

K2 Australian Small Cap Fund

ARSN 166 480 584

Financial report

For the year ended 30 June 2016

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Directors' report

The directors of K2 Asset Management Ltd (ABN 95 085 445 094), the Responsible Entity of K2 Australian Small Cap Fund, present their report together with the financial statements of K2 Australian Small Cap Fund (the "Fund") for the year ended 30 June 2016 and the auditor's report thereon.

Principal activities

The Fund continued to invest in accordance with target asset allocations as set out in the current Product Disclosure Statement and in accordance with the provisions of the Fund's Constitution.

The Fund did not have any employees during the year.

During the year the Fund was admitted to trading status on the ASX under the AQUA Rules (ASX code: KSM). The units of the Fund commenced trading on the ASX on 15 December 2015.

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

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

Directors

The following persons held office as directors of K2 Asset Management Ltd during the year or since the end of the year and up to the date of this report:

Campbell W Neal
Mark S Newman
Robert C Hand
Hollie A Wight

Service providers

The Responsible Entity and Investment Manager of the Fund is K2 Asset Management Ltd.

The Custodians of the Fund are Morgan Stanley & Co International Plc and State Street Australia Limited.

The Administrator of the Fund is State Street Australia Limited.

The Unit Registry service provider of the Fund is Boardroom Pty Limited.

The registered office and principal place of business of the Responsible Entity and the Fund is Level 32, 101 Collins Street, Melbourne, Victoria, 3000.

Review and results of operations

The Fund maintains its long/short investment strategy in Small Cap listed equities and other investment instruments in Australia and New Zealand as permitted by the Fund's Constitution.

The investment policy of the Fund continues to be that detailed in the current Product Disclosure Statement and in accordance with the provisions of the Fund's Constitution.

Directors' report (continued)

Review and results of operations (continued)

Results

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

	Year ended	
	30 June 2016	30 June 2015
Operating profit/(loss) before finance costs attributable to unitholders (\$'000)	1,712	2,181
Distributions		
Distributions paid and payable (\$'000)	-	668
Distribution (dollars per unit)	-	4.48

Net Asset Value (NAV) per unit

NAV per unit is shown as follows:

	2016	2015
	\$	\$
At 30 June	2.50	122.87

In preparation for the Fund being admitted to trading status on the ASX under the AQUA rules, effective 1 December 2015, a unit split transaction was processed to convert the unit price of the Fund from \$134.64 to \$2.50. For further information on this transaction, please refer to note 9.

Significant changes in state of affairs

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

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

The 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.

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

Directors' report (continued)

Indemnity and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of K2 Asset Management Ltd or the auditors of the Fund. So long as the officers of K2 Asset Management Ltd act in accordance with the Fund's Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

Fees paid to and interests held in the Fund by 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 17 to the financial statements.

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

Units held in the Fund by the Responsible Entity or its related parties as at the end of the year are disclosed in note 17 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is set out below:

	30 June 2016 No. '000	30 June 2015 No. '000
Units on issue - 1 July	149	125
Units issued during the year	10,610	41
Units redeemed during the year	(1,958)	(18)
Units issued upon reinvestment of distributions	<u>3</u>	<u>1</u>
Units on issue - 30 June	<u>8,804</u>	<u>149</u>

	2016 \$'000	2015 \$'000
Value of assets		
Net value of the Fund's assets at 30 June	<u>21,987</u>	<u>18,339</u>

In preparation for the quotation of the fund on the ASX under the AQUA rules on 15 December 2015, effective 1 December 2015, a unit split transaction was processed. This resulted in an additional 9,893,556 units being issued to investors. For further information on the transaction, please refer to note 9.

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

Environmental regulation

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

Rounding of amounts to the nearest thousand dollars

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

Directors' report (continued)

Lead auditor's independence declaration

A copy of the Lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6 and forms part of the Directors' report.

This report is made in accordance with a resolution of the directors of K2 Asset Management Ltd.



Hollie A Wight
Director

Melbourne
10 August 2016



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

To: the directors of K2 Asset Management Ltd, the Responsible Entity of K2 Australian Small Cap Fund

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 there have been:

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

KPMG

KPMG

A handwritten signature in blue ink, appearing to read 'Dean Waters', written over a blue horizontal line.

