Mason Stevens Credit Fund

ARSN 162 055 512

Financial statements

For the year ended 30 June 2020

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These 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 year ended 30 June 2020.

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 Target 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

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 year.

Directors

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

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

Review and results of operations

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

	Year ended 30 June 2020 $	Year ended 30 June 2019 $
Net operating profit before financing costs attributable to unitholders	1,314,517	5,952,668
Distribution paid and payable	4,884,229	5,952,291
Distribution (cents per unit)	4.00	4.86

Significant changes in state of affairs

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

In March 2020, the World Health Organisation declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout Australia. The spread of COVID-19 has caused significant volatility in Australian and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the Australian and international economies.

Since March the fund has not experienced a significant increase in redemptions.

The Fund is cognisant of the uncertainty created by COVID-19 and takes this into account when making new investment decisions. Please refer to the notes to the financial statement for further detail regarding the impact of COVID-19 on the Mason Stevens Credit Fund.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2020 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 assets 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.

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

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in Note 14 of the financial statements.

No fees were paid out of Fund 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 14 of the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 12 of the financial statements.

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

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
17 September 2020

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Auditor's Independence Declaration

To the Directors of Mason Stevens Limited as the Responsible Entity of Mason Stevens Credit Fund

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Mason Stevens Credit Fund for the year ended 30 June 2020, 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.

Grant Thornton Audit Pty Ltd
Chartered Accountants

Grant Layland
Director – Audit & Assurance

Sydney, 17 September 2020

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Statement of profit or loss and other comprehensive income

	Notes	Year ended 30 June 2020 $	Year ended 30 June 2019 $
Investment income			
Interest income	4	4,961,289	5,945,716
Net gains/(losses) on financial instruments at fair value through profit or loss		(328,948)	3,903,808
Net (losses)/gains on foreign exchange		(1,783,327)	(2,438,230)
Other operating income		2,028	468
Total net investment income		**2,851,042**	7,411,762
Expenses			
Management fees	14	1,138,640	1,228,449
Transaction costs		3,356	12,504
Interest expense		390,594	212,943
Other operating expenses		3,935	5,198
Total operating expenses		**1,536,525**	1,459,094
Operating profit		**1,314,517**	5,952,668
Finance costs attributable to unitholders			
Distributions to unitholders	6	(4,884,229)	(5,952,291)
(Increase)/decrease in net assets attributable to unitholders	12	**3,569,712**	(377)

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

Statement of financial position

	Notes	As at 30 June 2020 $	30 June 2019 $
Assets			
Cash and cash equivalents	7	3,076,174	670,752
Receivables	10	1,056,219	760,726
Financial assets at fair value through profit or loss	8	128,304,724	124,717,363
Due from brokers		2,002,000	5,010,480
Total assets		**134,439,117**	131,159,321
Liabilities			
Bank overdraft	7	691,546	14,415,090
Payables	11	2,049,409	2,320,901
Due to brokers		1,988,160	-
Distributions payable	6	1,305,269	2,084,819
Financial liabilities at fair value through profit or loss	9	358,386	461,703
Total liabilities (excluding net assets attributable to unitholders)		**6,392,770**	19,282,513
Net assets attributable to unitholders - liability	12	**128,046,347**	111,876,808

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	Year ended 30 June 2020 $	Year ended 30 June 2019 $
Opening balance		**111,876,808**	162,872,992
Applications	12	35,016,186	6,232,464
Redemptions	12	(15,276,935)	(57,229,025)
Operating profit/(loss)		1,314,517	5,952,668
Distributions paid	6	(4,884,229)	(5,952,291)
Ending balance at 30 June 2020		**128,046,347**	111,876,808

