</b>                | <b>-</b>                     | <b>21,095,665</b>                 | <b>29,047,862</b>   |

### 3 Financial risk management (continued)

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

##### (ii) Cash flow and fair value interest rate risk (continued)

As at 30 June 2014

|   | Floating<br>interest rate<br>\$ | Fixed<br>interest rate<br>\$ | Non-<br>interest<br>bearing<br>\$ | Total<br>\$        |
|---|---------------------------------|------------------------------|-----------------------------------|--------------------|
| <b>Assets</b>   |                                 |                              |                                   |                    |
| Cash and cash equivalents   | 5,342,494                       | -                            | -                                 | 5,342,494          |
| Receivables   | -                               | -                            | 55,362                            | 55,362             |
| Due from brokers - receivable for securities sold                           | -                               | -                            | 984,601                           | 984,601            |
| Financial assets held at fair value through profit or loss                  | -                               | -                            | 9,821,575                         | 9,821,575          |
| <b>Total assets</b>   | <b>5,342,494</b>                | <b>-</b>                     | <b>10,861,538</b>                 | <b>16,204,032</b>  |
| <b>Liabilities</b>  |                                 |                              |                                   |                    |
| Distributions payable   | -                               | -                            | (447,426)                         | (447,426)          |
| Payables  | -                               | -                            | (987,402)                         | (987,402)          |
| Due to brokers - payable for securities purchased                           | -                               | -                            | (1,274,462)                       | (1,274,462)        |
| Financial liabilities held at fair value through profit or loss             | -                               | -                            | (2,056,000)                       | (2,056,000)        |
| <b>Total liabilities (excluding net assets attributable to unitholders)</b> | <b>-</b>                        | <b>-</b>                     | <b>(4,765,290)</b>                | <b>(4,765,290)</b> |
| <b>Net exposure</b>   | <b>5,342,494</b>                | <b>-</b>                     | <b>6,096,248</b>                  | <b>11,438,742</b>  |

The table in Note 3(b) summarises the impact of an increase/decrease of interest rates on the Fund's operating profit and net assets attributable to unitholders through changes in fair value or changes in future cash flows. The analysis is based on the assumption that interest rates changed by +/- 75 basis points (2014: +/- 75 basis points) from the year end rates with all other variables held constant.

### 3 Financial risk management (continued)

#### (b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders 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 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 shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variances in the risk variables.

|              | Impact on operating profit/<br>Net assets attributable to unitholders |           |                    |        |
|--------------|---|-----------|--------------------|--------|
|              | Price risk  |           | Interest rate risk |        |
|              | -15%  | +15%      | -75bps             | +75bps |
|              | \$  | \$        | \$                 | \$     |
| 30 June 2015 | (3,154,549)   | 3,154,549 | (59,641)           | 59,641 |
| 30 June 2014 | (1,164,836)   | 1,164,836 | (40,069)           | 40,069 |

#### (c) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. Market prices generally incorporate credit assessments into valuations and risk of loss is implicitly provided for in the carrying value of on-balance sheet financial assets and liabilities as they are carried at fair value. The total credit risk for on-balance sheet items, other than derivatives, is therefore limited to the amount carried on the Statement of Financial Position.

The Fund's maximum credit risk exposure at balance date in relation to each class of recognised financial asset, other than equity and derivative financial instruments, is the carrying amount of those assets as indicated in the balance sheet. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

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.

The Fund uses UBS AG, Australia Branch, effective 21 April 2015, as its prime broker. The Fund previously used Merrill Lynch International as a prime broker. UBS AG has a rating of A by S&P as at 30 June 2015.

##### (i) Derivative financial instruments

For derivative financial instruments, the Responsible Entity/Investment Manager has established limits such that transactions only take place with participants of the Australian Securities Exchange (ASX).

##### (ii) Settlement of securities transactions

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

### 3 Financial risk management (continued)

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

##### (iii) Cash and cash equivalents

In accordance with the Fund's policy, the Investment Manager monitors the Fund's credit position on a daily basis, and the Board of Directors reviews it on a quarterly basis.

