

**The Direct Mortgage Managed  
Investment Scheme  
ARSN 095 540 659**

**ANNUAL FINANCIAL REPORT  
for the year ended 30 June 2020**

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## **Responsible Entity's Directors' Report**

The Directors of Tidswell Financial Services Ltd (ABN 55 010 810 607), the Responsible Entity of The Direct Mortgage Managed Investment Scheme (**the Scheme**), submit their report for the Scheme, the annual financial statements and the auditor's report for the year ended 30 June 2020.

### **RESPONSIBLE ENTITY**

The Directors of the Responsible Entity during or since the end of the financial year are:

|                        |                                   |  |
|------------------------|-----------------------------------|--|
| Michael John Terlet AO | Non-Executive Director - Chairman | Appointed 19 April 1991                                  |
| Ronald Peter Beard     | Executive Director                | Appointed 20 August 2012                                 |
| Fiona McNabb           | Non-Executive Director            | Appointed 29 September 2017                              |
| Stephen Miller         | Non-Executive Director            | Appointed 29 September 2017<br>Resigned 25 February 2020 |
| Andrew Peterson        | Executive Director                | Appointed 20 March 2018                                  |

### **PRINCIPAL ACTIVITIES**

The Direct Mortgage Managed Investment Scheme is an authorised investment of The Tidswell Investment Plan (**the Plan**) and has been established as a separate registered Managed Investment Scheme pursuant to the requirements of the Australian Securities & Investments Commission (**ASIC**) and is domiciled in Australia.

The investment objective of the Scheme is to provide a fixed rate of interest over a fixed term. The Scheme invests in loans that are secured by First Mortgages registered with the relevant state land titles office over the security property offered for the loan.

The Scheme did not have any employees during the year.

There has been no significant change in the nature of those activities during the financial year.

### **REVIEW AND RESULTS OF OPERATION**

Due to the nature of the Scheme, whereby Participants have their own specific allocation of investments, the results of each participant are reported individually. The overall return of the Scheme as a whole returned 9.46% (2019: 9.39%), calculated as the net income earned by all participants as a percentage of the total average daily balance of all participant accounts, for the operating period.

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**DISTRIBUTIONS**

It is the normal practice of the Scheme to distribute the interest received for specific mortgages in the month following receipt to the underlying participant accounts within the Tidswell Investment Plan.

Distributions paid or payable by the Scheme in respect of the financial year were:

|   | <b>2020<br/>(\$)</b> |
|---|----------------------|
| Distributions paid during July          | 57,754               |
| Distributions paid during August        | 61,270               |
| Distributions paid during September     | 58,348               |
| Distributions paid during October       | 51,140               |
| Distributions paid during November      | 43,124               |
| Distributions paid during December      | 41,219               |
| Distributions paid during January       | 37,928               |
| Distributions paid during February      | 37,954               |
| Distributions paid during March         | 37,935               |
| Distributions paid during April         | 30,906               |
| Distributions paid during May           | 30,295               |
| Distributions paid and payable for June | 9,336                |
| <b>Total</b>                            | <b>497,209</b>       |

**UNITS ON ISSUE**

Underlying Participants are not allocated Scheme units. Entitlements are instead calculated using each participant holding of a specific mortgage investment as a proportion of total mortgage investment. Contributions to the Scheme during the financial year totalled \$1,305,000 (2019: \$12,224,000), while withdrawals totalled \$9,024,900 (2019: \$19,962,075). The closing balance of the Underlying Participants accounts as at 30 June 2020 was \$1,131,000 (2019: \$8,850,900). The Scheme had total assets valued at \$1,131,000 as at 30 June 2020 (2019: \$10,300,553). The basis for valuation of the Scheme's assets is disclosed in Note 1 to the financial statements.

**SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS**

In the opinion of the Responsible Entity there were no significant changes in the state of affairs of the Scheme that occurred during the financial year under review.

**LIKELY DEVELOPMENTS**

It is anticipated that the Scheme will wind up after all capital and interests are paid to Participants on repayment of the loans.

In the opinion of the Responsible Entity there are no other significant likely developments in the state of affairs of the Scheme as at the date of this report.

**ENVIRONMENTAL REGULATION**

The Scheme's operations are not subject to any significant environmental regulation under Commonwealth, State or Territory legislation.

**INTERESTS OF THE RESPONSIBLE ENTITY**

Information pertaining to fees paid to TFSL and its associates out of Scheme property, and their holdings is contained in Note 7 to the financial statements.

**EVENTS SUBSEQUENT TO REPORTING DATE**

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The Scheme closed to new participants of The Tidswell Investment Plan on 31 July 2020. At the date of signing the report, the Scheme held one loan of value of \$881,000. The Responsible Entity will start a wind-up process when this amount is returned to Participants and income and expenses are paid.

No other significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the statement of financial position as at 30 June 2020 or on the results and cash flows of the Fund for the reporting period ended on that date.

**INDEMNITIES AND INSURANCE PREMIUMS FOR OFFICERS OR AUDITORS**

Under the Scheme constitution the Responsible Entity, including its officers and employees, is indemnified out of the Scheme's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Scheme.

The Scheme has not indemnified any auditor of the Scheme.

