

Kapstream Absolute Return Income Fund

ARSN 124 152 790

Annual report - 30 June 2016

Kapstream Absolute Return Income Fund

ARSN 124 152 790

Annual report - 30 June 2016

Contents	Page
Financial highlights	2
Directors' report	4
Auditor's independence declaration	7
Statement of comprehensive income	8
Statement of financial position	9
Statement of changes in net assets attributable to unitholders	10
Statement of cash flows	11
Notes to the financial statements	12
Directors' declaration	33
Independent auditor's report to the unitholders of Kapstream Absolute Return Income Fund	34

These financial statements cover Kapstream Absolute Return Income Fund as an individual entity.

The Responsible Entity of Kapstream Absolute Return Income Fund is Fidante Partners Limited (ABN 94 002 835 592). The Responsible Entity's registered office is:

Level 2
5 Martin Place
Sydney NSW 2000

Kapstream Absolute Return Income Fund
Financial highlights
For the year ended 30 June 2016

Financial highlights

Financial highlights for Kapstream Absolute Return Income Fund ('the Trust') include the following:

Performance

The table below shows historical discrete annual return performance of the Trust for the past five years. Calculation of performance is after all fees, except any entry fees that have been deducted, and assumes that all distributions were reinvested during that year. The total return is the aggregate of capital growth and distribution returns.

	2016	2015	2014	2013	2012
	%	%	%	%	%
Premier class					
Capital growth	0.35	0.03	1.33	0.26	3.06
Distribution of income	2.71	3.73	4.14	6.41	2.77
Total return	3.06	3.76	5.47	6.67	5.83
Wholesale class					
Capital growth	0.37	0.42	1.55	0.83	3.04
Distribution of income	2.38	3.04	3.62	5.52	2.49
Total return	2.75	3.46	5.17	6.35	5.53

Consistent with the statements in the current product disclosure statement, future performance is not guaranteed. Investors should exercise care in using past performance as a predictor of future performance.

Indirect Cost Ratio (ICR)

The Indirect Cost Ratio (ICR) is the ratio of the Trust's management costs over the Trust's average net assets attributable for the year, expressed as a percentage. The ICR of the Trust for the past five years has been:

	2016	2015	2014	2013	2012
	%	%	%	%	%
Premier class	0.41	0.41	0.41	0.41	0.41
Wholesale class	0.70	0.70	0.70	0.70	0.70

Management costs include management fees and other expenses or reimbursements deducted in relation to the Trust, but do not include transactional and operational costs such as brokerage. Management costs are not paid directly by the unitholders of the Trust.

Kapstream Absolute Return Income Fund
Financial highlights
For the year ended 30 June 2016
(continued)

Financial highlights (continued)

Unit redemption prices

Unit redemption prices (quoted ex-distribution and exclusive of exit fees) are shown as follows:

	2016	2015
	\$	\$
Premier class		
At 30 June	1.0503	1.0466
High during year	1.0564	1.0615
Low during year	1.0434	1.0431
	2016	2015
	\$	\$
Wholesale class		
At 30 June	1.2138	1.2093
High during year	1.2198	1.2250
Low during year	1.2057	1.2041

Directors' report

The directors of Fidante Partners Limited, the Responsible Entity of Kapstream Absolute Return Income Fund, present their report together with the financial statements of Kapstream Absolute Return Income Fund ('the Trust') for the year ended 30 June 2016.

Directors

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

B J O'Connor
P D Rogan
I Saines
A Tobin
R Willis

Principal activities

The principal activity of the Trust during the year was to invest in accordance with the provisions of the Trust's Constitution.

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

The Asset Manager of the Trust is Kapstream Capital Pty Limited.

Review and results of operations

During the year, the Trust continued to invest funds in accordance with target asset allocations as set out in the current product disclosure statement which continues to be adhered to. The Trust maintains its strategy of targeting an absolute return over time by investing in a global, diversified portfolio of predominantly investment grade fixed income securities, according to Kapstream's global macroeconomic and market views.

Results

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

	30 June 2016 \$'000	30 June 2015 \$'000
Net operating profit	<u>119,133</u>	103,997
Distributions paid and payable	<u>104,670</u>	103,633
Distributions (cents per unit) - Premier class	<u>2.80</u>	3.85
Distributions (cents per unit) - Wholesale class	<u>2.84</u>	3.62

Significant changes in state of affairs

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

Directors' report (continued)

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

Likely developments and expected results of operations

The Trust will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Trust and in accordance with the provisions of the Trust's Constitution.

Further information on likely developments in the operations of the Trust 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 Trust.

Indemnity and insurance of officers

No insurance premiums are paid for out of the assets of the Trust in regards to insurance cover provided to the officers of Fidante Partners Limited. So long as the officers of Fidante Partners Limited act in accordance with the Trust's Constitution and the *Corporations Act 2001*, the officers remain indemnified out of the assets of the Trust against losses incurred while acting on behalf of the Trust. The auditors of the Trust are in no way indemnified out of the assets of the Trust.

Fees paid to and interests held in the fund by the responsible entity or its related entities

Fees paid to the Responsible Entity and its related entities out of Trust property during the year are disclosed in note 13 to the financial statements.

