

DNR Capital Australian Equities High Conviction Fund

ARSN 604 465 849

Annual financial report For the year ended 30 June 2018

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These financial statements cover the DNR Capital Australian Equities High Conviction Fund as an individual entity.

The Responsible Entity of the DNR Capital Australian Equities High Conviction Fund is The Trust Company (RE Services) Limited (ABN 45 003 278 831 AFSL 235150), part of the Perpetual Limited group of companies. The Responsible Entity's registered office is Level 18, 123 Pitt Street, Sydney NSW 2000.

Directors' report

The Trust Company (RE Services) Limited (ABN 45 003 278 831) is the responsible entity (the "Responsible Entity") of the DNR Capital Australian Equities High Conviction Fund (the "Fund"). The directors of the Responsible Entity (the "Directors") present their report together with the financial statements of the Fund for the year ended 30 June 2018.

Principal activities

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

The Fund invests in a high conviction portfolio of Australian equities that aims to outperform the S&P/ASX200 Accumulation Index by 4% p.a. (before fees) over a rolling three-year period.

The Fund was constituted on 11 March 2015 and commenced operations on 11 June 2015.

The Fund did not have any employees during the year.

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

Directors

The Directors of The Trust Company (RE Services) Limited, during the whole of the year and until the date of this report (unless otherwise stated) were:

Name	Date of appointment/resignation
Andrew Cannane	Resigned as Director on 23 February 2018
Glenn Foster	
Christopher Green	
Michael Vainauskas	
Andrew McIver	Alternate Director for Michael Vainauskas
Vikki Riggio	Appointed as Alternate Director for Christopher Green on 24 November 2017 Resigned as Alternate Director for Andrew Cannane on 23 February 2018 Resigned as Alternate Director for Christopher Green on 20 April 2018 Appointed as Director on 20 April 2018
Rodney Ellwood	Resigned as Alternate Director for Christopher Green on 24 November 2017
Gillian Larkins	Appointed as Alternate Director for Glenn Foster on 14 July 2017
Neil Wesley	Resigned as Alternate Director for Glenn Foster on 14 July 2017
Phillip Blackmore	Appointed as Alternate Director for Christopher Green and Vicki Riggio on 6 July 2018

Review and results of operations

During the year the Fund invested in accordance with the investment objective and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

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

	Year end 30 June 2018 \$'000	Year end 30 June 2017 \$'000
Net operating profit for the year	18,804	5,712
Distribution paid and payable	3,892	1,006
Distribution (cents per unit)	<u>2.3493</u>	<u>2.1242</u>

Directors' report (continued)

Significant changes in state of affairs

The Fund has amended its Constitution to change the obligation to distribute trust income to unitholders effective 1 July 2017 as part of a process to become eligible to elect into the new Attribution Managed Investment Trust ("AMIT") tax regime.

In the opinion of the Directors, there were no other significant changes in the state of affairs of the Fund that occurred during the financial period under review.

Matters subsequent to the end of the financial year

Phillip Blackmore was appointed as an alternate director for Christopher Green and Vicki Riggio on 6 July 2018.

Other than the matter noted above, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

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

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

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regard to the insurance cover provided to either the officers of the Responsible Entity or the auditors of the Fund. So long as the officers of the Responsible Entity act in accordance with the Fund's Constitution and the *Corporations Act 2001*, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

The auditors of the Fund are in no way indemnified out of the assets of the Fund.

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

Fees paid to the Responsible Entity and its associates out of Fund's property during the year are disclosed in Note 12 of the financial statements.

No fees were paid out of Fund's property to the Directors of the Responsible Entity during the year.

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 12 of the financial statements.

Units in the Fund

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

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

Environmental regulation

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

Directors' report (continued)

Rounding of amounts to the nearest thousand dollars

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

Auditor's independence declaration

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

This report is made in accordance with a resolution of the Directors of The Trust Company (RE Services) Limited.