Dean Waters

Partner

Melbourne

10 August 2016

Statement of comprehensive income

	Notes	Year ended	
		30 June 2016 \$'000	30 June 2015 \$'000
Investment income			
Interest income		-	43
Dividend and distribution income		643	370
Net gains/(losses) on financial instruments held at fair value through profit or loss	6	2,645	2,801
Net foreign exchange gains/(losses)		(177)	120
Other operating income		-	1
Total Investment income/(loss)		<u>3,111</u>	<u>3,335</u>
Expenses			
Responsible Entity's fees	17	16	12
Management fees	17	478	371
Auditor's remuneration	13	35	41
Transaction costs		34	31
Performance fees	17	599	557
Administrative expenses		182	115
Interest expense		3	-
Other operating expenses	14	52	27
Operating expenses before finance costs		<u>1,399</u>	<u>1,154</u>
Profit/(loss) from operating activities		<u>1,712</u>	<u>2,181</u>
Finance costs attributable to unitholders			
Distributions to unitholders	10	-	(668)
Change in net assets attributable to unitholders (total comprehensive income)	9	<u>1,712</u>	<u>1,513</u>

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

Statement of financial position

		As at	
	Notes	30 June 2016 \$'000	30 June 2015 \$'000
Assets			
Cash and cash equivalents	11	2,798	5,760
Receivables	15	81	64
Due from brokers - receivable for securities sold		282	603
Financial assets held at fair value through profit or loss	7	<u>21,015</u>	<u>15,501</u>
Total assets		<u>24,176</u>	<u>21,928</u>
Liabilities			
Bank overdrafts	11	1,598	2,358
Payables	16	169	105
Performance fee payable	17	6	340
Due to brokers - payable for securities purchased		416	118
Distributions payable	10	<u>-</u>	<u>668</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>2,189</u>	<u>3,589</u>
Net assets attributable to unitholders - liability	9	<u>21,987</u>	<u>18,339</u>

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

Statement of changes in equity

The Fund's net assets attributable to unitholders are classified as a liability under AASB 132 *Financial Instruments: Presentation*. As the Fund has no equity, the Fund has not presented any items of changes in equity for the current or comparative year.

Statement of cash flows

	Notes	Year ended	
		30 June 2016 \$'000	30 June 2015 \$'000
Cash flows from operating activities			
Dividends and distributions received		618	330
Interest received		-	47
Other income received		-	(5)
Responsible Entity's fees paid		(16)	(12)
Management fees paid		(474)	(362)
Performance fees paid		(934)	(499)
Payment of other operating expenses		(238)	(439)
Net foreign exchange gain/(loss)		<u>10</u>	<u>(16)</u>
Net cash inflow/(outflow) from operating activities	12(a)	<u>(1,034)</u>	<u>(956)</u>
Cash flows from investing activities			
Proceeds from sale of financial instruments held at fair value through profit or loss		20,779	18,397
Purchase of financial instruments held at fair value through profit or loss		<u>(23,029)</u>	<u>(22,678)</u>
Net cash inflow/(outflow) from investing activities		<u>(2,250)</u>	<u>(4,281)</u>
Cash flows from financing activities			
Proceeds from applications by unitholders		7,430	4,988
Payments for redemptions by unitholders		(5,831)	(2,285)
Distributions paid		<u>(330)</u>	<u>(161)</u>
Net cash inflow/(outflow) from financing activities		<u>1,269</u>	<u>2,542</u>
Net increase/(decrease) in cash and cash equivalents		(2,015)	(2,695)
Cash and cash equivalents at the beginning of the year		3,402	5,961
Effects of foreign currency exchange rate changes on cash and cash equivalents		<u>(187)</u>	<u>136</u>
Cash and cash equivalents at the end of the year	11	<u>1,200</u>	<u>3,402</u>

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

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1 General information

These financial statements cover K2 Australian Small Cap Fund (the "Fund") as an individual entity which is a registered managed investment scheme under the *Corporations Act 2001* and was admitted to trading status on the ASX under the AQUA Rules on 15 December 2015. The Fund was registered with the Australian Securities and Investments Commission (ASIC) as a registered managed investment scheme on 11 November 2013 and began operations on 2 December 2013. The Fund will terminate on 12 November 2093 unless terminated earlier in accordance with the provisions of the Fund's Constitution.

The Responsible Entity of the Fund is K2 Asset Management Ltd (the "Responsible Entity"). The Responsible Entity's registered office is Level 32, 101 Collins Street, Melbourne VIC 3000. The financial statements are presented in Australian currency.

These financial statements were approved by the Board of Directors of the Responsible Entity and authorised for issue by the directors on 10 August 2016. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

The financial statements of the Fund are for the year ended 30 June 2016.

2 Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001* in Australia. K2 Australian Small Cap Fund is a for-profit fund for the purpose of preparing the financial statements.

