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# Sestante Conservative Fund

ARSN 615 786 395

## Financial Report

For the year ended 30 June 2017

Responsible Entity  
AZ Sestante Limited  
ABN 94 106 888 662 | AFSL 284442



AZ SESTANTE

AZIMUT GROUP

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# Sestante Conservative Fund

ARSN 615 786 395

## Financial report

For the reporting period from 17 January 2017 to  
30 June 2017

### Contents

	<b>Page</b>
Directors' report	2
Auditor's independence declaration	5
Statement of comprehensive income	6
Statement of financial position	7
Statement of changes in equity	8
Statement of cash flows	9
Notes to the financial statements	11
Directors' declaration	27
Independent auditor's report to the unitholders of Sestante Conservative Fund	28

## **Directors' report**

The directors of AZ Sestante Limited (the "Responsible Entity"), the Responsible Entity of Sestante Conservative Fund (the "Fund"), present their report together with the financial statements of the Fund for the reporting period from 17 January 2017 to 30 June 2017 and the auditor's report thereon.

### **Responsible Entity**

The registered office and principal place of business of the Responsible Entity and the Fund is Level 18, 1 Margaret Street, Sydney, NSW 2000.

### **Directors**

The following persons held office as directors of the Responsible Entity of the Fund for the period from 17 January 2017 to the date of this report:

B Carpenter  
C Larsen  
A Ciaccio  
M Guiati  
M Sterbizzi

### **Principal activities**

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

The Fund maintains its investment strategy by investing primarily in unlisted unit trusts which invest in global securities in accordance with the provisions of the Fund's Constitution.

The Fund was registered on 17 November 2017 and commenced operation on 17 January 2017. The financial report is representative of the period from when the first units were issued in the Fund and the Fund commenced investment activities being 17 January 2017.

The Fund did not have any employees during the period.

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

### **Review and results of operations**

During the period, the Fund continued to invest in accordance with target asset allocations as set out in the governing documents of the Fund and the provisions of the Fund's Constitution.

## Directors' report (continued)

### Results

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

	Period from 17 January 2017 to 30 June 2017
Operating profit/(loss) (\$)	42,699
 <b>Distribution</b>	
Distribution paid and payable (\$)	58,919
Distribution (cents per unit)	2.0522
 <b>Unit price as at 30 June</b>	
Application price (\$)	1.0006
Redemption price (\$)	0.9966

### Significant changes in the 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 period.

### Matters subsequent to the end of the financial period

No matter or circumstance has arisen since 30 June 2017 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 the provisions of 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 auditor

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of the Responsible Entity or the auditor 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 auditor of the Fund is in no way indemnified out of the assets of the Fund.

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

Fees paid to the Responsible Entity and its associates out of the Fund property during the period are disclosed in note 15 of the financial statements.

No fees were paid out of Fund property to the directors of the Responsible Entity during the period.

### **Directors' report (continued)**

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial period are disclosed in note 15 of the financial statements.

#### **Interests in the Fund**

The movements in units on issue in the Fund during the period is disclosed in note 7 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.

#### **Rounding of amounts to the nearest dollar**

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 dollar 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 and forms part of the Directors' report for the reporting period from 17 January 2017 to 30 June 2017.

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



Director

Sydney  
26 September 2017



# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of AZ Sestante Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of AZ Sestante Ltd for the financial period ended 30 June 2017 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

David Kells

Partner  
Sydney  
26 September 2017

## Statement of comprehensive income

	Notes	Period from 17 January 2017 to 30 June 2017 \$
<b>Investment income</b>		
Distribution income		60,474
Interest income		86
Net gains/(losses) on financial instruments held at fair value through profit or loss	6	(15,097)
Other operating income	14	<u>1,241</u>
<b>Total investment income/(loss)</b>		<u>46,704</u>
<b>Expenses</b>		
Management fees	15	2,938
Transaction costs		168
Other operating expenses		<u>899</u>
<b>Total operating expenses</b>		<u>4,005</u>
<b>Operating profit/(loss)</b>		<u>42,699</u>
<b>Finance costs attributable to unitholders</b>		
Distributions to unitholders	8	<u>(58,919)</u>
<b>(Increase)/decrease in net assets attributable to unitholders</b>		
<b>Total comprehensive income</b>	7	<u>16,220</u>

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

## Statement of financial position

	Notes	As at 30 June 2017 \$
<b>Assets</b>		
Cash and cash equivalents	9	99,057
Receivables	12	34,187
Financial assets held at fair value through profit or loss	11	<u>2,844,729</u>
<b>Total assets</b>		<u>2,977,973</u>
<b>Liabilities</b>		
Payables	13	2,643
Distributions payable	8	<u>42,995</u>
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<u>45,638</u>
<b>Net assets attributable to unitholders - liability</b>	7	<u>2,932,335</u>