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

Statement of cash flows

	Notes	Year ended 30 June 2020 $	Year ended 30 June 2019 $
Cash flows from operating activities			
Proceeds from sales of financial instruments at fair value through profit or loss		188,110,316	184,237,543
Purchase of financial instruments at fair value through profit or loss		(187,133,303)	(142,544,807)
Transaction costs paid		(3,356)	(12,504)
Interest received		4,694,097	6,691,122
Other income received		2,028	468
Net payments on foreign exchange activities		(1,848,994)	(1,704,633)
Management fees paid		(1,130,477)	(1,254,216)
RITC paid		(2,712)	8,444
Other operating expenses paid		(1,046)	(17,678)
Net cash inflow/(outflow)from operating activities	15 (a)	**2,686,553**	45,403,739
Cash flows from financing activities			
Proceeds from applications by unitholders		32,887,324	3,770,114
Payments for redemptions by unitholders		(15,559,478)	(54,997,150)
Proceeds from borrowings/(borrowings paid)		(13,723,544)	7,595,494
Interest paid		(390,594)	(212,943)
Distributions paid net of reinvestment		(3,560,506)	(3,191,931)
Net cash inflow/(outflow) from financing activities		**(346,798)**	(47,036,416)
Net decrease in cash and cash equivalents		**2,339,755**	(1,632,677)
Cash and cash equivalents at the beginning of the year		670,752	3,037,025
Effect of exchange rate fluctuations on cash		65,667	(733,596)
Cash and cash equivalents at the end of the year	7, 15 (b)	**3,076,174**	670,752
Non-cash financing activities	15 (c)	2,103,273	2,281,350

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

1 General information

These financial statements cover the Mason Stevens Credit Fund (the "Fund") as an individual entity and the financial statements are presented in the Australian currency. The Fund was constituted on 21 January 2013 and commenced operations on 31 May 2013.

The Responsible Entity of the Fund is Mason Stevens Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 19, 420 George Street, Sydney NSW 2000.

The Responsible Entity is incorporated and domiciled in Australia.

The Investment Manager of the Fund is Mason Stevens Asset Management Pty Limited.

The Custodian and Prime Broker of the Fund is Deutsche Bank AG.

The Fund seeks to generate returns in excess of the RBA Target 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

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 financial statements were authorised for issue by the directors on 17 September 2020. The directors of the Responsible Entity have the power to amend the financial statements after they have been issued.

2 Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001 in Australia. The Fund is a for-profit entity 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 do not distinguish between current and non-current. All balances are expected to be recovered or settled within 12 months, except for investments in financial assets and liabilities and net assets attributable to unit holders.

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

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

Compliance with International Financial Reporting Standards (IFRS)

The financial statements of the Fund also comply with IFRS as issued by the International Accounting Standards Board (IASB).

2 Summary of significant accounting policies (continued)

(b) Financial instruments

(i) Classification

- Financial assets

The Fund classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value through profit or loss; and
- those to be measured at amortised cost.

The Fund classifies its assets based on its business model for managing those financial assets. The Fund's portfolio of financial assets is managed and performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

For equity securities and derivatives, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments are measured at fair value through profit or loss.

For debt securities, the contractual cash flows are solely payments of principal and interest, however they are neither held for collecting contractual cash flows nor held both for collecting contractual cashflows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, the debt securities are measured at fair value through profit or loss.

- Financial liabilities

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are classified as financial liabilities at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

A financial liability is measured at fair value through profit or loss if it meets the definition of held for trading. Derivative contracts that have a negative fair value are also included in this category. Financial liabilities other than those measured at fair value through profit or loss, are measured at amortised cost. These include bank overdrafts, amounts due to brokers and other short term payables.

(ii) Recognition/derecognition

The Fund recognises financial assets and 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.

Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or the Fund has transferred substantially all risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liabilities are discharged.

(iii) Fair value measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Fund has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Fund measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Fund uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction. The valuation of financial assets not quoted in an active market is determined using external independent valuations.

The Fund recognises transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities. The units can be put back to the Fund for cash related to a proportionate share of the Fund's net asset value. The redemption value of the units is calculated by the redemption price that is payable at the end of the period.

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 that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the statement of financial position.