The financial statements are prepared on the historical cost basis except for financial instruments held at fair value through profit or loss, which are measured at fair value.

The statement of financial position is presented on a liquidity basis.

Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders.

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 at the end of the reporting period.

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

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

The financial statements of the Fund also comply with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2015 that have a material impact on the Fund.

2 Summary of significant accounting policies (continued)

(b) Financial instruments

(i) Valuation of financial assets and liabilities categorised as fair value through profit or loss

The Fund has designated all of its investments at fair value through profit or loss. These securities are initially recognised at fair value, typically represented by cost excluding transaction costs, which are expensed as incurred. Investments are valued at their fair value at the end of each reporting period. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss category are included in the statement of comprehensive income in the period in which they arise. The following represent the basis of valuation for financial reporting purposes.

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

(ii) Accounting for financial assets and liabilities designated at fair value through profit or loss

Trading security transactions are recorded on a trade date basis and are initially recognised at fair value, typically represented by cost excluding transaction costs. On disposal, the resulting gain or loss is included in the statement of comprehensive income. Unrealised gains and losses on trading securities are reflected in the statement of comprehensive income.

The Fund may sell trading securities short in anticipation of a decline in the fair value of that security. When the Fund sells a security short, it must borrow the security sold short and deliver it to the broker-dealer through which it made the short sale. At the end of each reporting period, the liability for the obligation to replace the borrowed security is marked-to-market and an unrealised gain or loss equal to the difference between the price at the end of each reporting period and the cost of replacing the security is recorded in the statement of comprehensive income. A gain or loss is realised and included in the statement of comprehensive income when a closing position is entered into by the Fund offsetting the short position.

The fair value through profit or loss classification is available for the majority of the financial assets held by the Fund and the financial liabilities arising from the units on issue must be fair valued. In addition, the Fund's performance and risk management are assessed on a fair value basis.

(iii) Accounting for financial instruments held for trading

These include derivative financial instruments. All derivatives in a net receivable or payable position are shown gross and reported as either derivative financial assets or derivative financial liabilities. The Fund does not designate any derivatives as hedges in a hedging relationship.

The fair value of derivative financial instruments traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. In addition, financial assets and financial liabilities are priced at last traded prices.

(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 interest of the unitholders. The units can be put back to the Fund at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to 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 banks, other short term, highly liquid investments including cash management trusts, and bank overdrafts (which are shown separately on the statement of financial position).

2 Summary of significant accounting policies (continued)

(e) Investment income

Interest income is recognised in the statement of comprehensive income for all financial instruments on an accruals basis, using the effective interest method of the instrument calculated at the acquisition or origination date.

Dividend income relating to exchange-traded equity instruments is recognised in the statement of comprehensive income on the ex-dividend date with any related foreign withholding tax recorded as an expense. Distribution income is recognised on an entitlement basis.

(f) Expenses

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

The performance fee is calculated and accrued daily based on the NAV (Net Asset Value) (before performance fee) of the Fund and is paid in arrears on a semi-annual basis as at the last business day in December and June. Performance fees are paid where applicable on redemptions throughout the financial year on a pro-rata basis.

Dividends declared on securities sold short are accrued on ex-dividend date and recognised as an expense in the statement of comprehensive income.

(g) Income tax

Under current legislation, the Fund is not subject to income tax provided the taxable income of the Fund is fully distributed either by way of cash or reinvestment. The Fund fully distributes its distributable income, calculated in accordance with the Fund's Constitution and applicable taxation legislation, to the unitholders who are presently entitled to the income under the Fund's Constitution.

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

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

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

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.

(h) Distributions

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

(i) Change in net assets attributable to unitholders

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

(j) Foreign currency translation

(i) Functional and presentation currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which they operate (the "functional currency"). The Fund's functional currency is the Australian dollar. This is also the Fund's presentation currency.

2 Summary of significant accounting policies (continued)

(j) Foreign currency translation (continued)

(ii) Transactions and balances

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

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

(k) 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 two business days. A provision for impairment of amounts due from brokers is established 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 bankruptcy or financial reorganisation and default in payments.

(l) Receivables

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

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

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

(m) Payables

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

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

(n) Applications and redemptions

Unit application and redemption prices are determined by reference to the unit price methodology outlined in the Fund's Constitution and Product Disclosure Statement. These prices may differ from the market price quoted on the ASX.

2 Summary of significant accounting policies (continued)

(o) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as audit fees, custodial services and investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of 55% - 75%; hence investment management 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.