During the financial year the Responsible Entity paid premiums in respect of its officers for professional indemnity insurance contracts for the year ended 30 June 2020. The Responsible Entity has paid or agreed to pay in respect of the Scheme, premiums in respect of such insurance contracts for the year ending 30 June 2020. The Scheme reimbursed the Responsible Entity a proportion of the professional indemnity insurance premiums based on the assets of schemes managed by the Responsible Entity. Such insurance contracts insure against certain liability (subject to specified exclusions) for persons who are or have been the directors or officers of the Responsible Entity.

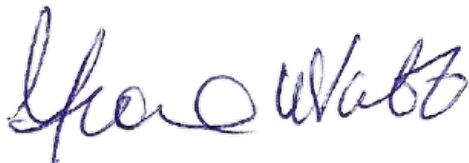
Details of the nature of the liabilities covered or the amount of the premium paid have not been included as such disclosure is prohibited under the terms of the contracts.

**AUDITOR'S INDEPENDENCE DECLARATION**

The lead Auditor's Independence Declaration is set out on page 6 and forms part of the directors' report for the year ended 30 June 2020.

Signed in accordance with a resolution of the directors of Tidswell Financial Services Ltd:

**TIDSWELL FINANCIAL SERVICES LTD**



\_\_\_\_\_  
Fiona McNabb  
Director

30 September 2020

**DECLARATION OF INDEPENDENCE BY JAMES DIXON TO THE DIRECTORS OF TIDSWELL FINANCIAL SERVICES LIMITED AS THE RESPONSIBLE ENTITY FOR THE DIRECT MANAGED MORTGAGE MANAGED INVESTMENT SCHEME**

As lead auditor of The Direct Mortgage Managed Investment Scheme for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

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



James Dixon  
Director

**BDO Audit Pty Ltd**

Melbourne, 30 September 2020

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## Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

|   | Note | 30 June 2020<br>(\$) | 30 June 2019<br>(\$) |
|---|------|----------------------|----------------------|
| <b>Revenue</b>  |      |                      |                      |
| Interest  | 2    | 527,290              | 1,870,200            |
| Other Mortgage Loan Related Income                      |      | 23,553               | 333,934              |
| <b>Total revenue</b>                                    |      | <b>550,843</b>       | <b>2,204,134</b>     |
| <b>Expenses</b>   |      |                      |                      |
| Responsible Entity Fees                                 | 7(b) | 28,405               | 67,468               |
| Mortgage Loan Related Expenses                          |      | 22,254               | 331,404              |
| General Administration Expenses                         |      | 2,975                | 19,209               |
| Bad Debt  |      | -                    | 13,163               |
| <b>Total expenses</b>                                   |      | <b>53,634</b>        | <b>431,244</b>       |
| <b>Profit from operating activities</b>                 |      | <b>497,209</b>       | <b>1,772,890</b>     |
| <b>Finance costs attributable to participants</b>       |      |                      |                      |
| Distributions to Participants                           | 3    | 497,209              | 1,772,890            |
| <b>Total finance costs attributable to participants</b> |      | <b>497,209</b>       | <b>1,772,890</b>     |
| <b>Net profit for the year</b>                          |      | <b>-</b>             | <b>-</b>             |
| Other comprehensive income                              |      | -                    | -                    |
| <b>Total comprehensive income for the year</b>          |      | <b>-</b>             | <b>-</b>             |

The accompanying notes form part of these financial statements.

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## Statement of Financial Position

As at 30 June 2020

|  | Note | 30 June 2020<br>(\$) | 30 June 2019<br>(\$) |
|--|------|----------------------|----------------------|
| <b>Assets</b>  |      |                      |                      |
| Cash and Cash Equivalents  | 6(a) | 18,490               | 1,424,510            |
| Trade and Other Receivables  |      | 1,783                | 25,143               |
| Mortgage Loans   | 4    | 1,131,000            | 8,850,900            |
| <b>Total assets</b>  |      | <b>1,151,273</b>     | <b>10,300,553</b>    |
| <b>Liabilities</b>   |      |                      |                      |
| Trade and Other Payables   |      | 11,362               | 52,260               |
| Mortgage Offset Accounts   |      | 8,911                | 1,397,393            |
| <b>Total liabilities (excluding net assets attributable to Participants' Accounts)</b> |      | <b>20,273</b>        | <b>1,449,653</b>     |
| <b>Net assets attributable to Participants' Accounts - liability</b>                   | 5    | <b>1,131,000</b>     | <b>8,850,900</b>     |

The accompanying notes form part of these financial statements.



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## **Statement of Changes in Equity**

**For the year ended 30 June 2020**

The Scheme's net assets attributable to Scheme Participants are classified as a liability under AASB 132 *Financial Instruments: Presentation*. As such, the Scheme has no equity and no items of changes in equity have been presented for the current or comparative year.

The accompanying notes form part of these financial statements.