Director
The Trust Company (RE Services) Limited

Sydney
13 September 2018



Auditor's Independence Declaration

As lead auditor for the audit of DNR Capital Australian Equities High Conviction Fund for the year ended 30 June 2018, I declare that 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 other than as noted below.

A partner in the lead audit engagement office held an immaterial investment in DNR Capital Australian Equities High Conviction Fund. The investment was immediately disposed of when the matter was identified. The partner did not provide any services to the responsible entity or DNR Capital Australian Equities High Conviction Fund and the audit team was not aware of the investment. On this basis, I do not believe this matter has impacted the objectivity of PricewaterhouseCoopers in relation to the audit.

A handwritten signature in black ink, appearing to read 'R Cooper', is written over the printed name.

R Cooper
Partner
PricewaterhouseCoopers

Sydney
13 September 2018

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DNR Capital Australian Equities High Conviction Fund
Statement of Comprehensive Income
For the year ended 30 June 2018

Statement of Comprehensive Income

	Note	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
Investment income			
Interest income		79	22
Dividend income		6,700	1,648
Net gains on financial instruments held at fair value through profit or loss	5	13,525	4,425
Total net investment income		20,304	6,095
Expenses			
Management fees	12	1,500	383
Total operating expenses		1,500	383
Operating profit for the year		18,804	5,712
Finance costs attributable to unitholders			
Distributions to unitholders	7	-	(1,006)
Increase in net assets attributable to unitholders	11	-	(4,706)
Profit/(loss) for the year		18,804	-
Other comprehensive income for the year		-	-
Total comprehensive income for the year		18,804	-

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

DNR Capital Australian Equities High Conviction Fund
Statement of Financial Position
As at 30 June 2018

Statement of Financial Position

	Note	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Assets			
Cash and cash equivalents	13(b)	9,669	3,345
Trade and other receivables	9	2,216	374
Financial assets held at fair value through profit or loss	8	237,323	68,512
Total assets		249,208	72,231
Liabilities			
Trade and other payables	10	2,534	1,548
Total liabilities (30 June 2017: excluding net assets attributable to unitholders)		2,534	1,548
Net assets attributable to unitholders - liability*	11	-	70,683
Net assets attributable to unitholders - equity*	11	246,674	-

* Net assets attributable to unitholders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017. Refer to Note 1 for further detail.

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

**DNR Capital Australian Equities High Conviction Fund
Statement of Changes in Equity
For the year ended 30 June 2018**

Statement of Changes in Equity

		Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
Total equity at the beginning of the financial year			
Reclassification due to AMIT tax regime implementation*		70,683	-
Comprehensive income for the year			
Profit/(loss) for the year		18,804	-
Other comprehensive income		-	-
Total comprehensive income		18,804	-
Transactions with unitholders			
Applications	11	181,046	-
Redemptions	11	(20,270)	-
Reinvestment of distributions	11	303	-
Distributions paid and payable	11	(3,892)	-
Total transactions with unitholders		157,187	-
Total equity at the end of the financial year*		246,674	-

*Effective from 1 July 2017, the Fund's units have been reclassified from financial liability to equity. Refer to Note 1 and Note 11 for further detail. As a result, equity transactions, including distributions, have been disclosed in the above statement for the year ended 30 June 2018.

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

DNR Capital Australian Equities High Conviction Fund
Statement of Cash Flows
For the year ended 30 June 2018

Statement of Cash Flows

	Note	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
Cash flows from operating activities			
Proceeds from sales of financial instruments held at fair value through profit or loss		47,990	13,941
Purchase of financial instruments held at fair value through profit or loss		(204,157)	(62,519)
Dividends received		5,320	1,370
Interest received		76	21
Management fees paid		(1,370)	(344)
RITC paid		(16)	(6)
Net cash outflow from operating activities	13(a)	(152,157)	(47,537)
Cash flows from financing activities			
Proceeds from applications by unitholders		181,046	55,186
Payments for redemptions by unitholders		(20,270)	(4,569)
Distributions paid		(2,295)	(502)
Net cash inflow from financing activities		158,481	50,115
Net increase in cash and cash equivalents		6,324	2,578
Cash and cash equivalents at the beginning of the year		3,345	767
Cash and cash equivalents at the end of the year	13(b)	9,669	3,345
Non-cash operating and financing activities	13(c)	303	63