(p) Use of estimates

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

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

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

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

(q) Rounding of amounts

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

(r) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

(s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2016 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:

(i) 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.

2 Summary of significant accounting policies (continued)

(s) New accounting standards and interpretations (continued)

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 if it will early adopt AASB 9.

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

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

The new standard 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, 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 the new revenue recognition rules to have a significant impact on the Fund's accounting policies or the amounts recognised in the financial statements.

The Fund does not intend to early adopt AASB 15.

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

(t) Comparative disclosures

Where appropriate, comparative disclosures have been reclassified/amended to be consistent with the current year's presentation. Such reclassifications/amendments have not affected the statement of comprehensive income or statement of financial position.

3 Financial risk management

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

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Product Disclosure Statement and Constitution and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Financial risk management is carried out by the investment management team using policies approved by the Board of Directors of the Responsible Entity (the "Board"). These policies include exposure limits, hedging and stop loss guidelines. Other aspects of risk are overseen by the Responsible Entity's compliance committee.

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

(a) Market risk

(i) Price Risk

The Fund is exposed to equity securities and derivative securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Where non-monetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate due to changes in foreign exchange rates. Paragraph (ii) sets out how this component of price risk is managed and measured. They are classified on the statement of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital. Except for equities sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instrument. Possible losses from equities sold short can be unlimited. Policies restricting exposure to short positions aim to reduce this risk along with stop loss strategies that provide investment managers with instant notification when a position falls below a

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Price Risk (continued)

defined performance target. This enables investment managers to immediately execute a trade to minimise losses when the prices of short positions are rising or when prices on long positions are falling. Compliance with exposure limits and stop loss guidelines is reviewed on a daily basis by the investment managers.

The Fund also enters into over-the-counter option contracts to meet the requirements of its risk management and trading activities. The Fund monitors its positions to reduce the risk of potential loss due to changes in market value or failure of counterparties to perform.

The Investment Manager also aims to mitigate risk through diversification and a careful selection of securities and other financial instruments within specified limits set by the Board.

The majority of the Fund's equity investments are publicly traded on stock exchanges as described in the Product Disclosure Statement.

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 assumptions that the markets in which the Fund invests increased/(decreased) by 10% (2015: 10%). The impact mainly arises from the possible change in the fair value of listed equities and equity derivatives.

(ii) Foreign exchange risk

The Fund holds both monetary and non-monetary assets denominated in currencies other than the Australian dollar. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk. Foreign exchange risk arises as the value of monetary securities denominated in other currencies fluctuate due to changes in exchange rates. The Investment Manager aims to mitigate this risk via actively managing its currency exposure. One hundred percent of a foreign currency may be hedged or alternatively the Investment Manager may elect to have no currency hedging implemented. The risk is measured using sensitivity analysis.

The investment strategy for foreign exchange exposure is reviewed on a daily basis.

The table below summarises the Fund's major exposure to assets and liabilities that are denominated in a currency other than the Australian dollar.

	30 June 2016	30 June 2015
	NZD	NZD
	A\$'000	A\$'000
Cash and cash equivalents	(1,598)	(2,358)
Receivables	13	13
Due from brokers - receivable for securities sold	194	-
Payables	(6)	(10)
Financial assets held at fair value through profit or loss	1,790	2,253
	393	(102)

The table in note 3(b) summarises the sensitivities of the Fund's monetary assets and liabilities to foreign exchange risk. The analysis is based on the assumption that the Australian dollar weakened/strengthened by 10% (2015: 10%) against other currencies to which the Fund is exposed.

(iii) Interest rate risk

The Fund's interest bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

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

30 June 2016	Floating interest rate \$'000	Fixed interest rate \$'000	Non interest bearing \$'000	Total \$'000
Assets				
Cash and cash equivalents	2,798	-	-	2,798
Receivables	-	-	81	81
Due from brokers - receivable for securities sold	-	-	282	282
Financial assets held at fair value through profit and loss	-	-	21,015	21,015
Liabilities				
Bank overdrafts	(1,598)	-	-	(1,598)
Payables	-	-	(169)	(169)
Performance fee payable	-	-	(6)	(6)
Due to brokers - payable for securities purchased	-	-	(416)	(416)
Net exposure	1,200	-	20,787	21,987

30 June 2015	Floating interest rate \$'000	Fixed interest rate \$'000	Non interest bearing \$'000	Total \$'000
Assets				
Cash and cash equivalents	5,760	-	-	5,760
Receivables	-	-	64	64
Due from brokers - receivable for securities sold	-	-	603	603
Financial assets held at fair value through profit and loss	-	-	15,501	15,501
Liabilities				
Bank overdrafts	(2,358)	-	-	(2,358)
Payables	-	-	(105)	(105)
Performance fee payable	-	-	(340)	(340)
Due to brokers - payable for securities purchased	-	-	(118)	(118)
Distributions payable	-	-	(668)	(668)
Net exposure	3,402	-	14,937	18,339

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

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 +/- 125 basis points (2015: +/- 125 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 interest rate risk, foreign exchange risk and other price risk. 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 foreign exchange rates, 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 unusual market movements 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 variations in the risk variables.