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

The number of interests in the Trust held by the Responsible Entity or its related entities as at the end of the financial year are disclosed in note 13 to the financial statements.

Interests in the Trust

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

	30 June 2016 No. '000	30 June 2015 No. '000
Units on issue - Opening	3,205,503	2,457,537
Units issued	1,727,771	1,707,503
Units redeemed	(1,089,724)	(959,537)
Units on issue - Closing	<u>3,843,550</u>	<u>3,205,503</u>

The movement in units on issue in the Trust during the year is further disclosed in note 5 to the financial statements.

Value of assets

	\$'000	\$'000
Value of Trust assets at 30 June	<u>4,424,856</u>	<u>3,656,240</u>

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

Directors' report (continued)

Environmental regulation

The operations of the Trust 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 Trust is an entity of a kind referred to in ASIC Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report. Amounts in the directors' report have been rounded to the nearest thousand in accordance with that Instrument, unless otherwise indicated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 7.

This report is made in accordance with a resolution of directors.



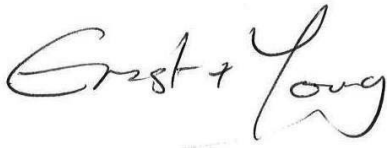
B J O'Connor
Director

Sydney
9 September 2016

Auditor's Independence Declaration to the Directors of Fidante Partners Limited

As lead auditor for the audit of Kapstream Absolute Return Income Fund for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.



Ernst & Young



Darren Handley-Greaves
Partner
9 September 2016

Kapstream Absolute Return Income Fund
Statement of comprehensive income
For the year ended 30 June 2016

Statement of comprehensive income

	Notes	30 June 2016 \$'000	30 June 2015 \$'000
Income			
Interest income		140,683	115,284
Other income		32	-
Net losses on financial instruments held at fair value through profit or loss	3	(18,415)	(16,339)
Net foreign exchange gains		20,630	22,051
Total income		142,930	120,996
Expenses			
Management fees	13	22,902	16,388
Transaction costs		241	136
Other expenses		654	475
Total expenses		23,797	16,999
Net profit before finance costs		119,133	103,997
Finance costs attributable to unitholders			
Distributions to unitholders	6	(104,670)	(103,633)
Increase in net assets attributable to unitholders	5	(14,463)	(364)
Other comprehensive income		-	-
Total comprehensive income for the year		-	-

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

Kapstream Absolute Return Income Fund
Statement of financial position
As at 30 June 2016

Statement of financial position

	Notes	30 June 2016 \$'000	30 June 2015 \$'000
Assets			
Cash and cash equivalents	14(b)	250,218	392,707
Receivables		28,715	22,894
Financial assets held at fair value through profit or loss	7	4,145,923	3,240,639
Total assets		4,424,856	3,656,240
Liabilities			
Distributions payable	6	23,276	38,490
Payables		2,044	1,629
Financial liabilities held at fair value through profit or loss	8	27,967	11,958
Total liabilities (excluding net assets attributable to unitholders)		53,287	52,077
Net assets attributable to unitholders	5	4,371,569	3,604,163

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

Kapstream Absolute Return Income Fund
Statement of changes in net assets attributable to unitholders
For the year ended 30 June 2016

Statement of changes in net assets attributable to unitholders

	Notes	30 June 2016 \$'000	30 June 2015 \$'000
At 1 July - opening		3,604,163	2,692,725
Change in net assets attributable to unitholders		14,463	364
Application for units		1,953,080	1,959,553
Redemption of units		(1,200,137)	(1,048,479)
At 30 June - closing	5	4,371,569	3,604,163

The above statement of changes in net assets attributable to unitholders should be read in conjunction with the accompanying notes.

Kapstream Absolute Return Income Fund
Statement of cash flows
For the year ended 30 June 2016

Statement of cash flows

	30 June 2016	30 June 2015
Notes	\$'000	\$'000
Cash flows from operating activities		
Proceeds from sale of financial instruments held for trading	17,491	6,315
Purchase of financial instruments held for trading	(41,217)	(119,360)
Interest received	134,914	107,902
Other income received	32	-
Management fees paid	(22,488)	(15,850)
Payment of other expenses	(949)	(680)
Net cash inflow/(outflow) from operating activities	87,783	(21,673)
Cash flows from investing activities		
Proceeds from sale of investments designated at fair value through profit or loss	2,323,029	3,488,549
Purchase of investments designated at fair value through profit or loss	(3,193,748)	(4,328,830)
Cash on deposit received	-	20,000
Net cash outflow from investing activities	(870,719)	(820,281)
Cash flows from financing activities		
Proceeds from applications by unitholders	1,901,073	1,916,656
Payments for redemptions by unitholders	(1,200,137)	(1,048,479)
Distributions paid	(67,876)	(68,746)
Net cash inflow from financing activities	633,060	799,431
Net decrease in cash and cash equivalents	(149,876)	(42,523)
Cash and cash equivalents at the beginning of the year	392,707	423,103
Effects of exchange rate changes on cash and cash equivalents	7,387	12,127
Cash and cash equivalents at the end of the year	250,218	392,707

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

1 General information

These financial statements cover Kapstream Absolute Return Income Fund ('the Trust') as an individual entity. The Trust is an Australian registered managed scheme and was constituted on 31 May 2007. The Trust will terminate on 31 May 2087 unless terminated earlier in accordance with the provisions of the Trust's Constitution.