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 from financial assets at amortised cost is recognised on a time-proportionate basis using the effective interest method and includes interest from cash and cash equivalents. Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities. Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2(b).

Net gains/(losses) on financial assets and financial liabilities at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at period 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 profit or loss and other comprehensive income on an accruals basis.

(g) Income tax

Under current legislation, the Fund is not subject to income tax provided the taxable income of the Fund is fully distributed either by way of cash or reinvestment (i.e. unitholders are presently entitled to the income of the Fund).

(h) Distributions

In accordance with the Fund's Constitution, the Fund distributes its distributable (taxable) income, and any other amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the statement of profit or loss and other comprehensive income as finance costs attributable to unitholders.

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

Movements in net assets attributable to unitholders are recognised in the statement of profit or loss and other comprehensive income as part of finance costs. The movements include undistributable income which may consist of undistributable unrealised changes in fair value of financial instruments at fair value through profit or loss and derivative financial instruments; 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.

(j) Due to/from brokers

Amounts due to/from 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 interest. Interest 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 Reduced Input Tax Credits (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 Fund which are unpaid as at the end of the reporting period.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the statement of financial position as unitholders are presently entitled to the distributable income as at 30 June 2020 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 less bid/offer spreads.

(n) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) hence investment management 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 may make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates may be evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund's financial instruments, market prices through brokers are readily available. However, certain financial instruments, for example over-the-counter derivatives, are fair valued using counterparty valuations. These valuations are reviewed by the Investment Manager.

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) Foreign currency translation

Transactions during the period, including purchases and sales of securities, income and expenses, are translated at the rate of exchange prevailing on the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at each period end.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included in the Statement of Profit or Loss and other Comprehensive Income as part of the 'Changes in net fair value of financial assets and liabilities at fair value through profit or loss'. Exchange differences on other financial instruments are included in the Statement of Profit or Loss and other Comprehensive Income as 'Net foreign exchange gains (losses)'.

(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 1 July 2019 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 2020 reporting period and have not been early adopted by the Fund. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations does not anticipate material impact on 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 periods 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* relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest dollar unless otherwise indicated.

3 Financial risk management

(a) Objectives, strategies, policies and processes

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. The management of these risks is conducted by the Fund's Investment Manager who manages the Fund's assets in accordance with its investment objectives.

A financial risk management framework has been established by the Fund's Investment Manager.

This framework includes:

- 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, and
- An independent service provider for the valuation of securities.

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:

- Procedures and processes designed to ensure compliance with the law and industry standards,
- Committee and board reporting,
- Compliance officer,
- Managers of functional areas,
- Staff training,
- Formal service provider agreements,
- Compliance reporting by the Investment Manager, Fund Administrator and Custodian (the "Service Providers").

The Responsible Entity reviews the Fund's service providers each year, 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 obligation as detailed within the relevant service agreement entered into with the Responsible Entity.

3 Financial risk management (continued)

(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 monitored by the Investment Manager and also regularly reviewed by the Investment Committee. Market risk is measured by financial analysis and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

The outbreak of COVID-19 has impacted general levels of economic activity both in Australia and internationally. Government and global central bank support have been accommodative to date; however the magnitude and length of future assistance is impossible to forecast.

As of 30 June 2020, there has been no material impacts on the level of market risk within the Fund.

(i) Price risk

Price risk is the risk that the fair value of financial instruments traded by the Fund 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.

Price risk exposure arises from the Fund's investment portfolio in debt securities. The investments are classified on the statement of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Investment Manager manages price risk through diversification and a careful selection of securities and other financial instruments within specified limits.

The Fund has not experienced increased price risk with the outbreak of COVID-19, due to the market wide consequences influencing the majority of issuers.

The Fund's overall market positions are monitored by the Fund's Investment Manager and are reviewed regularly by the Responsible Entity.

With an estimated credit duration of 4.19 years (2019: 4.04 years), the sensitivity of the Fund to a 1 basis point shift in credit spreads is $55,400.22 (2019: $50,845).