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## Statement of Cash Flows

For the year ended 30 June 2020

|   | Note | 30 June 2020<br>(\$) | 30 June 2019<br>(\$) |
|---|------|----------------------|----------------------|
| <b>Cash Flows from Operating Activities</b>         |      |                      |                      |
| Interest Received                                   |      | 525,623              | 1,922,078            |
| Other Income Received                               |      | 44,948               | 389,062              |
| Responsible Entity Fees Paid                        |      | (22,957)             | (127,076)            |
| Administration Expenses Paid                        |      | (67,943)             | (414,397)            |
| <b>Net cash inflow from operating activities</b>    | 6(b) | <b>479,671</b>       | <b>1,769,667</b>     |
| <b>Cash Flows from Investing Activities</b>         |      |                      |                      |
| Funds (Invested) in First Mortgage Loans            |      | (1,305,000)          | (13,836,000)         |
| Funds Redeemed from First Mortgage Loans            |      | 9,024,900            | 18,949,600           |
| Movement in Mortgage Offset Accounts                |      | (1,388,482)          | 998,837              |
| <b>Net cash inflow from investing activities</b>    |      | <b>6,331,418</b>     | <b>6,112,437</b>     |
| <b>Cash Flows from Financing Activities</b>         |      |                      |                      |
| Members' Applications                               |      | 1,305,000            | 12,224,000           |
| Members' Redemptions                                |      | (9,024,900)          | (19,962,075)         |
| Distributions Paid                                  |      | (497,209)            | (1,790,215)          |
| <b>Net cash (outflow) from financing activities</b> |      | <b>(8,217,109)</b>   | <b>(9,528,290)</b>   |
| Net (decrease) in cash and cash equivalents         |      | (1,406,020)          | (1,646,186)          |
| Cash at Beginning of the Financial Year             |      | 1,424,510            | 3,070,696            |
| <b>Cash at End of the Financial Year</b>            | 6(a) | <b>18,490</b>        | <b>1,424,510</b>     |

The accompanying notes form part of these financial statements.

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## **Notes to the Financial Statements**

**For the year ended 30 June 2020**

### **1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Reporting Entity**

The Direct Mortgage Managed Investment Scheme (**the Scheme**) is a registered managed investment scheme under the *Corporations Act 2001*. The Scheme is a for-profit entity. The financial statements of the Scheme are for the year ended 30 June 2020.

These financial statements were authorised for issue by the Board of Directors of the Responsible Entity on 30 September 2020.

#### **Basis of Preparation**

##### *Statement of Compliance*

The financial statements are general purpose and have been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The financial statements of the Scheme comply with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

Material accounting policies adopted in the preparation of these financial statements are presented below. They have been consistently applied unless otherwise stated.

The Responsible Entity has the intent to wind up the Scheme. Accordingly, the financial statements of the Scheme have been prepared on a wind-up basis of reporting rather than a going concern basis. In doing so, assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current.

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

In the case of participant accounts, the balances are redeemed on demand at the participant's option. However, participants typically retain the investment for the medium to long term. As such, the amount expected to be settled within 12 months cannot be reliably determined.

#### **(a) Financial Instruments**

##### **Recognition and Initial Measurement**

Financial instruments, incorporating financial assets and financial liabilities, are recognised when the entity becomes a party to the contractual provisions of the instrument. Trade date accounting is adopted for financial assets that are delivered within timeframes established by marketplace convention.

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Financial instruments are initially measured at fair value plus transactions costs where the instrument is not classified as at fair value through profit or loss. Transaction costs related to instruments classified as at fair value through profit or loss are expensed in profit or loss immediately. Financial instruments are classified and measured as set out below.

**Classification and subsequent measurement**

Subsequent measurement for financial assets are based on the category that the debt instruments are classified under:

**Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.

**FVTPL:** Assets that do not meet the criteria for amortised cost are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is derecognised.

**Expected credit losses (ECL)**

*i. Loans and receivables*

Mortgage Loans, Managed Funds (invested in Direct Mortgages) and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are stated at amortised cost using the effective interest rate method.

From 1 July 2019, the Fund assesses on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The impairment methodology applied depends whether there has been a significant increase in credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset

If evidence of impairment exists, an impairment loss is recognised in the profit or loss as the difference between the asset's carrying amount and the present value of estimated discounted future cash flows.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through profit or loss.

*ii. Financial liabilities*

Non-derivative financial liabilities are subsequently measured at amortised cost.

**Impairment**

AASB 9 replaces the 'incurred loss' model in AASB 139 with 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost. Under AASB 9, credit losses are recognised earlier than under AASB 139.

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**Derecognition**

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in the profit or loss.

**Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the scheme has a legal right to offset the amounts and it intends either to settle on a net basis or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under AASBs, e.g. for gains and losses arising from a group of similar transactions, such as gains and losses from financial instruments at fair value through profit and loss.

**(b) Cash and Cash Equivalents**

For the purposes of the Statement of Cash Flows, cash includes cash and at call deposits with banks, and investment in money market instruments that are readily convertible to cash on hand at the Responsible Entity's option and are subject to insignificant risk of changes in value.

**(c) Income Tax**

Under current legislation the Scheme is not subject to income tax as the Underlying Unitholders are presently entitled to the taxable income of the Scheme. Any liability for income tax must be taken up by Unitholders as part of their personal liability for tax.

**(d) Income and Expenses**

**Income**

Interest is recognised as it accrues taking into account the interest rates applicable to the financial assets.

Other Mortgage Loan Related Income is recognised when the corresponding Mortgage Loan Related Expense is brought to account on an accruals basis by the Scheme.

**Expenses**

Expenses are brought to account on an accruals basis.

Mortgage Loan Related Expenses are brought to account on an accruals basis.

The Responsible Entity is entitled under the Scheme Constitution, to be reimbursed for certain expenses incurred in administering the Scheme. The basis on which the expenses are reimbursed is defined in the Scheme Constitution. The amount reimbursed is recognised in the Profit or Loss and is calculated in accordance with the Scheme Constitution.