The financial statements were authorised for issue by the directors on 9 September 2016.

The nature of the operating and principal activities of the Trust are described in the directors' report.

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 the Trust's Constitution, Australian Accounting Standards and the *Corporations Act 2001*.

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

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and 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 instruments and net assets attributable to unitholders. The amounts expected to be recovered or settled beyond twelve months after the end of each reporting period cannot be reliably determined.

Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with the Australian Accounting Standards as issued by the Australian Accounting Standards Board and the International Financial Reporting Standards as issued by the International Accounting Standards Board.

(b) Financial instruments

(i) Classification

The Trust's investments are carried at fair value through profit or loss. They comprise:

- Financial instruments held for trading

These include derivative financial instruments such as futures, swaptions, swaps and forward contracts. The Trust does not designate any derivatives as hedges in a hedging relationship.

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

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold. These are investments in corporate bonds, mortgage backed securities, floating rate notes and discount securities.

(ii) Recognition/derecognition

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

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

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Measurement

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

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities held at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in the fair value recognised in the statement of comprehensive income.

- **Fair value in an inactive or unquoted market**

The fair values of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of other substantially similar instruments, 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 reporting date applicable for an instrument with similar terms and conditions. For other pricing models, inputs are based on market data at the end of the reporting period.

The fair values of derivatives that are not exchange traded are estimated at the amount that the Trust would receive or pay to terminate the contract at balance 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.

(iv) Offsetting financial instruments

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.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are classified as financial liabilities as the Trust is required to distribute its taxable income, and the units can be redeemed by the unitholders 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 reporting date if unitholders exercised their right to redeem units in the Trust.

(d) Cash and cash equivalents

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

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

Payments and receipts relating to the purchase and sale of investment securities designated at fair value are classified as cash flows from investing activities, as movements in the fair value of these securities represent the Trust's investment activity.

2 Summary of significant accounting policies (continued)

(e) Investment income

Interest earned on financial instruments classified as at fair value through profit or loss is recognised in interest income according to the terms of the contract. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b).

(f) Expenses

All expenses, including management fees, are recognised in the statement of comprehensive income on an accruals basis.

(g) Income tax

Under current legislation, the Trust is not subject to income tax as unitholders are presently entitled to the income of the Trust.

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 Trust is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Trust 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 Trust currently incurs withholding tax on investment income imposed by certain countries. Such income is recorded gross of withholding tax in the statement of comprehensive income.

(h) Distributions

In accordance with the Trust's Constitution, the Trust 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) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Trust by third parties such as investment management fees have been passed onto the Trust. The Trust qualifies for Reduced Input Tax Credits (RITC) at the rates of 75% and 55%, as applicable, on all investment management fees and other expenses. Accordingly, all relevant expenditure has 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.

(k) Receivables

Receivables may include amounts for interest, which is accrued at the reporting date from the time of last payment in accordance with the policy set out in note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

Receivables include such items as RITC and application monies receivable from unitholders.

2 Summary of significant accounting policies (continued)

(l) Payables

Payables include liabilities and accrued expenses owing by the Trust which are unpaid as at the reporting date.

Trades are recorded on trade date, and normally settled within three business days. Purchases of financial instruments that are unsettled at the reporting date are included in payables.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the statement of financial position when unitholders are presently entitled to the distributable income under the Trust's Constitution.

(m) Applications and redemptions

Applications received for units in the Trust are recorded net of any entry fees payable prior to the issue of units in the Trust. Redemptions from the Trust are recorded gross of any exit fees payable after the cancellation of units redeemed.

Unit redemption prices are determined by reference to the net assets of the Trust divided by the number of units on issue.

(n) Foreign currency

Transactions in foreign currencies are translated into presentation currency, Australian dollars, at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into Australian dollars at the foreign exchange rate ruling at the reporting date.

Foreign exchange differences arising on translation are recognised in the statement of comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the transaction. Non-monetary items measured at fair value in a foreign currency shall be translated to Australian dollars using the exchange rates ruling at the date when the fair value was determined.

(o) Use of estimates

For the majority of the Trust'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. Models are calibrated by back testing to actual transactions to ensure that outputs are reliable.

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.

(p) Unit prices

Unit prices are determined in accordance with the Trust's Constitution and are calculated as the net assets attributable to unitholders of the Trust, less estimated costs, divided by the number of units on issue, on a forward pricing basis, as determined by the Responsible Entity.

2 Summary of significant accounting policies (continued)

(q) Terms and conditions on units

Each unit issued confers upon the unitholder an equal interest in the Trust, and is of equal value per class. A unit does not confer any interest in any particular asset or investment of the Trust. Unitholders have various rights under the Constitution and the *Corporations Act 2001*, including the right to:

- have their units redeemed;
- receive income distributions;
- attend and vote at meetings of unitholders; and
- participate in the termination and winding up of the Trust.

The rights, obligations and restrictions attached to each unit are identical in all respects.

(r) New accounting standards and interpretations

In the directors' opinion, 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 had a material impact on the Trust's financial statements or accounting policies.