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

1 General information

These financial statements cover the DNR Capital Australian Equities High Conviction Fund (the "Fund") as an individual entity. The Fund was constituted on 11 March 2015 and commenced operations on 11 June 2015. The Fund will terminate on 9 March 2095 unless terminated earlier in accordance with the provisions of the Fund Constitution.

The Fund invests in a high conviction portfolio of Australian equities that aims to outperform the S&P/ASX200 Accumulation Index by 4% p.a. (before fees) over a rolling three-year period.

The Responsible Entity of the Fund is The Trust Company (RE Services) Limited, part of the Perpetual Limited group of companies. The Responsible Entity's registered office is Level 18, 123 Pitt Street, Sydney NSW 2000. The financial statements are presented in the Australian currency.

The Responsible Entity is incorporated and domiciled in Australia. The Investment Manager of the Fund is DNR Capital Pty Ltd ("the Investment Manager").

The Custodian of the Fund is RBC Investor Services Trust.

On 5 May 2016, a new tax regime applying to Managed Investment Trusts ("MITs") was established under the Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016. The Attribution Managed Investment Trust ("AMIT") regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. In order to allow the Fund to elect into the AMIT tax regime, the Fund's Constitution has been amended and the other conditions to adopt the AMIT tax regime have been met effective 1 July 2017. The Responsible Entity is therefore no longer contractually obligated to pay distributions. Consequently the units in the Fund have been reclassified from a financial liability to equity on 1 July 2017, see Note 11 for further information.

The financial statements were authorised for issue by the Directors on 13 September 2018. The Directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below.

(a) Basis of preparation

These general purpose financial statements has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Accounting Standards Board and the *Corporations Act 2001* in Australia. The Fund is a for-profit unit trust for the purpose of preparing the financial statements.

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

The 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 generally expected to be recovered or settled within twelve months.

Compliance with International Financial Reporting Standards (IFRS)

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

(b) Financial instruments

(i) Classification

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

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

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

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Recognition/derecognition

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

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or
- the Fund has transferred its rights to receive cash flows from the asset and either:
 - (a) has transferred substantially all the risks and rewards of the asset; or
 - (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Any gains or losses arising on derecognition of the asset are included in the Statement of Comprehensive Income in the year the asset is derecognised as realised gains or losses on financial instruments.

(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 including any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. 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.

- Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the reporting date without any deduction for estimated future selling costs. Financial assets and financial liabilities are priced at closing price.

(c) Net assets attributable to unitholders

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

The units can be put back to the Fund at any time for cash based on the redemption price.

The units are carried at the redemption amount that is payable at the reporting date if the holder exercises the right to put the units back to the Fund.

Units are classified as equity when they satisfy the following criteria under *AASB 132 Financial Instruments: Presentation*:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Fund's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund, and is not a contract settled in the Fund's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

As at 30 June 2017, net assets attributable to unitholders are classified as a financial liability. Effective from 1 July 2017, the Fund's units have been reclassified from financial liability to equity as they satisfied all the above criteria.

2 Summary of significant accounting policies (continued)

(d) Cash and cash equivalents

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

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

(e) Investment income

Interest income and expenses are recognised in the Statement of Comprehensive Income for all financial instruments that are not held at fair value through profit and loss using the effective interest method. Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2(b).

Dividend income is recognised on the ex-dividend date net of any related franking credits.

Net gains/(losses) on financial assets and financial liabilities held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at year end and the fair value at the previous valuation point. Net gains/(losses) do not include interest or dividend income.