In accordance with the Scheme Constitution and PDS, Tidswell Financial Services Ltd (**TFSL**) is entitled to receive a management fee as the Single Responsible Entity. This fee is 0.5% (2019: 0.5%) per annum of the Underlying Participant's Invested Funds calculated monthly. TFSL is also entitled to receive a fee equal to the difference between the standard and penalty rates payable by a borrower, should a borrower be in default of the loan under the loan documentation. It is also entitled to receive

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any additional interest payable by a borrower should a loan be discharged early. The amount paid is disclosed as Responsible Entity Fees in the Profit or Loss.

The custodian of the Scheme, Sargon CT (former Australian Executor Trustees (SA) Pty Ltd), receives a fee for its services. This fee is either paid directly by the Scheme or paid by the Responsible Entity, and reimbursed by the Scheme when funds are available.

**(e) Participants' Accounts and Distributions**

**Participants' Accounts**

Investors in the Scheme have the right to make a request to redeem funds from their Participant Account. This right to redeem gives rise to Participants' Accounts being classified as a financial liability. However, the Scheme will remain an illiquid Scheme under the Corporations Act 2001. An investor will not be able to withdraw from the investment unless the Scheme is considered liquid in accordance with the Corporations Act 2001 or a suitable investor is able to replace the investor wishing to withdraw.

**Distributions**

The Scheme distributes its distributable income, in accordance with the Scheme's Constitution, to participants in cash. The distributions are recognised in Profit or Loss, under finance costs, as Distributions to Participants.

**(f) Goods and Services Tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (**GST**), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (**ATO**). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the ATO is included as an asset or liability in the Statement of Financial Position.

Cash flows included in the Statement of Cash Flows are inclusive of GST. GST cash flow components arising from investing and financing activities which are payable to, or recoverable from, the ATO are classified as cash flows from operating activities.

**(g) Trade and Other Payables**

Payables include liabilities and accrued expenses owing by the Scheme which are unpaid as at reporting date. The distribution amount payable to Participants as at reporting date is recognised separately on the Statement of Financial Position as Participants are presently entitled to the distributable income as at 30 June 2020 under the Scheme's Constitution.

**(h) Critical Accounting Estimates and Judgements**

The directors evaluate estimates and judgements incorporated into these financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Scheme.

**Key Judgements**

Trade and other receivables include income receivable on mortgage loan investments. Where there is uncertainty in relation to the receipt of this income, judgements are made as to the recoverability of this income. If deemed to be impaired, receivables are reduced by the amount of the impairment and a provision for impairment expense is recognised in the Profit or Loss.

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Mortgage loans are subject to credit assessments and security valuations. Valuations are based on fair current market valuation. Where mortgage loan assets are deemed non-accrual, judgements are made as to the recoverability of the loan by assessing the value and future income potential of the security via net present value calculations. Impairment losses are recognised in the Profit or Loss.

**(i) Comparative Figures**

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year as disclosed below.

**Accounting policies applied until 30 June 2019**

The Fund has applied AASB 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Fund's previous accounting policy.

***Classification***

Until 30 June 2019, the Fund classified its financial instruments in the following categories:

- financial assets at fair value through profit or loss,
- loans and receivables, and
- financial liabilities.

Management determined the classification of its investments at initial recognition.

***Subsequent measurement***

The measurement at initial recognition did not change on adoption of AASB 9, see description above.

Subsequent to the initial recognition, loans and receivables were carried at amortised cost using the effective interest method. Financial assets at FVTPL were subsequently carried at fair value. Gains or losses arising from changes in the fair value were recognised in profit or loss within other gains/(losses). Financial liabilities were subsequently carried at amortised cost.

***Impairment***

The Fund assessed at the end of each reporting period whether there was objective evidence that a financial asset or group of financial assets was impaired. A financial asset or a group of financial assets was impaired and impairment losses were incurred only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) had an impact on the estimated future cash flows of the financial asset or group of financial assets that could be reliably estimated

**(j) Accounting standards issued and adopted during the financial year**

**a. 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 2019 that have a material impact on the amounts recognised in prior periods or will affect the current or future periods.

**b. New and amended standards adopted by the Fund**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2020, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

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**2. INTEREST INCOME**

|                           | <b>30 June 2020</b> | <b>30 June 2019</b> |
|---------------------------|---------------------|---------------------|
|                           | <b>(\$)</b>         | <b>(\$)</b>         |
| Cash and Cash Equivalents | 1,667               | 8,607               |
| Mortgage Loans            | 5,25,623            | 1,861,593           |
| <b>Total</b>              | <b>527,290</b>      | <b>1,870,200</b>    |

**3. DISTRIBUTIONS**

The distributions paid or payable by the Scheme in respect of the financial year were:

|   |                |                  |
|---|----------------|------------------|
| Distributions paid during July          | 57,754         | 130,907          |
| Distributions paid during August        | 61,270         | 149,165          |
| Distributions paid during September     | 58,348         | 156,433          |
| Distributions paid during October       | 51,140         | 2,661            |
| Distributions paid during November      | 43,124         | 141,508          |
| Distributions paid during December      | 41,219         | 61,712           |
| Distributions paid during January       | 37,928         | 88,414           |
| Distributions paid during February      | 37,954         | 150,619          |
| Distributions paid during March         | 37,935         | 331,255          |
| Distributions paid during April         | 30,906         | 162,625          |
| Distributions paid during May           | 30,295         | 168,175          |
| Distributions paid and payable for June | 9,336          | 229,416          |
| <b>Total</b>                            | <b>497,209</b> | <b>1,772,890</b> |

At 30 June 2020, distributions payable relating to June totalled \$Nil (2019: \$Nil).