	Price risk		Interest rate risk		Foreign exchange risk	
	Impact on operating profit/Net assets attributable to unitholders					
	-10%	+10%	-125bps	+125bps	-10%	+10%
					NZD	NZD
	\$'000	\$'000	\$'000	\$'000	A\$'000	A\$'000
30 June 2016	(2,101)	2,101	(15)	15	(39)	39
30 June 2015	(1,550)	1,550	(43)	43	10	(10)

(c) Credit risk

Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are past due or impaired.

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

The Fund does not have any significant credit risk exposure to any single counterparty or counterparties having similar characteristics except for cash held with custodians. The creditworthiness of counterparties is reviewed by the Board to further assist in mitigating this risk. The credit rating of the prime broker and Fund administrator is reviewed annually and on an as needs basis.

Collateral pledged under prime brokerage agreements

The Fund has entered into a prime brokerage agreement with the Fund's prime broker. The prime broker is only able to charge, onlend or otherwise use a limited amount of the assets of the Fund, based on the liabilities owed to the prime broker, including amounts due to brokers for securities purchased and securities sold short. If there are no liabilities owing then none of the Fund assets can be used by the prime broker.

(d) Liquidity risk

Liquidity risk occurs when securities become illiquid and as a result the position becomes difficult to exit. The Investment Manager aims to mitigate this risk by only investing in those markets that provide reasonable liquidity. Portfolio liquidity testing is conducted regularly to assess the time frames required to exit current positions.

The Fund's listed securities are considered readily realisable, as the majority are listed on viable stock exchanges.

The Fund may, from time to time, invest in derivative contracts traded over the counter or hold securities suspended from trading, which are not traded in an organised market and may be illiquid. As a result, the Fund may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer or counterparty.

3 Financial risk management (continued)

(d) Liquidity risk (continued)

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period from contractual maturity date to the year end date. The amounts in the table are contractual undiscounted cash flows.

At 30 June 2016	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	No stated maturity \$'000
Bank overdrafts	-	-	-	-	1,598
Payables	169	-	-	-	-
Performance fee payable	6	-	-	-	-
Due to brokers - payable for securities purchased	416	-	-	-	-
Net assets attributable to unitholders	<u>21,987</u>	-	-	-	-
Total liabilities	<u>22,578</u>	-	-	-	<u>1,598</u>

At 30 June 2015	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	No stated maturity \$'000
Bank overdrafts	-	-	-	-	2,358
Payables	105	-	-	-	-
Performance fee payable	340	-	-	-	-
Due to brokers - payable for securities purchased	118	-	-	-	-
Distributions payable	668	-	-	-	-
Net assets attributable to unitholders	<u>18,339</u>	-	-	-	-
Total liabilities	<u>19,570</u>	-	-	-	<u>2,358</u>

The table above shows the undiscounted cash flows of the Fund's financial liabilities on the basis of their earliest possible contractual maturity. The carrying amounts approximate the nominal amounts.

The bank overdraft relates to the multi-currency cash account, held with Morgan Stanley in line with the Prime Brokerage agreement. The prime broker is only able to charge, onlend or otherwise use a limited amount of the assets of the Fund, based on the liabilities owed to the prime broker, including amounts due to brokers for securities purchased and securities sold short. Interest is paid at floating interest rates.

4 Offsetting financial assets and financial liabilities

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

Financial assets	Effects of offsetting on the statement of financial position			Related amounts not offset		
	Gross amounts of financial assets \$'000	Gross amounts set off in the statement of financial position \$'000	Net amount of financial assets presented in the statement of financial position \$'000	Amounts subject to master netting arrangements \$'000	Collateral received \$'000	Net Amount \$'000
30 June 2016						
Derivative financial instruments (i)	-	-	-	-	-	-
Total	-	-	-	-	-	-
30 June 2015						
Derivative financial instruments (i)	174	-	174	-	-	174
Total	174	-	174	-	-	174

(i) Master netting arrangement – not currently enforceable

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

5 Fair value measurement

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

- Financial assets / liabilities at fair value through profit or loss (see note 7)
- Financial assets / liabilities held for trading (see note 7)
- Derivative financial instruments (see note 8)

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

AASB 13 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).