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



### Statement of changes in equity

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

## Statement of cash flows

	Notes	Period from 17 January 2017 to 30 June 2017 \$
<b>Cash flows from operating activities</b>		
Distributions received		892
Interest received		45
Management fee rebate income received		84
Other operating income received		752
Management fees paid		<u>(2,208)</u>
<b>Net cash inflow/(outflow) from operating activities</b>	10(a)	<u>(435)</u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of financial instruments held at fair value through profit or loss		520,443
Purchase of financial instruments held at fair value through profit of loss		<u>(3,353,582)</u>
<b>Net cash inflow/(outflow) from investing activities</b>		<u>(2,833,139)</u>
<b>Cash flows from financing activities</b>		
Proceeds from applications by unitholders		2,940,805
Payments for redemptions by unitholders		(5,009)
Distributions paid		<u>(3,165)</u>
<b>Net cash inflow/(outflow) from financing activities</b>		<u>2,932,631</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		99,057
Cash and cash equivalents at the beginning of the period		<u>-</u>
<b>Cash and cash equivalents at the end of the period</b>	9	<u>99,057</u>

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

## **Contents of the notes to the financial statements**

	Page	
1	General information	11
2	Summary of significant accounting policies	11
3	Financial risk management	15
4	Fair value measurement	18
5	Auditors' remuneration	20
6	Net gains/(losses) on financial instruments held at fair value through profit or loss	20
7	Net assets attributable to unitholders	21
8	Distributions to unitholders	21
9	Cash and cash equivalents	22
10	Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities	22
11	Financial assets held at fair value through profit or loss	23
12	Receivables	23
13	Payables	23
14	Other operating income	24
15	Related party transactions	24
16	Structured entities	25
17	Events occurring after the reporting period	26
18	Contingent assets and liabilities and commitments	26

## 1 General information

These financial statements cover Sestante Conservative Fund (the “Fund”) as an individual entity. The Fund is an Australian registered managed investment scheme and was constituted on 17 January 2017. The Fund will terminate on 16 January 2097 unless terminated earlier in accordance with the provisions of the Fund’s Constitution.

The Fund was registered on 17 November 2017 and commenced operation on 17 January 2017. The financial report is representative of the period from when the first units were issued in the Fund and the Fund commenced investment activities being 17 January 2017.

The Responsible Entity of the Fund is AZ Sestante Limited (ABN 94 106 888 662) (AFSL 284442) (the “Responsible Entity”). The Responsible Entity’s registered office is Level 18, 1 Margaret Street, Sydney, NSW 2000.

The Fund maintains its investment strategy by investing primarily in unlisted unit trusts which invest in global securities in accordance with the provisions of the Fund’s Constitution.

The financial statements were authorised for issue by the directors on the date the Directors’ declaration was signed. 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 these financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated in the following text.

### (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 are not distinguished between current and non-current. All balances are expected to be recovered or settled within 12 months, except for investments in financial assets and net assets attributable to unitholders.

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 unitholders, the units are redeemable on demand at the unitholder’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.

#### (i) 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 dollar in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

#### (ii) Compliance with International Financial Reporting Standards (IFRS)

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

#### (iii) New and amended standards adopted by the Fund

There are no new standards, interpretations or amendments to existing standards that are effective for the first time for the financial period beginning 17 January 2017 that have a material impact on the Fund.

## 2 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

#### (iv) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for the reporting period beginning 1 July 2016 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 from 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 until 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 been 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 from 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.

The new standard 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 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 the new revenue recognition rules 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 periods and on foreseeable future transactions.

### (b) Financial instruments

#### (i) *Classification*

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

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

These include financial assets that are not held for trading purpose and which may be sold. These are investments in listed and unlisted unit trusts.

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. The Fund's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

#### (ii) *Recognition/derecognition*

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

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

#### (ii) Recognition/derecognition (continued)

Financial assets are derecognised when the contractual right to receive cash flows from the investments have expired or the Fund has transferred the financial asset and the transfer qualifies for derecognition in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

#### (iii) Measurement

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

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately, while on other financial instruments they are amortised.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the statement of comprehensive income within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise.

Financial assets and liabilities are priced at last traded prices.

##### *Other financial assets and liabilities*

Financial assets and financial liabilities not at fair value through profit or loss, include transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Financial assets classified as receivables are carried at amortised cost using the effective interest rate method, less impairment losses, if any.

Financial liabilities, other than those at fair value through profit or loss, are measured at amortised cost using the effective interest rate method.

