

Mason Stevens Credit Fund

ARSN 162 055 512

Interim financial statements

For the half-year ended 31 December 2018

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Contents

	Page
Directors' report	2
Auditor's independence declaration	4
Statement of profit or loss and other comprehensive income	5
Statement of financial position	6
Statement of changes in net assets attributable to unitholders	7
Statement of cash flows	8
Notes to the financial statements	9
Directors' declaration	13
Independent auditor's report to the unitholders of the Mason Stevens Credit Fund	14

These interim financial statements cover the Mason Stevens Credit Fund as an individual entity.

The Responsible Entity of the Mason Stevens Credit Fund is Mason Stevens Limited (ABN 91 141 447 207). The Responsible Entity's registered office is Level 21, 9 Castlereagh Street, Sydney NSW 2000.

Directors' report

The directors of Mason Stevens Limited, the Responsible Entity ("the Responsible Entity") of the Mason Stevens Credit Fund, present their report together with the financial statements of the Mason Stevens Credit Fund (the "Fund"), for the half-year ended 31 December 2018.

Principal activities

The Fund is a registered managed investment fund domiciled in Australia that was constituted on 21 January 2013 and commenced operations on 31 May 2013.

The Fund seeks to generate returns in excess of the RBA Cash Rate ("Benchmark") by 2.5% per annum after fees and expenses over a period of 3-5 years. The Fund seeks to do this by investing in fixed income securities that are expected to deliver income and yield.

The Fund typically invests in interest rate securities such as corporate debt, hybrid securities and structured debt securities including residential mortgage backed securities and asset backed securities.

The Fund did not have any employees during the half-year.

Directors

The following persons held office as directors of Mason Stevens Limited during the half-year or since the end of the half-year and up to the date of this report:

Thomas Mason Bignill
Leanne Lee Huay Leong
Ronald Robert Erdos
Stephen Rickwood
Vincent Hua
Roger Patrick Handley

Review and results of operations

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

	Half-year ended	
	31 December 2018	31 December 2017
	\$	\$
Net operating profit before financing costs attributable to unitholders	495,314	3,818,736
Distribution paid and payable	2,695,249	2,958,207
Distribution (cents per unit)	2.00	2.00

Significant changes in state of affairs

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

Matters subsequent to the end of the financial half-year

No matter or circumstance has arisen since 31 December 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.

Directors' report (continued)

Indemnification and insurance of officers and auditors

No insurance premiums are paid out of the Fund in regards of 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 Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditors of the Fund are not indemnified out of the assets of the Fund.

Environmental regulation

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

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of the directors of Mason Stevens Limited.



Roger Patrick Handley
Director
Mason Stevens Limited

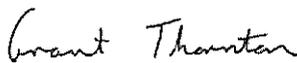
Sydney
12 March 2019

Auditor's Independence Declaration

To the Directors of Mason Stevens Credit Fund

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the review of Mason Stevens Credit Fund for the half-year ended 31 December 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 review; and
- b No contraventions of any applicable code of professional conduct in relation to the review.



Grant Thornton Audit Pty Ltd
Chartered Accountants



G S Layland
Director – Audit & Assurance

Sydney, 12 March 2019

Statement of profit or loss and other comprehensive income

	Notes	Half-year ended	
		31 December 2018	31 December 2017
		\$	\$
Investment income			
Interest income		3,272,174	2,990,788
Net gains on financial instruments held at fair value through profit or loss		1,271,857	760,964
Net (losses) on derivatives		(2,972,965)	(18,479)
Net (losses)/gains on foreign exchange		(343,494)	821,467
Other operating income		458	124
Total net investment income		<u>1,228,030</u>	<u>4,554,864</u>
Expenses			
Management fees		670,035	701,350
Transaction costs		7,526	6,163
Interest expense		52,025	24,134
Other operating expenses		3,130	4,481
Total operating expenses		<u>732,716</u>	<u>736,128</u>
Operating profit		<u>495,314</u>	<u>3,818,736</u>
Finance costs attributable to unitholders			
Distributions to unitholders	3	<u>(2,695,249)</u>	<u>(2,958,207)</u>
Decrease/(increase) in net assets attributable to unitholders	2	<u>2,199,935</u>	<u>(860,529)</u>

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

		As at	
	Notes	31 December 2018 \$	30 June 2018 \$
Assets			
Cash and cash equivalents		6,649,265	3,037,025
Receivables		893,164	1,333,576
Financial assets held at fair value through profit or loss	4	119,073,650	168,046,774
Total assets		126,616,079	172,417,375
Liabilities			
Bank overdraft		-	6,819,596
Payables		98,782	127,274
Due to brokers		-	254,390
Distributions payable		1,226,480	1,605,809
Financial liabilities held at fair value through profit or loss	5	2,960,162	737,314
Total liabilities (excluding net assets attributable to unitholders)		4,285,424	9,544,383
Net assets attributable to unitholders - liability	2	122,330,655	162,872,992