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2016 reporting period. The directors' assessment of the impact of these new standards (to the extent relevant to the Trust) 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 and measurement of financial assets and liabilities. The standard is not applicable until 1 January 2018 but is available for early adoption. The current four categories of financial assets, stipulated in AASB 139 *Financial Instruments: Recognition and Measurement*, will be replaced with two measurement categories: fair value and amortised cost. AASB 9 only permits the recognition of fair value gains/(losses) in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains/(losses) on debt investments, for example, will therefore have to be recognised directly in profit or loss. The Trust does not expect any significant impact on the financial statements arising from an adoption of the standard.

(s) Rounding of amounts

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

3 Net losses on financial instruments held at fair value through profit or loss

Net losses recognised in relation to financial instruments held at fair value through profit or loss:

	30 June 2016 \$'000	30 June 2015 \$'000
Held for trading at fair value	(37,895)	(19,647)
Designated at fair value	19,480	3,308
Net losses on financial instruments held at fair value through profit or loss	<u>(18,415)</u>	<u>(16,339)</u>

4 Auditor's remuneration

The cost incurred for auditing the financial report of the Trust is paid directly by the Responsible Entity. The audit fees paid/payable by the Responsible Entity for the year were \$6,300 (2015: \$6,300).

5 Net assets attributable to unitholders

As stipulated within the Trust's Constitution, each unit represents a right to an individual share in the Trust and does not extend to a right to the underlying assets of the Trust. There are two separate classes of units and each unit has the same rights, preferences and restrictions attaching to it as all other units of the Trust.

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

	30 June 2016 No. '000	30 June 2015 No. '000	30 June 2016 \$'000	30 June 2015 \$'000
Net assets attributable to unitholders - Premier class				
Opening balance	1,637,723	1,661,559	1,711,320	1,735,724
Applications	856,442	705,194	897,684	742,095
Redemptions	(735,644)	(729,030)	(771,151)	(767,917)
Change in net assets attributable to unitholders	-	-	6,446	1,418
Closing balance	1,758,521	1,637,723	1,844,299	1,711,320

	30 June 2016 No. '000	30 June 2015 No. '000	30 June 2016 \$'000	30 June 2015 \$'000
Net assets attributable to unitholders - Wholesale class				
Opening balance	1,567,780	795,978	1,892,843	957,001
Applications	871,329	1,002,309	1,055,396	1,217,458
Redemptions	(354,080)	(230,507)	(428,986)	(280,562)
Change in net assets attributable to unitholders	-	-	8,017	(1,054)
Closing balance	2,085,029	1,567,780	2,527,270	1,892,843

	30 June 2016 \$'000	30 June 2015 \$'000
Total net assets attributable to unitholders	4,371,569	3,604,163

Capital risk management

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

The Trust monitors the level of daily applications and redemptions relative to the liquid assets in the Trust. Sufficient liquid assets are maintained within the Trust. Liquid assets include cash and cash equivalents and listed equity securities such as corporate bonds, floating rate notes and discount securities.

6 Distributions to unitholders

Timing of distributions

The distributions for the year were as follows:

	30 June 2016 \$'000	30 June 2016 CPU	30 June 2015 \$'000	30 June 2015 CPU
Distributions - Premier class				
30 September quarterly paid	13,082	0.72	17,351	1.32
31 December quarterly paid	12,906	0.74	12,085	0.88
31 March quarterly paid	12,554	0.73	7,417	0.46
30 June quarterly payable	10,715	0.61	19,518	1.19
	49,257		56,371	
	30 June 2016 \$'000	30 June 2016 CPU	30 June 2015 \$'000	30 June 2015 CPU
Distributions - Wholesale class				
30 September quarterly paid	13,025	0.75	10,813	1.05
31 December quarterly paid	14,438	0.74	11,109	0.89
31 March quarterly paid	15,389	0.75	6,368	0.47
30 June quarterly payable	12,561	0.60	18,972	1.21
	55,413		47,262	

The component of the final distribution for the year which was unpaid at the reporting date is shown in the statement of financial position.

7 Financial assets held at fair value through profit or loss

	Notes	30 June 2016 \$'000	30 June 2015 \$'000
Held for trading			
Derivatives	9	5,858	11,297
Total held for trading		<u>5,858</u>	<u>11,297</u>
Designated at fair value through profit or loss			
Mortgage-backed securities		167,924	194,387
Corporate bonds		1,971,504	1,394,842
Government bonds		-	2,295
Semi-government bonds		10,971	101,063
Asset backed securities		139,033	172,133
Floating rate notes		1,562,431	1,142,401
Commercial paper		91,784	141,563
Supranational bonds		144,437	80,658
Agency bonds		51,981	-
Total designated at fair value through profit or loss		<u>4,140,065</u>	<u>3,229,342</u>
Total financial assets held at fair value through profit or loss		<u>4,145,923</u>	<u>3,240,639</u>

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in notes 11 and 12 respectively.

8 Financial liabilities held at fair value through profit or loss

	Notes	30 June 2016 \$'000	30 June 2015 \$'000
Held for trading			
Derivatives	9	27,967	11,958
Total held for trading		<u>27,967</u>	<u>11,958</u>
Total financial liabilities held at fair value through profit or loss		<u>27,967</u>	<u>11,958</u>

An overview of the risk exposures and fair value measurements relating to financial liabilities at fair value through profit or loss is included in notes 11 and 12 respectively.