(ii) Foreign currency risk

The Fund holds financial instruments denominated in currencies other than the Australian dollar. The Fund also holds foreign currency cash and foreign currency forward contracts. Foreign exchange risk arises as the value of these financial instruments denominated in other currencies will fluctuate due to changes in exchange rates.

The Investment Manager monitors the exposure from foreign exchange risks. The Fund does not designate any hedges in a hedging relationship, and hence these derivative financial instruments are classified at fair value through profit or loss.

Compliance with the Fund's policy is reported to the Responsible Entity. As at 30 June 2020, the sensitivity of a 1% change in the AUD exchange rate is $10,386 (2019: $10,028).

(iii) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair value of financial instruments.

The Fund's interest rate risk is limited to an average duration of no more than 2 years. Compliance with the Fund's policy is reported to the Responsible Entity.

With an estimated duration of 0.89 years (2019: 0.47 years), the sensitivity of the Fund to a 1 basis point shift in interest rates is $9,804.20 (2019: $4,702).

3 Financial risk management (continued)

(c) Credit risk

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

With respect to credit risk arising from the financial assets of the Fund, other than derivatives, the Fund's exposure to credit risk arises from default, or the expected probability of default of the counterparty. The current exposure is 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.

A bond issuer defaulting on its obligations, whether due to insolvency, bankruptcy or other causes, could subject the Fund to substantial losses. The Fund will still be required to fulfil their obligations on any transaction which were to have substantially offset other contracts. It is expected that the Investment Manager will seek to mitigate these risks by reviewing the creditworthiness of all issuers and only enter into transactions with those issuers which it believes to be creditworthy.

The Fund holds no collateral as security or any other credit enhancements. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired.

Credit risk is considered to be significant to the Fund as its investments consist primarily of debt instruments.

The Fund has maintained its restriction to investment grade (IG) debt instruments and has not experienced increased credit risk as a result of the outbreak of COVID-19. The Fund also routinely monitors credit ratings from Moody's, S&P and Fitch to ensure credit risk is managed.

The Fund's bank deposits and financial assets and liabilities held with the Custodian/Prime Broker are potentially subject to concentration of credit risk as all Fund assets are held with Deutsche Bank AG.

The Fund invests in debt instruments with investment grade credit rating.

(d) 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 convertible to cash in a timely manner), the borrowing capacity and also the restriction policy on redemptions including the ability to stagger large withdrawals.

The Fund has continued to honour all redemptions and has not experienced an abnormal increase in redemption size since the outbreak of COVID-19.

3 Financial risk management (continued)

(d) Liquidity risk (continued)

Maturity analysis for financial liabilities

The following table analyses the Fund's financial liabilities and net settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

As at 30 June 2020	**Less than 1 month $**	**1 - 3 months $**	**3 - 12 months $**	**12 - 60 months $**
Bank overdraft	691,546	-	-	-
Management fees payable	68,139	-	-	-
Fund accounting and administration fees payable	10,647	-	-	-
Sundry creditors	21,293	-	-	-
Due to brokers	1,988,160	-	-	-
Redemption payable	1,949,330	-	-	-
Distributions payable	1,305,269	-	-	-
Financial liabilities at fair value through profit or loss	358,386	-	-	-
Net assets attributable to unitholders	-	128,046,347	-	-
Total financial liabilities	**6,392,770**	**128,046,347**	**-**	**-**

As at 30 June 2019	Less than 1 month $	1 - 3 months $	3 - 12 months $	12 - 60 months $
Bank overdraft	14,415,090	-	-	-
Management fees payable	59,976	-	-	-
Fund accounting and administration fees payable	19,680	-	-	-
Sundry creditors	9,371	-	-	-
Due to brokers	-	-	-	-
Redemption payable	2,231,874	-	-	-
Distributions payable	2,084,819	-	-	-
Financial liabilities at fair value through profit or loss	461,703	-	-	-
Net assets attributable to unitholders	-	111,876,808	-	-
Total financial liabilities	19,282,513	111,876,808	-	-

3 Financial risk management (continued)

(e) 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 following table presents the Fund's assets/liabilities measured and recognised at fair value by level of the following fair value measurement hierarchy:

Level 1 - quoted prices (listed or through broker markets) 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)

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 measurements 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.