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

Statement of changes in net assets attributable to unitholders

	Notes	Half-year ended	
		31 December 2018 \$	31 December 2017 \$
Opening balance		162,872,992	113,034,376
Applications	2	4,169,979	58,879,026
Redemptions	2	(42,512,381)	(9,997,050)
Operating profit		495,314	3,818,736
Distributions paid	3	<u>(2,695,249)</u>	<u>(2,958,207)</u>
Ending balance at 31 December 2018	2	<u>122,330,655</u>	<u>162,776,881</u>

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

Statement of cash flows

	Half-year ended	
	31 December 2018	31 December 2017
	\$	\$
Cash flows from operating activities		
Proceeds from sales of financial instruments designated at fair value through profit or loss	100,823,932	176,093,475
Proceeds from sales of derivatives	(3,165)	(2,347)
Purchase of financial instruments designated at fair value through profit or loss	(51,178,425)	(226,357,807)
Purchase of derivatives	(401,868)	(280,150)
Transaction costs paid	(7,526)	(6,163)
Interest received	3,708,294	2,411,462
Other income received	458	124
Net payments on foreign exchange activities	(170,580)	807,661
Management fees paid	(695,528)	(658,236)
RITC paid	4,292	(14,193)
Other operating expenses paid	(6,129)	(4,481)
Net cash outflow from operating activities	52,073,755	(48,010,655)
Cash flows from financing activities		
Proceeds from applications by unitholders	2,831,216	56,461,088
Payments for redemptions by unitholders	(42,512,381)	(9,997,050)
Proceeds from borrowings/(borrowings paid)	(6,819,596)	28,828,431
Interest paid	(52,025)	(20,496)
Distributions paid net of reinvestment	(1,735,815)	(2,770,390)
Net cash inflow from financing activities	(48,288,601)	72,501,583
Net increase in cash and cash equivalents	3,785,154	24,490,928
Cash and cash equivalents at the beginning of the half-year	3,037,025	42,372,721
Effect of exchange rate fluctuations on cash	(172,914)	9,477
Cash and cash equivalents at the end of the half-year	6,649,265	66,873,126
Non-cash financing activities	1,338,763	2,417,938

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

1 Basis of preparation of half-year financial statements

These general purpose financial statements for the half-year ended 31 December 2018 have been prepared in accordance with *Corporations Act 2001* and Australian Accounting Standard AASB 134 *Interim Financial Reporting*.

These interim financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual financial statements for the year ended 30 June 2018 and any public announcements made in respect of the Mason Stevens Credit Fund during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The interim financial statements were authorised for issue by the directors on 12 March 2019. The directors of the Responsible Entity have the power to amend the financial statements after they have been issued.

(a) Significant accounting policies

Except as disclosed below, the accounting policies applied in these interim financial statements are the same as those applied to the Fund's financial statements for the year ended 30 June 2018.

The Fund had to change some of its accounting policies as a result of new and revised accounting standards which became effective for the first time in the current reporting period. The affected policies are:

- AASB 9 *Financial Instruments* (and applicable amendments)

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 adoption of the amendment did not have any impact on the recognition, classification 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 have nil impact on the Fund.

- AASB 15 *Revenue from Contracts with Customers*

AASB 15 replaces 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 adoption of AASB 15 has nil impact on the Fund's accounting policies or the amounts recognised in the financial statements.

2 Net assets attributable to unitholders

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

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

	Half-year ended 31 December 2018		Half-year ended 31 December 2017	
	\$	No. of units	\$	No. of units
Opening balance	162,872,992	160,580,901	113,034,376	109,596,487
Applications	2,831,216	2,768,166	56,461,088	53,947,493
Redemptions	(42,512,381)	(42,019,362)	(9,997,050)	(9,600,459)
Units issued upon reinvestment of distributions	1,338,763	1,318,269	2,417,938	2,341,136
Increase/(Decrease) in net assets attributable to unitholders	(2,199,935)	-	860,529	-
Closing balance	122,330,655	122,647,974	162,776,881	156,284,657

2 Net assets attributable to unitholders (continued)

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.

The Fund monitors the level of applications and redemptions relative to the liquid assets in the Fund. 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 defer or adjust a redemption of units, if the exercise of such discretion is in the best interests of unitholders.