9 Derivative financial instruments

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

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

9 Derivative financial instruments (continued)

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

- hedging to protect an asset or liability of the Trust 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, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

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

The Trust holds the following derivative instruments:

(a) Futures

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

(b) Options

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

(c) Forward currency contracts

Forward currency contracts are primarily used by the Trust to hedge against foreign currency exchange rate risks on its non-Australian dollar denominated trading securities. The Trust agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing market price at the end of each reporting period. The Trust recognises a gain or loss equal to the change in fair value at the end of each reporting period.

(d) Interest rate swaps

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

The fair value of interest rate swaps is the estimated amount that the Trust would receive or pay to terminate the swap at the reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

(e) Credit default swaps

A credit default swap is a derivative, under which the party buying protection makes one or more payments to the party selling protection in exchange for an undertaking by the seller to make a payment to the buyer following a credit event (as defined in the contract) with respect to a third party credit entity. Settlement following a credit event may be a net cash amount or cash in return for physical delivery of one or more obligations of the credit entity and is made regardless of whether the protection buyer has actually suffered a loss. After a credit event and settlement, the contract is terminated.

9 Derivative financial instruments (continued)

(f) Swaptions

A swaption is an option to enter into an interest rate swap. In exchange for an option premium, the buyer gains the right to but not the obligation to enter into a specified swap agreement with the issuer on a specified future date.

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

30 June 2016	Contract/ notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
Long Positions			
Interest rate swaps	160,690	2,222	-
Swaptions	998	308	-
Credit default swaps	(183)	274	457
Forward currency contracts	1,415,348	3,054	25,511
Short Positions			
Swaptions	2,060	-	268
Futures	(1,203,304)	-	-
Credit default swaps	(1,731)	-	1,731
	373,878	5,858	27,967

30 June 2015	Contract/ notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
Long Positions			
Swaptions	1,096	4,687	-
Over-the-counter options	13,860	686	-
Credit default swaps	(1,031)	291	1,322
Forward currency contracts	787,651	5,633	6,655
Futures	32,751	-	-
Short Positions			
Swaptions	6,606	-	3,981
Futures	(763,185)	-	-
	77,748	11,297	11,958

An overview of the risk exposures and fair value measurements relating to derivative financial instruments are included in note 11 and note 12.

10 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. As at 30 June 2016 there are no financial assets and financial liabilities that have been offset in the statement of financial position (2015: \$Nil). As at 30 June 2015, the Trust has no netting arrangements which if applied would have a material impact on the disclosure of financial assets and liabilities.

11 Financial risk management

(a) Overview

The Trust's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The Trust's overall risk management program focuses on ensuring compliance with the Trust's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Trust is exposed. The Trust may use derivative financial instruments to alter certain risk exposures. The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

The allocation of assets between the various types of financial instruments is determined by the Trust's Asset Manager who manages the Trust's assets to achieve the Trust's investment objectives.

Divergence from target allocations and the composition of the assets is monitored on a regular basis.

The Responsible Entity of the Trust is aware of the risks associated with the business of investment management. A financial risk management framework has been established to ensure that procedures and controls adequately manage the risks arising from current business activities. Central controls include (but are not limited to):

- clear policies and procedures covering operations;
- post trade investment compliance monitoring;
- segregation of the dealing and investment management function from the administration and settlement function;
- an independent service provider for the valuation of securities; and
- a compliance function with a separate reporting line from the Funds Management team.

As part of the risk management framework, the Responsible Entity is subject to regular reporting and committee meetings regarding risk and compliance issues. The purpose is to facilitate a flow of information between the Trust and the Responsible Entity's Board and Committees. Any material matters identified are promptly investigated and reported.

As part of its risk management strategy, the Trust may use derivatives including exchange traded derivatives, to manage exposures resulting from changes in index prices, equity risks and exposures arising from forecast transactions.

There are no changes in the strategies used to manage the financial risks from the previous reporting period.

(b) Market risk

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

The Trust is exposed to market risks influencing investment valuations. The Trust may utilise derivatives to manage this risk.

(i) Price risk

Price risk is the risk that the value of an instrument will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the Trust does not hold any equity securities, and the majority of its investments carried at fair value with fair value changes recognised in the statement of comprehensive income are debt instruments, price risk is not considered to be significant.

11 Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk

Trusts that invest in international assets are exposed to foreign exchange risk. Foreign exchange risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Fund managers may enter into derivatives contracts (such as forwards, swaps, options and futures) through approved foreign exchange dealers to minimise risk. However, the use of these contracts must be consistent with the investment strategy and restrictions of the Trust, and agreed acceptable level of foreign exchange risk.

The Trust 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 will fluctuate due to changes in exchange rates.

The Trust actively monitors its foreign exchange exposure and enters into foreign currency forward contracts to minimise its foreign exchange risk.

The table below summarises the Trust's exposure to foreign exchange risk.