**4. MORTGAGE LOANS**

|                        | <b>30 June 2020</b> | <b>30 June 2019</b> |
|------------------------|---------------------|---------------------|
|                        | <b>(\$)</b>         | <b>(\$)</b>         |
| <b>Opening balance</b> | <b>8,850,900</b>    | <b>13,964,500</b>   |
| New Mortgage Loans     | 1,305,000           | 13,836,000          |
| Mortgage Loans Repaid  | (9,024,900)         | (18,949,600)        |
| <b>Closing balance</b> | <b>1,131,000</b>    | <b>8,850,900</b>    |

**5. PARTICIPANTS' ACCOUNTS**

|  |                  |                   |
|--|------------------|-------------------|
| <b>Opening balance</b>                           | <b>8,850,900</b> | <b>16,588,975</b> |
| Applications                                     | 1,305,000        | 12,224,000        |
| Redemptions                                      | (9,024,900)      | (19,962,075)      |
| <b>Closing balance of Participants' Accounts</b> | <b>1,131,000</b> | <b>8,850,900</b>  |

**Capital Risk Management**

The Scheme considers its capital to be Participants' Accounts. The Scheme manages its net assets attributable to Participants' Accounts as capital, notwithstanding net assets attributable to Participants' Accounts are classified as a liability.



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Applications and redemptions are reviewed relative to the liquidity of the scheme's underlying assets by the Responsible Entity. Under the terms of the Scheme's constitution, the Responsible Entity has the discretion to defer or adjust a redemption if the exercise of such discretion is in the best interests of participants.

All investments in the Scheme are of dollar value (non-unitised), are of the same class, and therefore carry equal rights. However, as Participant's select and invest in specific underlying mortgage loans, the risks and redemption ability of the investor is related to the relevant loan.

**6. CASH FLOW INFORMATION**

(a) Reconciliation of cash. For the purposes of the Statement of Cash Flows cash includes cash on hand and at bank

|                           | <b>30 June 2020</b> | <b>30 June 2019</b> |
|---------------------------|---------------------|---------------------|
|                           | <b>(\$)</b>         | <b>(\$)</b>         |
| Cash and Cash Equivalents | 18,490              | 1,424,510           |

(b) Reconciliation of Cash Flow from Operations with Net Profit

|                                  |         |           |
|----------------------------------|---------|-----------|
| Profit from Operating Activities | 497,209 | 1,772,890 |
|----------------------------------|---------|-----------|

**Changes in Assets and Liabilities**

|                         |          |          |
|-------------------------|----------|----------|
| Decrease in Receivables | 36,523   | 90,413   |
| Increase in Payables    | (54,060) | (93,636) |

|  |                |                  |
|--|----------------|------------------|
| <b>Net Cash provided by Operating Activities</b> | <b>479,672</b> | <b>1,769,667</b> |
|--|----------------|------------------|

(c) Non-cash financing and investment activities

As all income is distributed to Underlying Participants no income is reinvested into the Scheme via a distribution reinvestment plan.

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**7. RELATED PARTY TRANSACTIONS**

The Responsible Entity of the Scheme is Tidswell Financial Services Ltd ABN 55 010 810 607 (TFSL) whose ultimate holding company is Pacific Infrastructure Partners Pty Ltd (ACN 640 126 585).

**Key Management Personnel**

- (a) The Scheme does not employ personnel in its own right. However the Responsible Entity does manage the activities of the Scheme and this is considered to be the Key Management Personnel. The directors of the Responsible Entity are Key Management Personnel but no amounts are paid by the Scheme directly to the directors of the Responsible Entity. Fees paid by the Scheme to the Responsible Entity are disclosed at (b) below.

**Related Party Remuneration**

- (b) Responsible Entity Fees

Fees paid by the Scheme to the Responsible Entity amounted to \$28,405 (2019 \$67,468). In accordance with the Scheme Constitution and Prospectus, TFSL is entitled to receive a management fee as the Single Responsible Entity. This fee is 0.5% (2019: 0.5%) per annum of the Underlying Participant's Invested Funds calculated monthly. TFSL is also entitled to receive a fee equal to the difference between the standard and penalty rates payable by a borrower, should a borrower be in default of the loan under the loan documentation. It is also entitled to receive any additional interest payable by a borrower should a loan be discharged early. The amount paid is recognised as Responsible Entity Fees in the Profit or Loss.

- (c) Other General Administration Expenses

Other General Administration Expenses incurred by the Responsible Entity are reimbursed by the Scheme in accordance with the provisions of the Constitution. These expenses amounted to \$22,254 (2019: \$331,404) and are recognised in the Profit or Loss.

**Other Related Party Transactions**

- (d) The following transactions occurred between the related entities:

The Scheme has no investment in TFSL or its associates.