##### (iv) Other

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

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

#### (d) Liquidity risk

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

The Fund is exposed to monthly cash redemptions of redeemable units. It therefore primarily holds investments that are traded in an active market and can be readily disposed.

The Fund will always comprise of asset classes whereby at least 80% of the Fund's total assets can reasonably be expected to be realised within ten days at all times.

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 a redemption of units if the exercise of such discretion is in the best interests of unitholders. The Fund did not reject or withhold any redemptions during 2015 and 2014.

##### (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 balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

#### As at 30 June 2015

|   | Less than<br>1 month<br>\$ | 1-6<br>months<br>\$ | 6-12<br>months<br>\$ | 1-2<br>years<br>\$ | On<br>call<br>\$ |
|---|----------------------------|---------------------|----------------------|--------------------|------------------|
| Distributions payable   | 653,072                    | -                   | -                    | -                  | -                |
| Payables  | 732,799                    | -                   | -                    | -                  | -                |
| Due to brokers - payable for securities<br>purchased          | 5,325,072                  | -                   | -                    | -                  | -                |
| Financial liabilities at fair value through<br>profit or loss | -                          | 10,055,820          | -                    | -                  | -                |
| Net assets attributable to unitholders                        | 29,047,862                 | -                   | -                    | -                  | -                |
| Contractual cash flows  | 35,758,805                 | 10,055,820          | -                    | -                  | -                |

### 3 Financial risk management (continued)

#### (d) Liquidity risk (continued)

##### (i) Maturities of non-derivative financial liabilities (continued)

As at 30 June 2014

|   | Less than<br>1 month<br>\$ | 1-6<br>months<br>\$ | 6-12<br>months<br>\$ | 1-2<br>years<br>\$ | On<br>call<br>\$ |
|---|----------------------------|---------------------|----------------------|--------------------|------------------|
| Distributions payable   | 447,426                    | -                   | -                    | -                  | -                |
| Payables  | 987,402                    | -                   | -                    | -                  | -                |
| Due to brokers - payable for securities<br>purchased          | 1,274,462                  | -                   | -                    | -                  | -                |
| Financial liabilities at fair value through<br>profit or loss | -                          | 2,056,000           | -                    | -                  | -                |
| Net assets attributable to unitholders                        | 11,438,742                 | -                   | -                    | -                  | -                |
| Contractual cash flows  | 14,148,032                 | 2,056,000           | -                    | -                  | -                |

### 4 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 (FVTPL) (see Note 6 and 7)

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 requires disclosure of fair value measurements by level of the following fair value 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) 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 to the financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets and financial liabilities held by the Fund is the last sale 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) Fair value in an inactive or unquoted market (level 2 and level 3)

The fair value of financial assets 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.

#### 4 Fair value measurement (continued)

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

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

| At 30 June 2015   | Level 1<br>\$     | Level 2<br>\$  | Level 3<br>\$ | Total<br>\$       |
|---|-------------------|----------------|---------------|-------------------|
| <b>Financial assets</b>   |                   |                |               |                   |
| Financial assets designated at fair value through profit or loss: |                   |                |               |                   |
| Australian equity securities                                      | 30,486,146        | 600,000        | -             | 31,086,146        |
| <b>Total financial assets</b>                                     | <b>30,486,146</b> | <b>600,000</b> | <b>-</b>      | <b>31,086,146</b> |

##### Financial liabilities

Financial liabilities designated at fair value through profit or loss:

|   |                   |          |          |                   |
|---|-------------------|----------|----------|-------------------|
| Australian equity securities sold short | 7,435,320         | -        | -        | 7,435,320         |
| Australian listed trusts sold short     | 2,620,500         | -        | -        | 2,620,500         |
| <b>Total financial liabilities</b>      | <b>10,055,820</b> | <b>-</b> | <b>-</b> | <b>10,055,820</b> |

| At 30 June 2014   | Level 1<br>\$    | Level 2<br>\$ | Level 3<br>\$ | Total<br>\$      |
|---|------------------|---------------|---------------|------------------|
| <b>Financial assets</b>   |                  |               |               |                  |
| Financial assets designated at fair value through profit or loss: |                  |               |               |                  |
| Australian equity securities                                      | 9,341,575        | -             | -             | 9,341,575        |
| Australian listed trusts  | 480,000          | -             | -             | 480,000          |
| <b>Total financial assets</b>                                     | <b>9,821,575</b> | <b>-</b>      | <b>-</b>      | <b>9,821,575</b> |