(f) Expenses

All expenses, including manager's fees, are recognised in the Statement of Comprehensive Income on an accruals basis.

(g) Income tax

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

The Fund may distribute its distributable income, in accordance with the Fund's Constitution, to unitholders by cash or reinvestment. The distributions are recognised in the Statement of Changes in Equity.

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

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

(h) Distributions

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

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

Income not distributed is included in net assets attributable to unitholders. Where the Fund's units are classified as financial liabilities, movements in net assets attributable to unitholders are recognised in the Statement of Comprehensive Income as finance costs. The movements include undistributable income which may consist of undistributable unrealised changes in fair value of financial instruments held at fair value through profit or loss; accrued income not yet assessable; expenses provided or accrued for which are not yet deductible; net capital losses; and tax free or tax deferred income. Net capital gains on the realisation of any financial instruments (including any adjustments for tax deferred income previously taken directly to net assets attributable to unitholders) and accrued income not yet assessable will be included in the determination of distributable income in the same year in which it becomes assessable for tax.

2 Summary of significant accounting policies (continued)

(j) Due from/to brokers

Amounts due from/to brokers represent payables for securities purchased and receivables for securities sold that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and normally settled on terms consistent with the applicable exchange through which the trade was conducted. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount due from brokers is impaired.

(k) Receivables

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

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

(l) Payables

Payables include liabilities, accrued expenses owed by the Fund and any distributions declared which are unpaid as at the end of the reporting year.

A separate distribution payable is recognised in the Statement of Financial Position.

The distribution amount payable to unitholders as at the reporting date is recognised separately in the Statement of Financial Position as unitholders are presently entitled to the distributable income as at 30 June 2018 and 30 June 2017 under the Fund's Constitution.

(m) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund 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 Fund divided by the number of units on issue.

(n) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as audit fees, custodial services and investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) hence investment management fees, custodial fees and other expenses have been recognised in the Statement of Comprehensive Income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

(o) Use of estimates

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

As the Fund's financial instruments are listed on the ASX, quoted marked prices are readily available. 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) Comparatives

Comparative figures are, where appropriate, reclassified so as to be comparable with the figures and presentation in the current reporting year.

(q) 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 July 1, 2017 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

2 Summary of significant accounting policies (continued)

(r) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting year and have not been early adopted by the Fund. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

- AASB 9 *Financial Instruments* (and applicable amendments) (effective annual reporting periods beginning on or after 1 January 2018)

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

- AASB 15 *Revenue from Contracts with Customers* (effective annual reporting periods beginning on or after 1 January 2018)

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

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

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

(s) Rounding of amounts

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

3 Financial risk management

(a) Overview

The Fund's activities expose it to a variety of financial risks. The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Product Disclosure Statement. It also seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance. The management of these risks is conducted by the Fund's Investment Manager who manages the Fund's assets in accordance with its investment objective.

The Investment Manager of the Fund is aware of the risks associated with the business of investment management. A financial risk management framework has been established by the Fund's Investment Manager who conducts regular assessment processes in order to ensure that procedures and controls are adequately managing the risks arising from the Fund's investment activities.

This framework includes:

- Integrated computer systems and processes with checks and balances,
- 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 within the Investment Manager with a separate reporting line from the portfolio management team.

Compliance is integrated into the day to day operations of the Responsible Entity Services team, a Perpetual Corporate Trust (CT) business unit.

3 Financial risk management (continued)

(a) Overview (continued)

The Responsible Entity also has in place a framework to identify, control, report and manage compliance and business obligations, and to ensure that the interests of unitholders in the Fund are protected.

This framework includes:

- Policies and procedures,
- Committee and board reporting,
- Staff training,
- Formal service provider agreements,
- Compliance reporting by the Investment Manager, Investment Administrator and Custodian (the "Service Providers"),
- Regular reviews of Service Providers, and
- Monitoring of Responsible Entity Services compliance in accordance with Control Self-Assessment methodology.