5 Fair value measurement (continued)

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

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in note 2 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 is the last traded price. When the Fund holds derivatives with offsetting market risks, it uses last traded prices as a basis for establishing fair values for the offsetting risk positions and applies this last traded price to the net open position, as appropriate.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

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

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

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

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

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such funds. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

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

5 Fair value measurement (continued)

Recognised fair value measurements

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 30 June 2016 and 30 June 2015.

As at 30 June 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets designated at fair value through profit or loss:				
Equity securities	21,015	-	-	21,015
Total	21,015	-	-	21,015

As at 30 June 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets held for trading:				
Derivatives	174	-	-	174
Financial assets designated at fair value through profit or loss:				
Equity securities	15,327	-	-	15,327
Total	15,501	-	-	15,501

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

(i) Transfers between levels

There were no transfers between levels in the fair value hierarchy for the year ended 30 June 2016 and 30 June 2015. There were also no changes made to any of the valuation techniques applied as of 30 June 2015.

Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

(ii) Fair value measurements using significant unobservable inputs (level 3)

The Fund did not hold any financial instruments with fair value measurements using significant unobservable inputs during the year ended 30 June 2016 or year ended 30 June 2015.

(iii) Valuation processes

Portfolio reviews are undertaken regularly by management to identify securities that potentially may not be actively traded or have stale security pricing. This process identifies securities which possibly could be regarded as being level 3 securities.

Further analysis, should it be required, is undertaken to determine the accounting significance of the identification. For certain security types, in selecting the most appropriate valuation model, management performs back testing and considers actual market transactions. Changes in allocation to or from level 3 are analysed at the end of each reporting period.

(iv) Fair values of other financial instruments

The Fund did not hold any financial instruments which were not measured at fair value in the statement of financial position. Due to their short term nature, the carrying amounts of receivables and payables are assumed to approximate their fair value.

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

The following table details the gains and losses recognised in relation to financial assets and liabilities at fair value through profit or loss:

	Year ended	
	30 June 2016 \$'000	30 June 2015 \$'000
Financial assets		
Net gain/(loss) on financial assets held for trading	(174)	25
Net gain/(loss) on financial assets designated at fair value through profit or loss	<u>2,820</u>	<u>2,776</u>
Net gains/(losses) on financial assets held at fair value through profit and loss	<u>2,646</u>	<u>2,801</u>
Financial liabilities		
Net gain/(loss) on financial liabilities held for trading	<u>(1)</u>	-
Net gains/(losses) on financial liabilities held at fair value through profit and loss	<u>(1)</u>	-
Total net gains/(losses) from financial instruments held at fair value through profit or loss	<u>2,645</u>	<u>2,801</u>

7 Financial assets held at fair value through profit or loss

	As at	
	30 June 2016 \$'000	30 June 2015 \$'000
Held for trading		
Derivatives (Note 8)	-	174
Total held for trading	<u>-</u>	<u>174</u>
Designated at fair value through profit or loss		
Australian equity securities	19,225	13,074
New Zealand equity securities	<u>1,790</u>	<u>2,253</u>
Total designated at fair value through profit or loss	<u>21,015</u>	<u>15,327</u>
Total financial assets held at fair value through profit or loss	<u>21,015</u>	<u>15,501</u>

The amount above includes \$318,118 (2015: \$Nil) of equity securities onlent to the Fund's Prime Broker in accordance with the Prime Brokerage agreement, Refer to note 3(c).

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

8 Derivative financial instruments

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

8 Derivative financial instruments (continued)

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

Derivative transactions include many different instruments, such as futures, foreign currency contracts and swaps. Consequently, the use of derivatives is multifaceted and may include:

- hedging to protect an asset or liability of the Fund against a fluctuation in market values or to reduce volatility;
- a substitution for trading of physical securities; and
- adjusting asset exposures within the parameters set in the investment strategy.

Derivatives are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Fund.

The Fund holds no derivatives in the current year.

(a) Warrants

Warrants are an option to purchase additional securities from the issuer at a specified price during a specified period. Warrants are valued at the prevailing close price at the end of the reporting period. The Fund recognises a gain or loss equal to the change in fair value at the reporting date.