As all underlying participants of the Scheme must first be a participant of The Tidswell Investment Plan, at reporting date The Tidswell Investment Plan had an investment of \$608,203 (2019: \$8,850,900) in the Scheme which is the total of participants' accounts disclosed in the Statement of Financial Position. TFSL is the trustee of The Tidswell Master Superannuation Plan, which is also an underlying participant of the Scheme and as at reporting date had an investment of \$522,797 (2019: \$2,096,606).

From time to time directors of TFSL, or their director related entities, may invest or withdraw from the Scheme. These transactions are on the same terms and conditions as those entered into by all other Scheme participants and are trivial in nature. At reporting date, director related entities held investments of \$Nil (2019: \$Nil).

- (e) TFSL also receives remuneration on a fee for service basis for various administration services on normal commercial terms. These fees are levied directly against the borrowers not the Scheme.

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(f) Accounts Payable

The aggregate amount of payable to other related parties by the Scheme at reporting date:

|                            | <b>30 June 2020</b> | <b>30 June 2019</b> |
|----------------------------|---------------------|---------------------|
|                            | (\$)                | (\$)                |
| Responsible Entity & other | 11,362              | 52,260              |

These amounts are included in creditors and accruals.

(g) Custodian Fees

The custodian of the Scheme, Certes Pty Ltd is a related party. No fees were paid directly to the custodian by the Scheme.

**8. FINANCIAL RISK MANAGEMENT**

The Scheme maintains positions in a variety of non-derivative financial instruments as dictated by the Scheme's investment strategy. The Scheme's financial assets include bank deposits and direct first mortgage investments, which are usually held for specific periods of time.

These investing activities expose the Scheme to various types of risk that are associated with the types of financial instruments and markets utilised. The main types of financial risk to which the Scheme is exposed are market risk, credit risk, liquidity risk and operational risk.

The Board of Directors of the Responsible Entity has overall responsibility for the establishment and oversight of the Scheme's risk management framework. The Board, which meets monthly, is responsible for developing and monitoring the risk management framework relating to the Scheme. This framework is established to identify, analyse and monitor Scheme related risks, and assess the adequacy of the procedures and controls put in place to mitigate them. Risk management policies and systems are reviewed regularly to ensure they reflect Scheme activities and changes to market conditions.

The total of each category of financial instrument measured in accordance with the accounting policies to the financial statements are set out below:

|                                    | <b>30 June 2020</b> | <b>30 June 2019</b> |
|------------------------------------|---------------------|---------------------|
|                                    | (\$)                | (\$)                |
| <b>Financial and other assets</b>  |                     |                     |
| Cash and cash equivalents          | 18,490              | 1,424,510           |
| Investments                        | 1,131,000           | 8,850,900           |
| Trade and other receivables        | 1,783               | 25,143              |
| <b>Total financial assets</b>      | <b>1,151,273</b>    | <b>10,300,553</b>   |
| <b>Financial liabilities</b>       |                     |                     |
| Trade and Other Payables           | 11,362              | 52,260              |
| Mortgage Offset Accounts           | 8,911               | 1,397,393           |
| Participants' Accounts             | 1,131,000           | 8,850,900           |
| <b>Total financial liabilities</b> | <b>1,151,273</b>    | <b>10,300,553</b>   |

The nature and extent of the financial instruments and other assets held at reporting date and the risk management policies employed by the Scheme are as follows:

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**(a) Market Risk**

Market risk embodies the potential for losses and gains and includes currency risk, interest rate risk and price risk. As the underlying security for the Scheme's mortgage investments is real property, this market can have an effect on the Scheme's assets if a claim on the security is required. The Responsible Entity manages the Scheme's exposure to market risks in accordance with the investment strategy. Market risk is minimised by the selection of high quality service providers, prudent loan to valuation ratios (**LVR**) and short lending periods (generally up to 12 months). Current Board approved policy LVRs are currently set at 65% for residential security, 55% for commercial and 45% for rural unless full Board approval is given.

As all investments are held for specific investors, the market risks related to each specific investment are borne by the investor. The Scheme's exposure to currency risk, interest rate risk and price risk are set out below.

**Currency Risk**

The Scheme does not currently invest in financial instruments denominated in currencies other than the measurement currency (Australian Dollars) and consequently is not exposed to currency risk.

**Price Risk**

Price Risk is the risk that the value of the instrument will fluctuate as a result of changes in market prices. As all of the Scheme's financial instruments are carried at recoverable amount with any impairment recognised in the Statement of Profit or Loss and Other Comprehensive Income, all changes in market conditions will directly affect Total Income. The mortgage investments held by the scheme are not directly exposed to price risk.

**Interest Rate Risk**

The Scheme invests in financial assets for the primary purpose of obtaining a return on investment on behalf of its Participants. Investments held for investors are fixed interest in nature. Cash and cash equivalents are subject to interest rate risks and will fluctuate in accordance with movements in market interest rates.