30 June 2016

	Australian Dollars \$'000	US Dollars \$'000	Euro \$'000	Japanese Yen \$'000	New Zealand Dollars \$'000	Other currencies \$'000	Total \$'000
Assets							
Cash and cash equivalents	207,237	(22,920)	(1,060)	66,695	4	262	250,218
Receivables	17,102	10,747	269	11	586	-	28,715
Financial assets held at fair value through profit or loss	2,753,309	1,231,820	84,538	325	75,931	-	4,145,923
Total assets	2,977,648	1,219,647	83,747	67,031	76,521	262	4,424,856
Liabilities							
Distribution payable	(23,276)	-	-	-	-	-	(23,276)
Payables	(2,044)	-	-	-	-	-	(2,044)
Financial liabilities held at fair value through profit or loss	(267)	(22,315)	(168)	(535)	(4,682)	-	(27,967)
Total liabilities	(25,587)	(22,315)	(168)	(535)	(4,682)	-	(53,287)
Net assets attributable to unitholders	2,952,061	1,197,332	83,579	66,496	71,839	262	4,371,569

11 Financial risk management (continued)

(b) Market risk (continued)

(ii) Foreign exchange risk (continued)

30 June 2015

	Australian Dollars \$'000	US Dollars \$'000	Euro \$'000	New Zealand Dollars \$'000	Other currencies \$'000	Total \$'000
Assets						
Cash and cash equivalents	399,329	(7,000)	(609)	51	936	392,707
Receivables	14,736	8,108	46	-	4	22,894
Financial assets held at fair value through profit or loss	2,435,967	763,338	36,472	4,639	223	3,240,639
Total assets	2,850,032	764,446	35,909	4,690	1,163	3,656,240
Liabilities						
Distribution payable	(38,490)	-	-	-	-	(38,490)
Payables	(1,629)	-	-	-	-	(1,629)
Financial liabilities held at fair value through profit or loss	(3,980)	(2,928)	(1,635)	(3,415)	-	(11,958)
Total liabilities	(44,099)	(2,928)	(1,635)	(3,415)	-	(52,077)
Net assets attributable to unitholders	2,805,933	761,518	34,274	1,275	1,163	3,604,163

The table in part (c) of this note summarises the sensitivities of the Trust's financial instruments to foreign exchange risk. The analysis is based on the assumption that the Australian Dollar weakened and strengthened by 10% (2015: 10%) against the material foreign currencies to which the Trust is exposed.

(iii) Cash flow and fair value interest rate risk

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

The Trust has established limits on the total interest rate exposure, which are monitored on a daily basis. The Trust may use derivatives to hedge unexpected increases in interest rates.

Part (c) of this note demonstrates the sensitivity if the Trust's statement of comprehensive income to reasonably possible changes in interest rates, with all other variable held constant. The analysis is based on the assumptions that interest rates increased by 100 bps (2015: 100 bps) and decreased by 100 bps (2015: 100 bps).

The sensitivity of the statement of comprehensive income is the effect of the assumed changes in interest rates on:

- the interest income for one year, based on the floating rate financial assets held at 30 June 2016; and
- changes in the fair value of investments for the year based on revaluing fixed rate financial assets at 30 June 2016.

11 Financial risk management (continued)

(c) Summarised sensitivity analysis

The following table summarises the sensitivity of the Trust's operating profit and net assets attributable to unitholders to foreign exchange risk and interest rate risk for financial assets and liabilities held at balance date. 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. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Trust invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

	Impact on operating profit/Net assets attributable to unitholders							
	Interest rate risk				Foreign exchange risk			
	-100bps	+100bps	-10%	+10%	-10%	+10%	-10%	+10%
	\$'000	\$'000	USD \$'000	USD \$'000	EURO \$'000	EURO \$'000	GBP \$'000	GBP \$'000
30 June 2016	38,608	(37,589)	(1,255)	1,026	34	(28)	4	(3)
30 June 2015	33,782	(33,018)	285	(233)	(129)	105	4	(3)

	Impact on operating profit/Net assets attributable to unitholders					
	Foreign exchange risk					
	-10%	+10%	-10%	+10%	-10%	+10%
	NZD \$'000	NZD \$'000	JPY \$'000	JPY \$'000	OTHER \$'000	OTHER \$'000
30 June 2016	190	(155)	177	(145)	25	(20)
30 June 2015	148	(121)	(1,897)	1,552	-	-

(d) Credit risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Trust to incur a financial loss.

With respect to credit risk arising from the financial assets of the Trust, other than derivatives, the Trust's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the statement of financial position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values.

The Trust holds no collateral as security. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having being renegotiated.

The credit quality of financial assets is managed by the Trust using the Standard & Poor's rating categories, in accordance with the investment mandate of the Trust. The Trust's exposure in each grade is monitored on a regular basis. This review process allows the Responsible Entity to assess the potential loss as a result of risks and take corrective action.

The Trust manages counterparty risk in relation to over-the-counter derivatives by using only counterparties with an acceptable credit rating in accordance with the provisions of the Trust's policies. Exposures to counterparties are monitored by the Asset Manager on a regular basis.