The Fund's derivative financial instruments at year ended 30 June 2016 and 30 June 2015 are detailed below:

	Contract/ Notional \$'000	Fair Values	
		Assets \$'000	Liabilities \$'000
30 June 2016			
Warrants	-	-	-
	-	-	-
	Contract/ Notional \$'000	Fair Values	
		Assets \$'000	Liabilities \$'000
30 June 2015			
Warrants	-	174	-
	-	174	-

An overview of the risk exposures relating to derivatives is included in note 3 and note 5.

9 Net assets attributable to unitholders

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

	As at			
	30 June 2016 No. '000	30 June 2015 No. '000	30 June 2016 \$'000	30 June 2015 \$'000
Net assets attributable to unitholders				
Opening balance	149	125	18,339	13,993
Applications - Pre ASX Quotation	72	41	5,838	4,988
Redemptions - Pre ASX Quotation	(40)	(18)	(1,245)	(2,285)
Unit Split - New Units Issued	9,894	-	-	-
Applications - Post ASX Quotation	644	-	1,592	-
Redemptions - Post ASX Quotation	(1,918)	-	(4,587)	-
Units issued upon reinvestment of distributions	3	1	338	130
Increase/(decrease) in net assets attributable to unitholders	-	-	1,712	1,513
Closing balance	<u>8,804</u>	<u>149</u>	<u>21,987</u>	<u>18,339</u>

In preparation for the quotation of the Fund on the ASX under the AQUA rules on 15 December 2015, effective 1 December 2015, a unit split transaction was processed to convert the unit price of the Fund from \$134.64 to \$2.50. This resulted in an additional 9,893,556 units being issued to investors.

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

Capital risk management

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

The Fund monitors the level of daily applications and redemptions relative to the liquid assets in the Fund. The Fund strives to invest in securities that meet the Fund's investment objectives while maintaining sufficient liquidity to meet unitholders' redemptions.

10 Distributions to unitholders

The distributions for the year were as follows:

	As at			
	30 June 2016 \$'000	30 June 2016 DPU	30 June 2015 \$'000	30 June 2015 DPU
Distributions payable	-	-	668	4.48
Total	<u>-</u>	<u>-</u>	<u>668</u>	<u>4.48</u>

11 Cash and cash equivalents

	As at	
	30 June 2016	30 June 2015
	\$'000	\$'000
Cash at bank	2,798	5,760
	2,798	5,760

Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the statement of cash flows as follows:

	As at	
	30 June 2016	30 June 2015
	\$'000	\$'000
Balances as above	2,798	5,760
Bank overdrafts	(1,598)	(2,358)
Balance per statement of cash flows	1,200	3,402

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

	Year ended	
	30 June 2016	30 June 2015
	\$'000	\$'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Increase/(decrease) in net assets attributable to unitholders	1,712	1,513
Distributions to unitholders	-	668
Net (gains)/losses on financial instruments held at fair value through profit or loss	(2,645)	(2,801)
Net change in receivables	(17)	(46)
Net change in payables	(271)	(154)
Unrealised foreign exchange gains/(losses)	187	(136)
Net cash inflow/(outflow) from operating activities	(1,034)	(956)
(b) Non-cash financing activities		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	338	130

13 Auditor's remuneration

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

	Year ended	
	30 June 2016	30 June 2015
	\$	\$
<i>Audit services</i>		
Auditing/reviewing the financial report	22,500	26,075
Compliance plan audit	5,000	5,833
	27,500	31,908
<i>Taxation services</i>		
Tax compliance services	7,350	8,920
	7,350	8,920
Total remuneration paid or payable to KPMG	34,850	40,828

14 Other operating expenses

	Year ended	
	30 June 2016	30 June 2015
	\$'000	\$'000
Dividend withholding tax	17	10
Sundry	35	17
Total other operating expenses	52	27

15 Receivables

	As at	
	30 June 2016	30 June 2015
	\$'000	\$'000
Dividend and distribution receivables	66	58
GST receivable	15	6
Total receivables	81	64

16 Payables

	As at	
	30 June 2016 \$'000	30 June 2015 \$'000
Responsible Entity's fees payable	1	1
Management fees payable	37	33
Audit fee payable	25	39
Redemption payable	1	-
Other payables	<u>105</u>	<u>32</u>
Total payables	<u>169</u>	<u>105</u>

17 Related party transactions

Responsible Entity

The Responsible Entity of K2 Australian Small Cap Fund is K2 Asset Management Ltd.

Key management personnel

The Fund does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Fund.

Directors

Key management personnel includes persons who were directors of K2 Asset Management Ltd at any time during the financial year and up to the date of this report.