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.

As at 30 June 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	$	**$**	**$**	**$**
Financial Assets				
Domestic fixed interest securities	36,514,272	-	-	36,514,272
International fixed interest securities	18,158,426	-	-	18,158,426
Domestic floating rate notes	63,463,202	-	-	63,463,202
Mortgage backed securities	8,669,772	-	-	8,669,772
International floating rate notes	1,466,151	-	-	1,466,151
Forward currency contracts	32,901	-	-	32,901
Total financial assets at fair value through profit or loss	**128,304,724**	**-**	**-**	**128,304,724**
Financial Liabilities				
Futures	358,386	-	-	358,386
Total financial liabilities at fair value through profit or loss	**358,386**	**-**	**-**	**358,386**

As at 30 June 2019	Level 1	Level 2	Level 3	Total
	$	$	$	$
Financial Assets				
Domestic fixed interest securities	21,765,051	-	-	21,765,051
International fixed interest securities	26,946,060	-	-	26,946,060
Domestic floating rate notes	62,519,480	-	-	62,519,480
Mortgage backed securities	10,346,881	-	-	10,346,881
International floating rate notes	3,100,338	-	-	3,100,338
Forward currency contracts	39,553	-	-	39,553
Total financial assets at fair value through profit or loss	124,717,363	-	-	124,717,363
Financial Liabilities				
Futures	461,703	-	-	461,703
Total financial liabilities at fair value through profit or loss	461,703	-	-	461,703

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. 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.

3 Financial risk management (continued)

(f) Transfer between levels

There were no transfers between levels in the fair value hierarchy at the end of the reporting year (2019: nil).

4 Interest income

	Year ended 30 June 2020 $	Year ended 30 June 2019 $
Interest income has been derived from:		
Cash	-	23,483
Fixed interest securities	4,961,289	5,922,233
	4,961,289	5,945,716

5 Auditor's remuneration

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

	Year ended 30 June 2020 $	Year ended 30 June 2019 $
Grant Thornton Audit Pty Ltd		
(a) Audit services		
Audit of financial statements	33,200	31,550
Compliance Plan Audit	3,450	3,350
Total remuneration for audit services	**36,650**	34,900

The auditors remuneration is borne by the Responsible Entity. Fees are stated net of GST.

6 Distributions to unitholders

Timing of distributions

The distributions were paid/payable as follows:

	Year ended 30 June 2020 $	CPU	Year ended 30 June 2019 $	CPU
Distributions				
30 September	1,108,363	1.00	1,468,769	1.00
31 December	1,156,258	1.00	1,226,480	1.00
31 March	1,314,339	1.00	1,172,223	1.00
30 June	1,305,269	1.00	2,084,819	1.86
	4,884,229	**4.00**	5,952,291	4.86

7 Cash and cash equivalents

	As at 30 June 2020 $	30 June 2019 $
Cash at bank	3,076,174	670,752
Bank overdraft	(691,546)	(14,415,090)
	2,384,628	(13,744,338)

8 Financial assets at fair value through profit or loss

	As at 30 June 2020 $	30 June 2019 $
Financial assets		
Domestic fixed interest securities	36,514,272	21,765,051
International fixed interest securities	18,158,426	26,946,060
Domestic floating rate notes	63,463,202	62,519,480
Mortgage backed securities	8,669,772	10,346,881
International floating rate notes	1,466,151	3,100,338
Forward Foreign Exchange	32,901	39,553
Total financial assets at fair value through profit or loss	**128,304,724**	124,717,363

9 Financial liabilities at fair value through profit or loss

	As at 30 June 2020 $	30 June 2019 $
Financial liabilities		
Futures	358,386	461,703
Total financial liabilities at fair value through profit or loss	**358,386**	461,703