11 Financial risk management (continued)

(d) Credit risk (continued)

The following table details the breakdown by credit rating of the underlying investment assets, including derivatives, held by the Trust:

Australian fixed interest securities counterparty rating	30 June 2016 \$'000	30 June 2015 \$'000
Rating		
AAA	414,514	514,458
AA+	38,923	95,768
AA	19,336	83,727
AA-	565,050	283,174
A+	75,627	87,721
A	105,742	198,986
A-	570,514	556,601
BBB+	674,590	363,669
BBB	289,013	251,862
Total	<u>2,753,309</u>	<u>2,435,966</u>

International fixed interest securities counterparty rating	30 June 2016 \$'000	30 June 2015 \$'000
Rating		
AAA	73,685	-
AA+	83,052	32,673
AA-	305,844	71,020
A+	149,507	166,374
A	158,223	109,282
A-	280,419	100,239
BBB+	195,504	62,133
BBB	146,373	262,952
Not rated	7	-
Total	<u>1,392,614</u>	<u>804,673</u>

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 purchase on the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

(e) Liquidity risk

Liquidity risk is the risk that the Trust will not be able to meet its financial obligations as they fall due.

The Trust's product disclosure statement provides for daily redemption of units and it is therefore exposed to liquidity risk of meeting unitholders' redemption at any time.

11 Financial risk management (continued)

(e) Liquidity risk (continued)

This risk is controlled through the Trust investing the majority of its assets in investments that are traded in an active market and investing only a limited proportion of its assets in investments not actively traded on a stock exchange.

The Trust's investments are considered to be readily realisable.

The investment management process includes the consideration of liquidity, both in terms of market quality and cash flow. In asset construction, securities/investments (including derivatives) are only purchased that meet investment criteria and this includes the assessment of saleability in different market conditions. Before entering into a transaction, consideration is given (among others):

- whether the purpose of the investment is consistent with the investment strategy of the Trust;
- the ease of selling the security should market conditions change unfavourably;
- whether there are sufficient assets to cover the underlying liabilities of that transaction; and
- the overall liquidity level for the Trust.

Under the terms of its Constitution, the Trust has the ability to manage liquidity risk by delaying redemptions to unitholders, if necessary, until the funds are available to pay them.

Maturity analysis for financial liabilities

Financial liabilities of the Trust comprise trade and other payables, distributions payable and net assets attributable to unitholders. Trade and other payables and distributions payable have no contractual maturities but are typically settled within 30 days.

Net assets attributable to unitholders are entirely payable on demand.

12 Fair value measurement

(a) Fair value estimation

All financial assets and financial liabilities included in the statement of financial position are carried at recurring fair value.

The carrying amounts of the Trust's financial assets and financial liabilities at the end of each reporting period are equivalent to their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

The Trust values its investments in accordance with the accounting policies set out in note 2. For the majority of its investments, the Trust relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Trust is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Trust holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair value for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

(b) Fair value hierarchy

The Trust classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- 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 (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

12 Fair value measurement (continued)

(b) Fair value hierarchy (continued)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

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

30 June 2016

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets held for trading:				
Interest rate swaps	-	2,222	-	2,222
Swaptions	-	308	-	308
Credit default swaps	-	274	-	274
Forward currency contracts	-	3,054	-	3,054
Financial assets designated at fair value through profit or loss:				
Mortgage-backed securities	-	167,924	-	167,924
Corporate bonds	-	1,971,504	-	1,971,504
Semi-government bonds	-	10,971	-	10,971
Asset backed securities	-	139,033	-	139,033
Floating rate notes	-	1,562,431	-	1,562,431
Commercial paper	-	91,784	-	91,784
Supranational bonds	-	144,437	-	144,437
Agency bonds	-	51,981	-	51,981
Total	-	4,145,923	-	4,145,923
Financial liabilities				
Financial liabilities held for trading:				
Credit default swaps	-	(2,188)	-	(2,188)
Forward currency contracts	-	(25,511)	-	(25,511)
Swaptions	-	(268)	-	(268)
Total	-	(27,967)	-	(27,967)

12 Fair value measurement (continued)

(b) Fair value hierarchy (continued)

30 June 2015

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets held for trading:				
Swaptions	-	4,687	-	4,687
Over-the-counter options	-	686	-	686
Credit default swaps	-	291	-	291
Forward currency contracts	-	5,633	-	5,633
Financial assets designated at fair value through profit or loss:				
Mortgage-backed securities	-	194,387	-	194,387
Corporate bonds	-	1,394,842	-	1,394,842
Government bonds	-	2,295	-	2,295
Semi-government bonds	-	101,063	-	101,063
Asset backed securities	-	172,133	-	172,133
Floating rate notes	-	1,142,401	-	1,142,401
Commercial paper	-	141,563	-	141,563
Supranational bonds	-	80,658	-	80,658
Total	-	3,240,639	-	3,240,639
Financial liabilities				
Financial liabilities held for trading:				
Credit default swaps	-	(1,322)	-	(1,322)
Forward currency contracts	-	(6,655)	-	(6,655)
Swaptions	-	(3,981)	-	(3,981)
Total	-	(11,958)	-	(11,958)

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include investments in fixed income securities and over-the-counter derivatives. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non transferability, which are generally based on available market information.

13 Related party transactions

Responsible entity

The Responsible Entity of Kapstream Absolute Return Income Fund is Fidante Partners Limited whose immediate parent company is Challenger Funds Management Holdings Pty Limited and ultimate parent company is Challenger Limited.