##### Financial liabilities

Financial liabilities designated at fair value through profit or loss:

|   |                  |          |          |                  |
|---|------------------|----------|----------|------------------|
| Australian equity securities sold short | 2,056,000        | -        | -        | 2,056,000        |
| <b>Total financial liabilities</b>      | <b>2,056,000</b> | <b>-</b> | <b>-</b> | <b>2,056,000</b> |

The Level 2 investment relates to a placement in which the Fund had subscribed to during the year. The fair value has been determined using the valuation technique of the subscription price and the amount of securities subscribed for by the Fund under the relevant offer.

##### (d) Transfers between levels

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

There were no transfers between levels at the end of the reporting period.



#### 4 Fair value measurement (continued)

##### Fair value of financial instruments not carried at fair value

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

Net assets attributable to unitholders' carrying value does not differ from its fair value (deemed to be redemption price for individual units) due to no differences in valuation inputs.

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

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

|  | Year ended       |                  |
|--|------------------|------------------|
|  | 30 June<br>2015  | 30 June<br>2014  |
|  | \$               | \$               |
| <b>Financial assets</b>  |                  |                  |
| Net gain/(loss) on financial assets held for trading   | (99,930)         | (91,061)         |
| Net gain/(loss) on financial assets designated as at fair value through profit or loss             | 3,122,254        | 2,748,332        |
| Net gains/(losses) on financial assets held at fair value through profit or loss                   | 3,022,324        | 2,657,271        |
| Net realised gain/(loss) on financial assets at fair value through profit or loss                  | 731,349          | 1,564,572        |
| Net unrealised gain/(loss) on financial assets held at fair value through profit or loss           | 2,290,975        | 1,092,699        |
| Net gains/(losses) on financial assets held at fair value through profit or loss                   | 3,022,324        | 2,657,271        |
| <b>Financial liabilities</b>   |                  |                  |
| Net gain/(loss) on financial liabilities designated as at fair value through profit or loss        | (56,463)         | (198,215)        |
| Net gains/(losses) on financial liabilities held at fair value through profit or loss              | (56,463)         | (198,215)        |
| Net realised gain/(loss) on financial liabilities at fair value through profit or loss             | (506,560)        | (175,850)        |
| Net unrealised gain/(loss) on financial liabilities held at fair value through profit or loss      | 450,097          | (22,365)         |
| Net gains/(losses) on financial liabilities held at fair value through profit or loss              | (56,463)         | (198,215)        |
| <b>Total net gains/(losses) on financial instruments held at fair value through profit or loss</b> | <b>2,965,861</b> | <b>2,459,056</b> |

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

|   | As at           |                 |
|---|-----------------|-----------------|
|   | 30 June<br>2015 | 30 June<br>2014 |
|   | \$              | \$              |
| <b>Designated at fair value through profit or loss</b>                      |                 |                 |
| Equity securities   | 31,086,146      | 9,821,575       |
| Total designated at fair value through profit or loss                       | 31,086,146      | 9,821,575       |
| <br><b>Total financial assets held at fair value through profit or loss</b> | <br>31,086,146  | <br>9,821,575   |
| <br><b>Comprising:</b>  |                 |                 |
| <b>Equity securities</b>  |                 |                 |
| Australian listed equity securities   | 31,086,146      | 9,341,575       |
| Australian listed property trusts   | -               | 480,000         |
| Total equity securities   | 31,086,146      | 9,821,575       |

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in Note 3 and 4 to the financial statements.