Responsible Entity Services team is ultimately responsible for compliance monitoring. The Responsible Entity Services team includes the roles of Head of Responsible Entity Services, Senior Risk Manager, Senior Manager - Corporate Clients, Client Manager - Corporate Clients. Responsible Entity Services undertakes monitoring visits of the Fund's Service Providers, focusing on the general control environment and investment management, administration and custodial functions as provided to the Responsible Entity of the Fund. This is conducted to ensure that the Service Providers continue to satisfy their obligations as detailed within the relevant service agreement entered into with the Responsible Entity.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises of three types of risks: price risk, foreign currency risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

The market risk disclosures are prepared on the basis of the Fund's direct investments and not on a look-through basis for investments held in the Fund.

The sensitivity of the Fund's net assets attributable to unitholders (and net operating profit/(loss)) to price risk and interest rate risk is measured by the reasonably possible movements approach. This approach is determined based on management's best estimate, having regard to a number of factors, including the historical correlation of the Fund's investments with the relevant benchmarks and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in the risk variables are not a definitive indicator of future variations in the risk variables.

(i) Price risk

Equity price risk is the risk that the fair value of equities will fluctuate because of changes in market prices, whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Equity price risk exposure arises from the Fund's investment portfolio. The investments are classified on the Statement of Financial Position as financial assets and liabilities held at fair value through profit or loss. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Investment Manager mitigates this price risk through diversification and a careful selection of securities and other financial instruments within specified guidelines.

The Fund's overall market positions are monitored regularly by the Fund's Investment Manager.

Net assets attributable to unitholders include investments in equity securities.

3 Financial risk management (continued)

(b) Market risk (continued)

(i) Price risk (continued)

As at 30 June 2018 the overall market exposures were as follows:

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Equity securities designated at fair value through profit or loss	237,323	68,512

At 30 June 2018, if the equity prices had increased by 10% with all other variables held constant, this would have increased net assets attributable to unitholders (and net operating profit/(loss)) by approximately \$23,732 (30 June 2017: \$6,851). Conversely, if the equity prices had decreased by 10%, this would have decreased net assets attributable to unitholders (and net operating profit/(loss)) by approximately \$23,732 (30 June 2017: \$6,851).

The following table summarises the Fund's exposure to various industry sectors as at 30 June 2018:

Sector	As at 30 June 2018 %	As at 30 June 2017 %
Financials	28.17%	33.87%
Industrials	15.54%	19.64%
Materials	17.21%	11.69%
Consumer Staples	9.86%	9.82%
Consumer Discretionary	4.77%	8.85%
Technology	9.56%	5.02%
Energy	5.57%	1.12%
Health Care	3.42%	4.43%
Real Estate	5.90%	5.56%
	100.00%	100.00%

(ii) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Fund is not exposed to significant risks from movements in foreign exchange rates as there are no financial assets and liabilities denominated in foreign currencies.

(iii) Interest rate risk

The majority of the Fund's financial assets are non-interest-bearing. Interest-bearing financial assets and interest-bearing financial liabilities mature or re-price in the short-term, no longer than twelve months. As a result, the Fund is subject to limited exposure to interest rate risk due to fluctuations in the prevailing levels of market interest rates.

(c) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. This risk is controlled through the Fund's investment in financial instruments, which under normal market conditions are readily convertible to cash as they are listed on the ASX. In addition, the Fund maintains sufficient cash and cash equivalents to meet normal operating requirements.

The Fund's Constitution provides for the daily application and redemption of units and it is therefore exposed to the liquidity risk of meeting unitholder redemptions at any time.

In accordance with the Fund's policy, the Investment Manager monitors the Fund's liquidity position on a daily basis.