10 Receivables

	As at 30 June 2020 $	30 June 2019 $
Interest receivable	828,594	561,402
Applications receivable	206,589	181,000
GST receivable	21,036	18,324
Total receivables	**1,056,219**	760,726

11 Payables

	As at 30 June 2020 $	30 June 2019 $
Management fees payable	68,139	59,976
Fund accounting and administration fees payable	10,647	19,680
Redemptions payable	1,949,330	2,231,874
Sundry creditors	21,293	9,371
Total payables	**2,049,409**	2,320,901

12 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:

	Year ended 30 June 2020		Year ended 30 June 2019	
	$	No. of units	$	No. of units
Opening balance	111,876,808	110,093,969	162,872,992	160,580,901
Applications	32,912,913	31,677,950	3,951,114	3,864,423
Redemptions	(15,276,935)	(15,088,972)	(57,229,025)	(56,606,728)
Units issued upon reinvestment of distributions	2,103,273	2,081,320	2,281,350	2,255,373
Increase/(decrease) in net assets attributable to unitholders	(3,569,712)	-	377	-
Closing balance	**128,046,347**	**128,764,267**	111,876,808	110,093,969

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.

In March 2020, the World Health Organisation declared the outbreak of a novel coronavirus (COVID-19) as a pandemic, which continues to spread throughout Australia. The spread of COVID-19 has caused significant volatility in Australian and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the Australian and international economies.

Since March the fund has not experienced a significant increase in redemptions.

The Fund is cognisant of the uncertainty created by COVID-19 and takes this into account when making new investment decisions.

13 Derivative financial instruments

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

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

Derivative transactions include a wide assortment of instruments, such as forwards, futures and options. Derivatives are considered to be part of the investment process. The use of derivatives is part of the Fund's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- obtaining exposure to the price appreciation or depreciation of an underlying asset,
- hedging to protect an asset or liability of the Fund against a fluctuation in market values or to reduce volatility,
- a substitution for trading of physical securities, and
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios.

13 Derivative financial instruments (continued)

The Fund holds the following derivative instrument:

Forward currency contracts and cross currency swaps

Forward currency contracts are used by the Fund to gain exposure to foreign currency or to hedge the currency exposure of underlying financial instruments that are not A$ denominated. Cross currency swaps, spot and forward currency contracts are also used as cash management tools. The Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. These contracts are valued at market price. The Fund recognises a gain or loss equal to the change in fair value at the end of each reporting period.

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.

14 Related party transactions

Responsible Entity

The Responsible Entity of Mason Stevens Credit Fund is Masons Stevens Limited.

Mason Stevens Asset Management Limited (ABN 92 141 447 654) is the Investment Manager of the Fund.

Key management personnel of Mason Stevens Limited

Directors

Key management personnel includes persons who were directors of Masons Stevens Limited at any time during the financial year and up to the date of this report:

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

Investment Manager

Key management personnel of the Investment Manager at any time during the financial year are:

Vincent Hua
Leanne Lee Huay Leong
Peter Liau
Annie Zhao
Patrick Eng

Directors' declaration

In the opinion of the Directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 5 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 2020 and of its performance for the year, ended

(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 comply 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 Mason Stevens Limited.

Roger Patrick Handley
Director
Mason Stevens Limited

Sydney
17 September 2020

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Independent Auditor's Report

To the Members of Mason Stevens Credit Fund

Report on the audit of the financial report

Opinion

We have audited the financial report of Mason Stevens Credit Fund (the Fund), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of Mason Stevens Credit 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 2020 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Information other than the financial report and auditor's report thereon

The Directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Fund's Directors' report for the year ended 30 June 2020, 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 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, 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*. The Directors of the Responsible Entity' responsibility also includes 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 Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management intends 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 this financial report.

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

Grant Thornton Audit Pty Ltd
Chartered Accountants

Grant Layland
Director – Audit & Assurance

Sydney, 17 September 2020