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The Scheme's exposure to interest rate movements on its investments was as follows:

|                                    | Floating Interest Rate |                  | Fixed Interest Rate |                  | Non-interest Bearing |                  | Total            |                  |
|------------------------------------|------------------------|------------------|---------------------|------------------|----------------------|------------------|------------------|------------------|
|                                    | 2020<br>(\$'000)       | 2019<br>(\$'000) | 2020<br>(\$'000)    | 2019<br>(\$'000) | 2020<br>(\$'000)     | 2019<br>(\$'000) | 2020<br>(\$'000) | 2019<br>(\$'000) |
| <b>Financial Assets</b>            |                        |                  |                     |                  |                      |                  |                  |                  |
| Cash                               | 10                     | 27               | -                   | -                | 8                    | 1,397            | 18               | 1,424            |
| Receivables                        | -                      | -                | -                   | -                | 2                    | 25               | 2                | 25               |
| Mortgage Loans                     | -                      | -                | 1,131               | 8,851            | -                    | -                | 1,131            | 8,851            |
| <b>Total Financial Assets</b>      | <b>10</b>              | <b>27</b>        | <b>1,131</b>        | <b>8,851</b>     | <b>10</b>            | <b>1,422</b>     | <b>1,151</b>     | <b>10,300</b>    |
| Weighted average interest rate     | 0.92%                  | 1.75%            | 9.36%               | 9.28%            |                      |                  |                  |                  |
| <b>Financial Liabilities</b>       |                        |                  |                     |                  |                      |                  |                  |                  |
| Payable                            | -                      | -                | -                   | -                | 11                   | 52               | 11               | 52               |
| Mortgage Offset Account            | -                      | -                | -                   | -                | 9                    | 1,397            | 9                | 264              |
| Participants' Accounts             | -                      | -                | -                   | -                | 8,851                | 8,851            | 1,131            | 8,851            |
| <b>Total Financial Liabilities</b> | <b>-</b>               | <b>-</b>         | <b>-</b>            | <b>-</b>         | <b>9,167</b>         | <b>10,300</b>    | <b>1,151</b>     | <b>9,167</b>     |
| Weighted average interest rate     | -                      | -                | -                   | -                |                      |                  |                  |                  |

The interest rates above provided interest income of \$527,290 (2019: \$1,870,200) which resulted in a rate of return for the scheme for the year ended 30 June 2020 of 9.46% (2019: 9.39%)

**Sensitivity Analysis:**

A 10% increase in the interest rates received on financial instruments would have increased the scheme return by 0.91% (2019: 0.99%). An equal change in the opposite direction would have decreased the scheme return by an equal opposite amount.

With investment loans being held for specific investors such analysis would be unrepresentative of the investor specific risk, which is instead directly linked to the interest rate of the loan they invest in.

**(b) Credit Risk Exposures**

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. At 30 June 2020, the following financial assets were exposed to credit risk: cash and cash equivalents, trade and other receivables and mortgage loans.

Mortgage loans are subject to credit assessments and security valuations. Valuations are based on fair current market valuation. An operating manual sets out detailed procedures for lending and dealing with interest arrears and defaults. All loans are approved as follows:

- Loans less than \$2.0m and within policy to be approved by the Investment Delegation, being A Peterson and either R Beard or F McNabb
- Loans between \$2.0m and \$4.0m and within policy to be approved by the Credit Delegation
- Loans in excess of \$4.0m and within policy to be reviewed by the Credit Delegation and if thought fit, recommended for approval to the Full Board

Loan performance is reported to the Board on a monthly basis along with a provisioning report. The risk of loss is implicitly provided for in the carrying value of financial assets.

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The Scheme holds collateral over the mortgage loans by a first mortgage registered with the relevant State Lands Titles Office over the security property. Current Board approved policy LVRs on security property are currently set at 65% for residential security, 55% for commercial and 45% for rural unless full Board approval is given.

The credit risk on financial assets of the Scheme, which have been recognised on the Statement of Financial Position, is the carrying amount as stated.

Due to the nature of the Scheme, whereby loans are held for specific investors, no analysis of credit concentrations is performed by the Responsible Entity.

**Financial Assets Past Due Not Impaired**

| Loan Amount                    | Due Date   | Collateral           | Last Valuation Amount | Last Valuation Date |
|--------------------------------|------------|----------------------|-----------------------|---------------------|
| <b>Year Ended 30 June 2020</b> |            |                      |                       |                     |
| 881,000                        |            | Residential Property | \$1,240,000           | 12/04/2018          |
| <b>Year Ended 30 June 2019</b> |            |                      |                       |                     |
| 2,205,600                      | 10/01/2019 | Residential Property | \$3,540,000           | 16/11/2017          |
| 245,300                        | 10/04/2019 | Residential Property | \$700,000             | 24/10/2018          |

**(c) Liquidity Risk**

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due. In line with the nature of the direct mortgage investments, the Scheme will remain an illiquid Scheme under the Corporations Act 2001. During the term of a mortgage, an investor will not be able to withdraw from the investment unless the Scheme is considered liquid in accordance with the Corporations Act 2001 or a suitable investor is able to replace the investor wishing to withdraw. If the mortgage is in default, an investor will not be able to withdraw. These liquidity terms are disclosed to investors in the Product Disclosure Statement.

**Contractual Maturities of Financial Liabilities**

Distributions are paid to investors within one month of accrual.

Mortgage Offset Accounts are managed by the Responsible Entity on behalf of the borrower over the period of the loan.

Participant accounts are subject to limitations due to illiquidity as detailed above.

Trade and other payables are due within a month days.

**(d) Net Fair Values of Financial Assets and Liabilities**

The Scheme's financial assets and liabilities are included in the Statement of Financial Position at amounts that approximate net fair value. The major methods and assumptions used in estimating the fair values of financial instruments were disclosed in Note 1(a) of the Statement of Significant Accounting Policies section.