3 Financial risk management (continued)

(c) Liquidity risk (continued)

Maturity analysis for financial liabilities

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

At 30 June 2018	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	12-60 months \$'000
Trade and other payables	2,534	-	-	-
Contractual cash flows	2,534	-	-	-
At 30 June 2017	Less than 1 month \$'000	1-3 months \$'000	3-12 months \$'000	12-60 months \$'000
Trade and other payables	1,548	-	-	-
Net assets attributable to unitholders	70,683	-	-	-
Contractual cash flows	72,231	-	-	-

(d) Credit risk

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

The Fund's financial assets which are principally subject to concentrations of credit risk consist principally of assets held with the Custodian.

RBC Investor Services Trust is a wholly-owned subsidiary of the Royal Bank of Canada which is a member of a major securities exchange, and at 30 June 2018 had a credit rating of AA- (S&P) and A1 (Moody's) (2017: AA- (S&P) and A1 (Moody's)). As at 30 June 2018, substantially all cash and cash equivalents, balances due from brokers and investments are held in custody by RBC Investor Services Trust.

4 Fair value measurement

(a) Fair values of financial assets and financial liabilities

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The table below presents the Fund's assets measured and recognised at fair value by level of the following fair value measurement hierarchy:

Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 - inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs)

At 30 June 2018	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
<i>Designated at fair value through profit or loss</i>				
Listed equities	237,323	-	-	237,323
Total financial assets designated at fair value through profit or loss	237,323	-	-	237,323

4 Fair value measurement (continued)

(a) Fair values of financial assets and financial liabilities (continued)

At 30 June 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
<i>Designated at fair value through profit or loss</i>				
Listed equities	68,512	-	-	68,512
Total financial assets designated at fair value through profit or loss	68,512	-	-	68,512

The fair value of financial instruments traded in active markets (such as trading securities) is based on quoted market prices at the end of the reporting year. The quoted market price used for financial assets held by the Fund is the current bid price. These instruments are included in level 1.

The carrying amounts of trade receivables and payables are assumed to approximate their fair values due to their short-term nature.

5 Net gains on financial instruments held at fair value through profit or loss

Net gains recognised in relation to financial assets held at fair value through profit or loss:

	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
<i>Designated at fair value through profit or loss</i>		
Net unrealised gain/(loss) on financial instruments designated at fair value through profit or loss	11,151	3,392
Net realised gain on financial instruments designated at fair value through profit or loss	2,374	1,033
Total net gains on financial instruments held at fair value through profit or loss	13,525	4,425

6 Auditor's remuneration

During the year the following fees (exclusive of GST) were paid or payable for services provided by the auditor of the Fund. Audit fees are paid on behalf of the Fund by DNR Capital Pty Ltd.

PricewaterhouseCoopers	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
<i>Audit and other assurance services</i>		
Audit and review of financial statements	15,918	15,606
Audit of compliance plan	2,375	4,095
Total remuneration for audit and other assurance services	18,293	19,701
<i>Taxation services</i>		
Tax compliance services - income tax return preparation	8,200	8,100
Tax compliance services - annual distribution calculation review	6,900	6,800
Total remuneration for taxation services	15,100	14,900
Total remuneration of PricewaterhouseCoopers	33,393	34,601

7 Distributions to unitholders

Timing of distributions

The distributions were paid/payable as follows:

	Year ended 30 June 2018		Year ended 30 June 2017	
	\$'000	Cents per unit	\$'000	Cents per unit
31 December	2,077	1.3956	485	1.2507
Distribution payable, 30 June	1,815	0.9537	521	0.8735
Total distributions to unitholders	3,892	2.3493	1,006	2.1242

8 Financial assets held at fair value through profit or loss

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Financial assets		
<i>Designated at fair value through profit or loss</i>		
Listed equities	237,323	68,512
Total financial assets designated at fair value through profit or loss	237,323	68,512

9 Trade and other receivables

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Due from broker	449	6
Dividends receivable	1,738	358
GST receivable	24	8
Interest receivable	5	2
Total trade and other receivables	2,216	374