3 Distributions to unitholders

The distributions were paid/payable as follows:

	Half-year ended 31 December 2018		Half-year ended 31 December 2017	
	\$	CPU	\$	CPU
Distributions				
30 September	1,468,769	1.00	1,395,361	1.00
31 December	1,226,480	1.00	1,562,846	1.00
	<u>2,695,249</u>	<u>2.00</u>	<u>2,958,207</u>	<u>2.00</u>

4 Financial assets held at fair value through profit or loss

	As at	
	31 December 2018 \$	30 June 2018 \$
Financial assets		
<i>Designated at fair value through profit or loss</i>		
Domestic fixed interest securities	26,899,447	30,474,909
International fixed interest securities	44,546,874	79,676,883
Domestic floating rate notes	32,014,163	30,682,911
International floating rate notes	4,624,081	14,506,418
Mortgage backed securities	10,989,085	10,728,814
Convertible notes	-	1,631,755
Derivatives		
Forward currency contract	-	345,084
Total financial assets	<u>119,073,650</u>	<u>168,046,774</u>

5 Financial liabilities held at fair value through profit or loss

	As at	
	31 December 2018	30 June 2018
	\$	\$
Financial liabilities		
Derivatives		
Futures	1,223,599	737,314
Forward currency contract	1,736,563	-
	2,960,162	737,314
Total financial liabilities	2,960,162	737,314

6 Fair value measurement of financial instruments

AASB 13 requires disclosure of fair value measurements by level of the fair value hierarchy, as follows:

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 (i.e., as prices) or indirectly (i.e., derived from prices)

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

The Fund's financial assets and financial liabilities measured and recognised at fair value at 31 December 2018 and 30 June 2018, on a recurring basis are as follows:

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

As at 31 December 2018	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Designated at fair value through profit or loss				
Domestic fixed interest securities	26,899,447	-	-	26,899,447
International fixed interest securities	44,546,874	-	-	44,546,874
Domestic floating rate notes	32,014,163	-	-	32,014,163
International floating rate notes	4,624,081	-	-	4,624,081
Mortgage backed securities	10,989,085	-	-	10,989,085
Total Asset	119,073,650	-	-	119,073,650
Liabilities				
Derivatives				
Futures	1,223,599	-	-	1,223,599
Forward currency contracts	1,736,563	-	-	1,736,563
Total liabilities	2,960,162	-	-	2,960,162

6 Fair value measurement of financial instruments (continued)

As at 30 June 2018	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Assets				
Designated at fair value through profit or loss				
Domestic fixed interest securities	30,474,909	-	-	30,474,909
International fixed interest securities	79,676,883	-	-	79,676,883
Domestic floating rate notes	30,682,911			30,682,911
International floating rate notes	14,506,418	-	-	14,506,418
Mortgage backed securities	10,728,814	-	-	10,728,814
Convertible notes	1,631,755	-	-	1,631,755
Derivatives				
Forward currency contracts	345,084	-	-	345,084
Total Asset	<u>168,046,774</u>	<u>-</u>	<u>-</u>	<u>168,046,774</u>
Liabilities				
Derivatives				
Futures	737,314	-	-	737,314
Total liabilities	<u>737,314</u>	<u>-</u>	<u>-</u>	<u>737,314</u>

7 Events occurring after the reporting period

No significant events have occurred since the reporting period up to the date of approval of these interim financial statements which would impact on the financial position of the Fund disclosed in the Statement of Financial Position as at 31 December 2018 or on the results and cash flows on the Fund for the half-year ended on that date.

8 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 31 December 2018 and 30 June 2018.

Directors' declaration

The directors of Mason Stevens Limited the Responsible Entity of Mason Stevens Credit Fund, declare that:

- (a) in the directors' opinion, there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (b) in the directors' opinion, the attached financial statement and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standard AASB 134 *Interim Financial Reporting* and giving a true and fair view of the financial position and performance of the Fund for the half-year ended on the date.

This declaration is made in accordance with a resolution of the directors of Mason Stevens Limited.



Roger Patrick Handley
Director
Mason Stevens Limited

Sydney
12 March 2019

Independent Auditor's Review Report

To the Members of Mason Stevens Credit Fund

Report on the review of the half year financial report

Conclusion

We have reviewed the accompanying half year financial report of Mason Stevens Credit Fund (the "Fund"), which comprises the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Mason Stevens Credit Fund does not give a true and fair view of the financial position of the Fund as at 31 December 2018, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

Directors' responsibility for the half year financial report

The Directors of the Responsible Entity of the Fund are responsible for the preparation of the half year 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 half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half year ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations*

Regulations 2001. As the auditor of Mason Stevens Credit Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.



Grant Thornton Audit Pty Ltd
Chartered Accountants



G S Layland
Director – Audit & Assurance

Sydney, 12 March 2019