13 Related party transactions (continued)

Key management personnel

(i) *Directors*

Key management personnel includes persons who were directors of Fidante Partners Limited at any time during the financial year and up to the date of the report as follows:

B J O'Connor
P D Rogan
I Saines
A Tobin
R Willis

(ii) *Other key management personnel*

The Responsible Entity is considered to be the key management personnel with authority for the strategic direction and management of the Trust.

The Asset Manager, Kapstream Capital Pty Limited, is a related party to the Trust by way of key management personnel from Fidante Partners Limited being director(s) of Kapstream Capital Pty Limited.

Key management personnel unitholdings

At 30 June 2016 no key management personnel held units in the Trust (2015: Nil).

Key management personnel compensation

No amount is paid by the Trust directly to the directors of the Responsible Entity.

Compensation is paid to the Responsible Entity in the form of fees and is disclosed below.

Responsible Entity's fees and other transactions

Under the terms of the Trust's Constitution, the Responsible Entity is entitled to receive management fees, calculated by reference to the average daily net assets (excluding net assets attributable to unitholders) of the Trust as follows:

- (i) 0.41% (2015: 0.41%) of the Premier class; and
- (ii) 0.70% (2015: 0.70%) of the Wholesale class.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Trust and the Responsible Entity were as follows:

	30 June 2016	30 June 2015
	\$	\$
Management fees for the year paid by the Trust to the Responsible Entity	22,902,089	16,388,009
Aggregate amounts payable to the Responsible Entity at the end of the reporting period	2,028,086	1,613,861

13 Related party transactions (continued)

Related party unitholdings

Parties related to the Trust (including Fidante Partners Limited, its related parties and other schemes managed by Fidante Partners Limited), held units in the Trust as follows:

30 June 2016

Unitholder	No. of units held opening (Units)	No. of units held closing (Units)	Interest held (%)	No. of units acquired (Units)	No. of units disposed (Units)	Distributions paid/payable by the Trust (\$)
Kapstream Capital Pty Limited	5,430,146	5,127,887	0.13	167,741	(470,000)	141,794
Total	5,430,146	5,127,887	0.13	167,741	(470,000)	141,794

30 June 2015

Unitholder	No. of units held opening (Units)	No. of units held closing (Units)	Interest held (%)	No. of units acquired (Units)	No. of units disposed (Units)	Distributions paid/payable by the Trust (\$)
Kapstream Capital Pty Limited	4,757,374	5,430,146	0.17	672,772	-	206,507
Total	4,757,374	5,430,146	0.17	672,772	-	206,507

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

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

	30 June 2016 \$'000	30 June 2015 \$'000
Net profit attributable to unitholders	119,133	103,997
Net losses on financial instruments held at fair value through profit or loss	18,415	16,339
Net foreign exchange gains	(20,630)	(22,051)
Proceeds from sale of financial instruments held for trading	17,491	6,315
Purchase of financial instruments held for trading	(41,217)	(119,360)
Net change in receivables and other assets	(5,770)	(7,382)
Net change in payables and other liabilities	361	469
Net cash inflow/(outflow) from operating activities	87,783	(21,673)

(b) Components of cash and cash equivalents

Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the statement of financial position as follows:

Cash at bank	212,172	382,258
Cash as collateral	38,046	10,449
Cash and cash equivalents	250,218	392,707

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

(c) Non-cash investing and financing activities

	30 June 2016 \$'000	30 June 2015 \$'000
Reinvestment of unitholder distributions	<u>52,007</u>	<u>42,896</u>

15 Events occurring after the reporting period

No significant events have occurred since the reporting date which would impact on the financial position of the Trust as at 30 June 2016 or on the results and cash flows of the Trust for the year ended on that date.

16 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2016 (2015: \$Nil).

Directors' declaration

In accordance with the resolution of the Directors of Fidante Partners Limited, I state that:

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 8 to 32 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Trust's financial position as at 30 June 2016 and of its performance for the financial year ended on that date,
- (b) the financial statements and notes comply with International Financial Reporting Standards as disclosed in note 2(a); and
- (c) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

On behalf of the Board of Fidante Partners Limited.



**B J O'Connor
Director**

**Sydney
9 September 2016**

Independent auditor's report to the unitholders of Kapstream Absolute Return Income Fund

We have audited the accompanying financial report of Kapstream Absolute Return Income Fund (the "Scheme"), which comprises the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of Fidante Partners Limited as Responsible Entity of the Scheme (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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

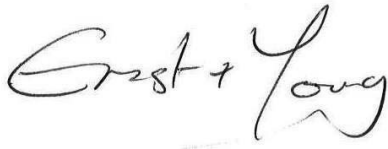
Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which is attached to the directors' report.

Opinion

In our opinion:

- a. the financial report of Kapstream Absolute Return Income Fund is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the Scheme's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.



Ernst & Young



Darren Handley-Greaves
Partner
Sydney
9 September 2016

Directory

Responsible Entity

Fidante Partners Limited
ABN 94 002 835 592
AFSL 234668

Registered office and principal place of business

Level 2
5 Martin Place
Sydney NSW 2000

Custodian

Citigroup Pty Limited
Level 23
2 Park Street
Sydney NSW 2000

Auditor

For the Responsible Entity and the Trust
Ernst & Young
200 George Street
Sydney NSW 2000