10 Trade and other payables

	As at 30 June 2018 \$'000	As at 30 June 2017 \$'000
Due to broker	540	978
Distribution payable	1,815	521
Management fees payable	179	49
Total trade and other payables	2,534	1,548

11 Net assets attributable to unitholders

Under AASB 132 Financial Instruments: Presentation, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Fund shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

Prior to 1 July 2017 the Fund classified its net assets attributable to unitholders as liabilities in accordance with AASB 132. On 1 July 2017, the Fund has elected into the AMIT tax regime. The Fund's Constitution has been amended and it no longer has a contractual obligation to pay distributions to unitholders. Therefore the net assets attributable to unitholders of the Fund meet the criteria set out under AASB 132 and are classified as equity from 1 July 2017 onwards.

As a result of the reclassification of net assets attributable to unitholders from liabilities to equity, the Fund's distributions are no longer classified as finance costs in the statement of comprehensive income, but rather as dividends paid in the Statement of Changes in Equity.

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

	Year ended 30 June 2018		Year ended 30 June 2017	
	No.	\$'000	No.	\$'000
Net assets attributable to unitholders				
Opening balance	59,592	70,683	15,012	15,298
Applications	146,803	181,046	48,459	55,186
Redemptions	(16,287)	(20,270)	(3,934)	(4,569)
Units issued upon reinvestment of distributions	245	303	55	62
Increase in net assets attributable to unitholders	-	-	-	4,706
Distributions paid and payable	-	(3,892)	-	-
Profit for the year	-	18,804	-	-
Closing balance	190,353	246,674	59,592	70,683

Net assets attributable to unitholders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017. Refer to Note 1 for further details.

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. The Constitution of the Fund allows the Responsible Entity to issue different classes of units with special rights or restrictions. In these instances, the Corporations Act requires the Responsible Entity to treat all investors within a class of units equally and investors in different classes fairly.

Capital risk management

The Fund manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability until 30 June 2017. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

The Fund monitors the level of daily applications and redemptions relative to the liquid assets in the Fund. The Fund's strategy is to hold a certain portion of the net assets attributable to unitholders in liquid investments. Liquid assets include cash and cash equivalents and listed equities. Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units, if the exercise of such discretion is in the best interests of unitholders.

12 Related party transactions

Responsible Entity/Investment Manager

The Responsible Entity of the DNR Capital Australian Equities High Conviction Fund is The Trust Company (RE Services) Limited, part of the Perpetual Limited group of companies.

DNR Capital Pty Ltd is the Investment Manager of the Fund.

Key management personnel of the Responsible Entity

Directors

Key management personnel includes persons who were Directors of the Responsible Entity at any time during the financial year as follows:

Name	Date of appointment/resignation
Andrew Cannane	Resigned as Director on 23 February 2018
Glenn Foster	
Christopher Green	
Michael Vainauskas	
Andrew McIver	Alternate Director for Michael Vainauskas
Vikki Riggio	Appointed as Alternate Director for Christopher Green on 24 November 2017 Resigned as Alternate Director for Andrew Cannane on 23 February 2018 Resigned as Alternate Director for Christopher Green on 20 April 2018 Appointed as Director on 20 April 2018
Rodney Ellwood	Resigned as Alternate Director for Christopher Green on 24 November 2017
Gillian Larkins	Appointed as Alternate Director for Glenn Foster on 14 July 2017
Neil Wesley	Resigned as Alternate Director for Glenn Foster on 14 July 2017
Phillip Blackmore	Appointed as Alternate Director for Christopher Green and Vicki Riggio on 6 July 2018

Key management personnel of the Investment Manager

Key management personnel of the Investment Manager at any time during the financial year were as follows:

Name	Title
Jamie Nicol	Director and Chief Investment Officer

Responsible Entity fees

The Responsible Entity fee paid/payable for the year was \$91,126 (excluding GST) (30 June 2017: \$55,430). This amount was paid on behalf of the Fund by DNR Capital Pty Ltd.