## 7 Financial liabilities held at fair value through profit or loss

|  | As at           |                 |
|--|-----------------|-----------------|
|  | 30 June<br>2015 | 30 June<br>2014 |
|  | \$              | \$              |
| <b>Designated at fair value through profit or loss</b>                           |                 |                 |
| Equities and trusts sold short   | 10,055,820      | 2,056,000       |
| Total designated at fair value through profit or loss                            | 10,055,820      | 2,056,000       |
| <br><b>Total financial liabilities held at fair value through profit or loss</b> | <br>10,055,820  | <br>2,056,000   |
| <br><b>Comprising:</b>   |                 |                 |
| <b>Listed equity securities sold short</b>                                       |                 |                 |
| Australian listed equity securities  | 7,435,320       | 2,056,000       |
| Australian listed property trusts  | 555,000         | -               |
| Australian listed unit trusts  | 2,065,500       | -               |
| Total listed equity securities sold short  | 10,055,820      | 2,056,000       |

An overview of the risk exposures and fair value measurements relating to financial liabilities at fair value through profit or loss is included in Note 3 and 4 to the financial statements.

## 8 Net assets attributable to unitholders

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

|  | Year ended               |                       |                          |                       |
|--|--------------------------|-----------------------|--------------------------|-----------------------|
|  | 30 June<br>2015<br>Units | 30 June<br>2015<br>\$ | 30 June<br>2014<br>Units | 30 June<br>2014<br>\$ |
| Opening balance                                    | 9,054,606                | 11,438,742            | 4,014,725                | 4,048,885             |
| Applications                                       | 11,571,221               | 16,096,400            | 5,040,275                | 5,936,015             |
| Redemptions  | (228,146)                | (311,653)             | -                        | -                     |
| Application units through series roll over         | 4,860,987                | 6,187,399             | 2,690,830                | 3,193,208             |
| Redemption units through series roll over          | (4,863,186)              | (6,187,399)           | (2,691,224)              | (3,193,208)           |
| Reinvestment of distributions                      | 196,844                  | 248,736               | -                        | -                     |
| Increase in net assets attributable to unitholders | -                        | 1,575,637             | -                        | 1,453,842             |
| Closing balance                                    | 20,592,326               | 29,047,862            | 9,054,606                | 11,438,742            |

|                                  | Year ended               |                       |                          |                       |
|----------------------------------|--------------------------|-----------------------|--------------------------|-----------------------|
|                                  | 30 June<br>2015<br>Units | 30 June<br>2015<br>\$ | 30 June<br>2014<br>Units | 30 June<br>2014<br>\$ |
| Class A (series based units)     | 19,543,219               | 27,563,493            | 9,054,606                | 11,438,742            |
| Class B (non-series based units) | 1,049,107                | 1,484,369             | -                        | -                     |
| Closing balance                  | 20,592,326               | 29,047,862            | 9,054,606                | 11,438,742            |

As stipulated in 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 in the Fund.

Each series of units within the same class has the same rights as all other units within that class, except for different performance fees. In order to ensure that unitholders bear the performance fee according to the actual performance of their units, having regard to the different dates and prices at which such units were acquired, a new series of units is issued on each unit pricing date being every month end. As soon as practicable after a performance fee is payable, all units in all series with a performance fee payable will normally be consolidated into a single series.

### Capital risk management

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

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

## 9 Distributions to unitholders

The distributions declared during the year were as follows:

|                            | Year ended      |                 |                 |                 |
|----------------------------|-----------------|-----------------|-----------------|-----------------|
|                            | 30 June<br>2015 | 30 June<br>2015 | 30 June<br>2014 | 30 June<br>2014 |
|                            | \$              | CPU             | \$              | CPU             |
| Distributions payable      | 653,072         | 3.1714          | 447,426         | 4.9414          |
| <b>Total distributions</b> | <b>653,072</b>  | <b>3.1714</b>   | <b>447,426</b>  | <b>4.9414</b>   |

## 10 Cash and cash equivalents

|              | As at            |                  |
|--------------|------------------|------------------|
|              | 30 June<br>2015  | 30 June<br>2014  |
|              | \$               | \$               |
| Cash at bank | 7,952,197        | 5,342,494        |
|              | <b>7,952,197</b> | <b>5,342,494</b> |

The weighted average interest rate of the Fund's cash and cash equivalents as at 30 June 2015 is 2.53% (2014: 2.72%).