Campbell W Neal
Mark S Newman
Robert C Hand
Hollie A Wight

17 Related party transactions (continued)

Key management personnel unitholdings

The key management personnel of K2 Asset Management Ltd (or their related entities) held units in the Fund as follows:

2016

Director	Closing unit holding (Units)	Interest held %	Value of units held* (\$)	Units purchased (Units)	Prior year distribution reinvested (Units)	Units sold (Units)	Current year distributions receivable (\$)
Campbell W Neal	811,381	9.22	2,028,452	800,576	380	-	-
Robert C Hand	80,784	0.92	201,960	79,284	-	-	-
Hollie A Wight	28,488	0.32	71,220	27,959	19	-	-
Total	920,653	10.46	2,301,632	907,819	399	-	-

In preparation for the quotation of the Fund on the ASX under the AQUA rules on 15 December 2015, effective 1 December 2015, a unit split transaction was processed for existing unitholders. All investments were converted into a unitholding with an equivalent value consisting of units worth \$2.50 each. As a result of this transaction, Campbell W Neal was issued with an additional 672,084 units, Robert C Hand was issued with an additional 79,284 units and Hollie A Wight was issued with an additional 27,959 units. These units are included in the units purchased column in the table above.

2015

Director	Closing unit holding (Units)	Interest held %	Value of units held* (\$)	Units purchased (Units)	Prior year distribution reinvested (Units)	Units sold (Units)	Current year distributions receivable (\$)
Campbell W Neal	10,425	6.98	1,280,892	4,300	125	-	46,653
Robert C Hand	1,500	1.00	184,305	-	-	-	6,713
Hollie A Wight	510	0.34	62,709	-	10	-	2,284
Total	12,435	8.32	1,527,906	4,300	135	-	55,650

* Value of units is calculated based on unit redemption prices (quoted ex-distribution).

Related party unitholdings

Neither the Responsible Entity nor its Parent company held units in the Fund at the end of the financial year.

17 Related party transactions (continued)

Transactions and balances with related parties

Transactions with K2 Asset Management Ltd in its role as the Responsible Entity and Investment Manager have taken place at arm's length and in the ordinary course of business. The transactions during the year were as follows:

	Year ended	
	30 June 2016	30 June 2015
	\$	\$
Management fees expense for the financial year	478,219	371,049
Performance fees expense for the financial year	599,039	557,492
Responsible Entity's fees expense for the financial year	15,881	11,939
Management fees payable at the end of each financial year	37,316	32,513
Performance fees payable at the end of each financial year	5,721	340,361
Responsible Entity's fees payable at the end of each financial year	1,315	1,142

Key management personnel compensation

Key management personnel are paid by K2 Asset Management Ltd. Payments made from the Fund to K2 Asset Management Ltd do not include any amounts directly attributable to compensation of key management personnel.

Key management personnel loan disclosures

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

Investments

The Fund did not hold any investments in K2 Asset Management Ltd or K2 Asset Management Holdings Ltd or its affiliates during the year.

Other transactions within the Fund

From time to time directors of the Responsible Entity of the K2 Australian Small Cap Fund, or their director related entities, may invest in or withdraw from the Fund. These investments or withdrawals are on the same terms and conditions as those entered into by other Fund investors.

18 Segment information

The Fund is organised into one main segment which operates solely in the business of investment management within Australia.

The Fund operates in Australia and holds investments in Australia and New Zealand.

19 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period and up to the date of this report which would impact on the financial position of the Fund disclosed in the statement of financial position as at 30 June 2016 or on the results and cash flows of the Fund for the year ended on that date.

20 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2016 and 30 June 2015.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 7 to 33 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), 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 2016 and of its performance for the financial year ended on that date; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in note 2; and
- (c) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors of K2 Asset Management Ltd.



Hollie A Wight
Director

Melbourne
10 August 2016



Independent auditor's report to the unitholders of K2 Australian Small Cap Fund

Report on the financial report

We have audited the accompanying financial report of K2 Australian Small Cap Fund (the Scheme), which comprises the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 20 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.

Directors' responsibility for the financial report

The directors of K2 Asset 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(a), the directors also state, in accordance with Australian 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. These Auditing 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 judgement, 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 entity's preparation of the financial report that gives a true and fair view 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 performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Company's financial position and of its performance.

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*.



Auditor's opinion

In our opinion:

(a) the financial report of K2 Australian Small Cap Fund is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

KPMG

KPMG

A handwritten signature in blue ink, appearing to read 'Dean Waters', with a long, sweeping flourish extending to the right.

Dean Waters

Partner

Melbourne

10 August 2016