Expense recoveries

The Responsible Entity is entitled to be indemnified out of the assets of the Fund for all costs reasonably and properly incurred by the Responsible Entity in connection with performing its duties and obligations including fund and tax administration, legal expenses and audit costs.

12 Related party transactions (continued)

Investment Manager fees

(i) Management fees

The Investment Manager is entitled to receive a management fee at the rate of 0.90% p.a. of the net asset value of the Fund. The management fee is calculated daily and reflected in the unit price. The fees are inclusive of GST and net of any expected reduced input tax credits ('RITCs').

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 Fund and the Investment Manager/Responsible Entity were as follows:

	Year ended 30 June 2018 \$	Year ended 30 June 2017 \$
Management fees for the year paid/payable by the Fund	1,499,704	382,990
Management fees payable as at the end of the reporting year	178,823	49,147

Key management personnel holdings

The key management personnel of the Responsible Entity did not hold any units in the Fund for the year ended 30 June 2018.

Related party fund's unitholdings

There was no interest in the Fund held by other managed investment schemes also managed by the Responsible Entity.

Key management personnel compensation

Payments made from the Fund to the Responsible Entity do not include any amounts directly attributable to key management personnel remuneration.

Key management personnel loan disclosures

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

Other transactions within the Fund

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

13 Reconciliation of net profit to net cash outflow from operating activities

	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
(a) Reconciliation of net profit to net cash outflow from operating activities		
Net profit for the year	18,804	5,712
Proceeds from sale of financial instruments held at fair value through profit or loss	47,990	13,941
Purchase of financial instruments held at fair value through profit or loss	(204,157)	(62,519)
Net gains on financial instruments held at fair value through profit or loss	(13,525)	(4,425)
Net change in receivables	(1,399)	(285)
Net change in accounts payable and accrued liabilities	130	39
Net cash outflow from operating activities	(152,157)	(47,537)

13 Reconciliation of net profit to net cash outflow from operating activities

	Year ended 30 June 2018 \$'000	Year ended 30 June 2017 \$'000
(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 and cash equivalents	9,669	3,345
	9,669	3,345
(c) Non-cash operating and financing activities		
The following distribution payments to unitholders were satisfied by the issue of units under the dividend reinvestment plan		
	303	63
Total non-cash operating and financing activities	303	63

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

14 Events occurring after the reporting year

Phillip Blackmore was appointed as an alternate director for Christopher Green and Vicki Riggio on 6 July 2018.

No other significant events have occurred since the reporting year which would impact on the financial position of the Fund disclosed in the Statement of Financial Position as at 30 June 2018 or on the results and cash flows of the Fund for the year ended on that date.

15 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2018.

Directors' declaration

In the opinion of the Directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 23 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 Fund's financial position as at 30 June 2018 and of its performance for the financial year ended on that date.
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
- (c) Note 2(a) confirms that the financial statements also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the Directors of The Trust Company (RE Services) Limited.



Director

Sydney
13 September 2018



Independent auditor's report

To the unitholders of DNR Capital Australian Equities High Conviction Fund

Our opinion

In our opinion:

The accompanying financial report of DNR Capital Australian Equities High Conviction Fund (the Fund) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors of the Responsible Entity's declaration.

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

Independence

We are independent of the Fund in accordance with the auditor independence requirements of 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* (the Code) that are relevant to our audit of the financial report in Australia, other than as set out in the Auditor's Independence Declaration dated 13 September 2018. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Annual financial report for the year ended 30 June 2018, including the Directors' report, but does not include the financial report and our auditor's report thereon.

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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 identified above 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 of the Fund 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 of the Responsible Entity 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 of the Responsible Entity are responsible for assessing the ability of the Fund 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 of the Responsible Entity either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our 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 the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

R Cooper

R Cooper
Partner

Sydney
13 September 2018