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

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

|   | Year ended          |                    |
|---|---------------------|--------------------|
|   | 30 June<br>2015     | 30 June<br>2014    |
|   | \$                  | \$                 |
| Profit/(loss) for the year  | -                   | -                  |
| Increase in net assets attributable to unitholders  | 1,575,637           | 1,453,842          |
| Distributions to unitholders  | 653,072             | 447,426            |
| Proceeds from sale of financial instruments held at fair value through profit or loss       | 73,324,488          | 41,094,087         |
| Purchase of financial instruments held at fair value through profit or loss                 | (93,171,503)        | (46,647,606)       |
| Re-purchase of financial liabilities held at fair value through profit or loss              | 51,674,577          | 11,637,338         |
| Proceeds from short sale of financial liabilities held at fair value through profit or loss | (43,644,853)        | (10,521,473)       |
| Net gains/(losses) on financial instruments held at fair value through profit or loss       | (2,965,861)         | (2,459,056)        |
| Dividends reinvested  | 2,610               | -                  |
| Net change in receivables and other assets  | (169,918)           | (41,366)           |
| Net change in payables and other liabilities  | 215,997             | 297,057            |
| <b>Net cash outflow from operating activities</b>   | <b>(12,505,754)</b> | <b>(4,739,751)</b> |

## 11 Reconciliation of profit/(loss) to net cash outflow from operating activities (continued)

### (b) Non-cash financing activities

|  | 30 June<br>2015<br>\$ | 30 June<br>2014<br>\$ |
|--|-----------------------|-----------------------|
| The following distribution payments to unitholders were satisfied by the issue of units under the distribution reinvestment plan | <b>248,736</b>        | -                     |
| <b>Total non-cash financing activities</b>   | <b>248,736</b>        | -                     |

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

## 12 Receivables

|  | As at<br>30 June<br>2015<br>\$ | 30 June<br>2014<br>\$ |
|--|--------------------------------|-----------------------|
| Interest receivable                    | <b>16,455</b>                  | 682                   |
| Dividends and distributions receivable | <b>104,384</b>                 | 4,275                 |
| GST receivable                         | <b>104,441</b>                 | 50,405                |
| <b>Total receivables</b>               | <b>225,280</b>                 | 55,362                |

## 13 Payables

|                               | As at<br>30 June<br>2015<br>\$ | 30 June<br>2014<br>\$ |
|-------------------------------|--------------------------------|-----------------------|
| Management fees payable       | <b>38,457</b>                  | 16,099                |
| Performance fees payable      | <b>427,319</b>                 | 285,463               |
| Monies not allocated to units | <b>210,000</b>                 | 680,600               |
| Other payables                | <b>57,023</b>                  | 5,240                 |
| <b>Total payables</b>         | <b>732,799</b>                 | 987,402               |

## 14 Remuneration of auditor

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

|   | <b>Year ended</b>       |                         |
|---|-------------------------|-------------------------|
|   | <b>30 June<br/>2015</b> | <b>30 June<br/>2014</b> |
|   | <b>\$</b>               | <b>\$</b>               |
| <b>Nexia Melbourne</b>                                    |                         |                         |
| <i>Audit and other assurance services</i>                 |                         |                         |
| Audit of financial statements                             | 10,500                  | 9,000                   |
| Audit of compliance plan                                  | 2,200                   | 2,100                   |
| Review of migration of scheme assets                      | 1,750                   | -                       |
| Total remuneration for audit and other assurance services | 14,450                  | 11,100                  |
| <i>Taxation services</i>                                  |                         |                         |
| Tax compliance services                                   | 7,600                   | 4,000                   |
| Total remuneration for taxation services                  | 7,600                   | 4,000                   |
| <b>Total remuneration of Nexia Melbourne</b>              | <b>22,050</b>           | <b>15,100</b>           |

The auditor's remuneration is borne by the Responsible Entity.