As at 30 June 2020 the carrying amounts of the asset class Loans and Receivables were equal to fair values, \$1,131,000 (2019: \$8,850,900). As at 30 June 2020 the carrying amounts of remaining assets were equal to fair values, \$20,273 (2019: \$1,449,653). As at 30 June 2020 the carrying amounts of financial liabilities were equal to fair values, \$1,151,273 (2019: \$10,300,553).

**Financial Instruments Measured at Fair Value**

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The financial assets recognised at fair value in the Statement of Financial Position have been analysed and classified using a fair value hierarchy reflecting the significance of the inputs used in making the measurements. The fair value hierarchy consists of the following levels:

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

The Scheme holds no financial instruments that fall within this fair value hierarchy.

**(e) Operational Risk**

Operational risk is the risk of loss arising from causes associated with the processes, technology and infrastructure supporting the Scheme's activities with financial instruments either internally within the scheme or externally at the Scheme's service providers, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements.

The Scheme's objective is to manage operational risk so as to balance mitigation of risk with achieving its investment objective and generating returns to investors.

The primary responsibility for the development and implementation of controls over operational risk rests with the Directors of the Responsible Entity.

The Directors' assessment over the adequacy of the controls and processes in place at the service providers with respect to operational risk is carried out via regular reporting, ad-hoc discussions and an annual on-site review with the service providers and a review of the service providers' GS007 report on internal controls.

Substantially all of the assets of the Scheme are held by Certes Pty Ltd (former Sargon CT Pty Ltd). Bankruptcy or insolvency of the Scheme's custodian may cause the Scheme's rights with respect to the securities held by the custodian to be delayed or limited. The Responsible Entity monitors the capital adequacy of its custodian quarterly and reviews the findings documented in the GS007 report on the internal controls annually.

The Scheme has provided the custodian a general lien over the financial assets held in custody for the purpose of covering the exposure from providing custody services. The general lien is part of the standard contractual terms of the custody agreement.

**9. CONTINGENT LIABILITIES AND CONTINGENT ASSETS**

There are no contingent liabilities or contingent assets at 30 June 2020 or 30 June 2019.

**10. EVENTS SUBSEQUENT TO REPORTING DATE**

The Scheme closed to new participants of The Tidswell Investment Plan on 31 July 2020. At the date of signing the report, the Scheme held one loan of value of \$881,000. The Responsible Entity will start a wind-up process when this amount is returned to Participants and income and expenses are paid.

No other significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the statement of financial position as at 30 June 2020 or on the results and cash flows of the Fund for the reporting period ended on that date..

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**11. SCHEME DETAILS**

The registered office and principal place of business of the Responsible Entity, Tidswell Financial Services Ltd, and the Scheme is 50 Hindmarsh Square, Adelaide SA 5000.

**12. AUDITOR'S REMUNERATION**

Auditor remuneration in relation to the Scheme for the year ended 30 June 2020 totalled \$17,500 (2019: \$24,700). This is comprised of \$17,500 (2019: \$Nil) for audit services and \$Nil (2019: \$6,100) for other services (compliance services). All Auditor remuneration in respect to the Scheme is paid by the Responsible Entity and as such is not included in the expenses in the Profit or Loss.



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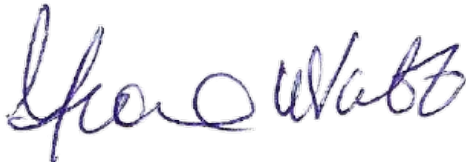
## **Responsible Entity's Directors' Declaration**

The Directors of Tidswell Financial Services Ltd, Responsible Entity of The Direct Mortgage Managed Investment Scheme, declare that:

1. The financial statements and notes, as set out on pages 7 to 24, are in accordance with the Corporations Act 2001:
  - (a) comply with Australian Accounting Standards and the Corporations Regulations 2001; and
  - (b) give a true and fair view of the financial position as at 30 June 2020 and of the performance for the year ended on that date of the Scheme.
2. These financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.
3. In the directors' opinion there are reasonable grounds to believe that the Scheme 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 Tidswell Financial Services Ltd:

**TIDSWELL FINANCIAL SERVICES LTD**



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Fiona McNabb  
Director  
30 September 2020

## INDEPENDENT AUDITOR'S REPORT

To the unitholders of The Direct Mortgage Managed Investment Scheme

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of The Direct Mortgage Managed Investment Scheme (the Scheme), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of The Direct Mortgage Managed Investment Scheme, 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 2020 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for opinion

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

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Scheme, would be in the same terms if given to the directors as at the time of this auditor's report.

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

#### Emphasis of matter - Basis of preparation

We draw attention to Note 1 of the financial report, which states that the financial report of the Scheme has been prepared on a liquidation basis given the Director's intention to wind up the Scheme. Our opinion is not modified in respect of this matter.



### **Other information**

The directors of Tidswell Financial Services Limited (the Responsible Entity) are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Director's report, but does not include the financial report and our auditor's report thereon.

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

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

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

### **Responsibilities of the directors of the Responsible Entity for the Financial Report**

The directors of 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 gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

### **Auditor's responsibilities for the audit of the Financial Report**

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

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

[http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf)

This description forms part of our auditor's report.

### **BDO Audit Pty Ltd**

BDO

A handwritten signature in black ink, appearing to read 'James Dixon'.

James Dixon  
Director

Melbourne, 30 September 2020