Fees are stated net of GST.

## 15 Related party transactions

The Responsible Entity of Paragon Fund is Paragon Funds Management Ltd (ABN 42 159 623 873) (AFSL 426800). Accordingly, transactions with entities related to Paragon Funds Management Ltd are disclosed below.

The Responsible Entity has contracted services to UBS AG, Australia Branch (2014: UBS AG Nominees Pty Ltd) to act as Prime Broker and White Outsourcing Pty Limited to act as Administrator for the Fund. The contracts are on normal commercial terms and conditions.

### (a) Directors

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

Mr John Deniz  
Mr Nick Reddaway  
Ms Hillier Deniz

### (b) Other key management personnel

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

### (c) Transactions with key management personnel

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

Key management personnel did not hold units in the Fund as at 30 June 2015 (30 June 2014: nil).

## **15 Related party transactions (continued)**

### **(d) Key management personnel compensation**

Key management personnel are paid by Paragon Funds Management Ltd. Payments made from the Fund to Paragon 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 the key management personnel or their personally related entities at any time during the reporting period.

### **(f) Other transactions within the Fund**

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

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

Under the terms of the Product Disclosure Statement, the Investment Manager is entitled to receive management fees of up to 1.5% per annum (inclusive of GST net of RITC), calculated by reference to the monthly net assets value of the Fund and payable monthly by the Fund.

In addition, the investment manager is entitled to a performance fee calculated at the end of each month, monthly in arrears and paid at the end of each half year period ending 30 June and 31 December. The performance fee is calculated as 20% (inclusive of GST net of RITC) of the Fund's out-performance of the benchmark return subject to a 5% hurdle rate and a high-watermark. At 30 June 2015, a performance fee of \$546,873 (inclusive of GST net of RITC) was recorded in the Fund (2014: \$480,733).

Transactions with related parties have taken place in the ordinary course of business. The transactions during the year and amounts payable at year end between the Fund and the Responsible Entity and the Investment Manager were as follows:

|  | <b>Year ended</b>       |                         |
|--|-------------------------|-------------------------|
|  | <b>30 June<br/>2015</b> | <b>30 June<br/>2014</b> |
|  | <b>\$</b>               | <b>\$</b>               |
| Management fees for the year paid by the Fund to the Investment Manager  | <b>332,914</b>          | 116,338                 |
| Performance fees for the year paid by the Fund to the Investment Manager   | <b>546,873</b>          | 480,733                 |
| Fees earned by the Responsible Entity in respect of investments by the Fund in other schemes managed by the Responsible Entity | <b>114,477</b>          | 38,795                  |
| Fees earned by the Responsible Entity in respect of preliminary expenses   | <b>16,968</b>           | -                       |
| Aggregate amounts payable to the Investment Manager at the end of the reporting period   | <b>465,776</b>          | 301,562                 |
| Aggregate amounts payable to the Responsible Entity at the end of the reporting period   | <b>21,529</b>           | 5,265                   |

## 15 Related party transactions (continued)

### (h) Related party unitholdings

Parties related to the Fund (including Paragon Funds Management Ltd, its related parties and other schemes managed by Paragon Funds Management Ltd), held units in the Fund as follows:

#### 2015

| Unitholder   | No. of<br>units held<br>opening<br>(Units) | No. of<br>units held<br>closing<br>(Units) | Fair value<br>of<br>investment<br>(\$) | Interest<br>held<br>(%) | Distributions<br>paid/payable<br>by the Fund<br>(\$) |
|--|--|--|--|-------------------------|--|
| Deniz Pty Ltd ATF The Deniz Family Trust                                     | 928,477                                    | 1,006,325                                  | 1,418,694                              | 4.89                    | 31,915   |
| M & H Harlock Pty Ltd ATF M & H Harlock<br>Superannuation Fund               | 217,167                                    | 225,660                                    | 318,073                                | 1.10                    | 7,157  |
| John & Prudence Deniz ATF Deniz<br>Superannuation Fund                       | 205,972                                    | 231,493                                    | 326,324                                | 1.12                    | 7,342  |
| Nick Reddaway & Catherine Doggett ATF<br>Reddaway Family Superannuation Fund | 214,965                                    | 244,391                                    | 344,567                                | 1.19                    | 7,751  |
| Reddaway Investment Pty Ltd ATF The<br>Reddaway Family Trust                 | 270,000                                    | 315,693                                    | 445,189                                | 1.53                    | 10,012   |
|  | <b>1,836,581</b>                           | <b>2,023,562</b>                           | <b>2,852,847</b>                       | <b>9.83</b>             | <b>64,177</b>  |

#### 2014

| Unitholder   | No. of<br>units held<br>opening<br>(Units) | No. of<br>units held<br>closing<br>(Units) | Fair value<br>of<br>investment<br>(\$) | Interest<br>held<br>(%) | Distributions<br>paid/payable<br>by the Fund<br>(\$) |
|--|--|--|--|-------------------------|--|
| Deniz Pty Ltd ATF The Deniz Family Trust                                     | 463,746                                    | 928,477                                    | 1,172,439                              | 10.25                   | 45,880   |
| M & H Harlock Pty Ltd ATF M & H Harlock<br>Superannuation Fund               | 217,241                                    | 217,167                                    | 274,413                                | 2.40                    | 10,731   |
| John & Prudence Deniz ATF Deniz<br>Superannuation Fund                       | 179,476                                    | 205,972                                    | 260,248                                | 2.28                    | 10,178   |
| Nick Reddaway & Catherine Doggett ATF<br>Reddaway Family Superannuation Fund | 205,000                                    | 214,965                                    | 271,630                                | 2.37                    | 10,622   |
| Reddaway Investment Pty Ltd ATF The<br>Reddaway Family Trust                 | 270,000                                    | 270,000                                    | 341,172                                | 2.98                    | 13,342   |
|  | <b>1,335,463</b>                           | <b>1,836,581</b>                           | <b>2,319,902</b>                       | <b>20.28</b>            | <b>90,753</b>  |

### (i) Investments

The Fund did not hold any investments in Paragon Funds Management Ltd or its related parties during the year (2014: nil).

## 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 disclosed in the Statement of Financial Position as at 30 June 2015 or on the results and cash flows of the Fund for the year ended on that date.



### **Directors' declaration**

In the opinion of the Directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 32 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 2015 and of its performance for the year ended on that date,
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable, and
- (c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors of Paragon Funds Management Ltd.



Mr John Deniz  
Director

Melbourne, VIC  
18 September 2015

## INDEPENDENT AUDITOR'S REPORT TO THE UNITHOLDERS OF PARAGON FUND

### Report on the Financial Report

We have audited the accompanying financial report of Paragon Fund (the "Scheme"), which comprises the statement of financial position as at 30 June 2015, the statement of profit or loss and other comprehensive income, statement of changes in net assets and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### *Directors' Responsibility for the Financial Report*

The directors of the Paragon Funds Management Limited (the "Responsible Entity") 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 is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101: Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Scheme's preparation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Responsible Entity, would be in the same terms if provided to the directors as at the date of this auditor's report.

#### Nexia Melbourne

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*Auditor's Opinion*

In our opinion:

- a. the financial report of Paragon Fund is in accordance with the *Corporations Act 2001*, including:
  - i. giving a true and fair view of the Scheme's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - ii. complying with Australian Accounting Standards (including Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- b. the financial report also complies with International Financial Reporting Standards as disclosed in Note 2.

  
**NEXIA MELBOURNE**  
ABN 16 847 721 257

  
**GEORGE S DAKIS**  
**Partner**  
**Audit & Assurance Services**

Melbourne

18 September 2015