Financial liabilities arising from the redeemable units issued by the Fund are carried at the redemption amount representing the investors' right to a residual interest in the Fund's assets, effectively fair value at the reporting date.

#### (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

At the end of the reporting period, there are no financial assets or liabilities offset or with the right to offset in the statement of financial position.

### (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 are classified as financial liabilities as the Fund is required to distribute its distributable income. The units can be put back to the Fund at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to redeem units from the Fund.

## 2 Summary of significant accounting policies (continued)

### (d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include 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.

### (e) Investment income

Interest income on cash and cash equivalents is recognised in the statement of comprehensive income on an accruals basis.

Trust distributions are recognised on an entitlements basis when declared.

Other operating income is recognised on an accruals basis.

### (f) Expenses

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

### (g) Income tax

Under current legislation, the Fund is not subject to income tax as unitholders are presently entitled to the taxable income of the Fund (including assessable capital gains).

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.

The benefits of imputation credits and foreign tax paid are passed on to unitholders.

The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the statement of comprehensive income.

### (h) Finance costs and increase/decrease in net assets attributable to unitholders

Movements in net assets attributable to unitholders and distributions are recognised in the statement of comprehensive income as finance costs. In accordance with the Fund's Constitution, the Fund fully distributes its distributable (taxable) income, and any other amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. Distributions paid are included in cash flows from financing activities in the statement of cash flows.

### (i) Foreign currency translation

#### (i) Functional and presentation currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Fund competes for funds and is regulated. The Australian dollar is also the Fund's presentation currency.

## 2 Summary of significant accounting policies (continued)

### (j) Receivables

Receivables may include amounts for trust distributions, interest, management fee rebate income and applications received for units in the Fund where settlement has not yet occurred. Trust distributions 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) above.

Amounts are generally received within 30 days of being recorded as receivables.

### (k) Payables

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

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

### (l) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as management fees and other expenses have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC), hence 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 flow on a gross basis.

### (m) 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 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.

## 3 Financial risk management

### Overview

The Fund's assets primarily consist of financial instruments which comprise listed and unlisted unit trusts which in turn invest in listed equity securities. It holds these investments at the discretion of the Investment Manager, Ironbark Asset Management Pty Ltd, in accordance with the provisions of the Fund's Constitution.

The nature and extent of the financial instruments employed by the Fund are discussed below. This note presents information about the Fund's exposure to each of the risks below, the Fund's objectives, policies and processes for measuring and managing risk.

The Board of Directors of the Responsible Entity has overall responsibility for the establishment and oversight of the Fund's risk management framework.

Reports from the Fund's Investment Manager include details of the controls it has in place to monitor compliance with the Fund's investment strategy, training and personnel management standards and procedures, and details of how the Investment Manager develops and maintains a disciplined and constructive control environment in which its employees understand their roles and obligations.

The Fund's investing activities expose it to the following risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.



### 3 Financial risk management (continued)

#### (a) Market risk

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

The Fund's strategy on the management of the investment risk is driven by the Fund's investment objective and all transactions are carried out within the investment guidelines set by the Responsible Entity. Information relating to the investment objective and guidelines can be obtained from the Product Disclosure Statement.

##### (i) Price risk

Price risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices (other than those arising from foreign exchange risk and interest rate risk), whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

As the Fund's financial instruments are carried at fair value with fair value changes recognised in the statement of comprehensive income, all changes in market conditions will directly affect income.

Price risk is managed by the Investment Manager through diversification of the portfolio in accordance with the investment strategy and asset composition described in the Product Disclosure Statement.

A sensitivity analysis of price risk is provided in note 3(a)(iv).

##### (ii) Foreign exchange risk

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

As the Fund's investments in listed and unlisted unit trusts are denominated in Australian dollars and as such there is no direct foreign exchange risk. However, the underlying funds hold financial instruments and cash and cash equivalents denominated in a variety of foreign currencies, and as such the Fund is indirectly impacted by fluctuations in the exchange rates of those foreign currencies.

The foreign exchange risk disclosures have been prepared on the basis of the Fund's direct investment and not on a look through basis for indirect exposure. Consequently the disclosure of foreign exchange risk in the note may not represent the true foreign exchange risk profile of the Fund, as the unlisted unit trusts it holds has exposure to assets denominated in multiple foreign currencies.

##### (iii) Interest rate risk

The majority of the Fund's financial assets are non-interest bearing and as such the Fund is not exposed to significant levels of interest rate risk. However, the Fund holds cash for liquidity and transactional purposes. The cash is held at floating interest rates.

### 3 Financial risk management (continued)

#### (a) Market risk (continued)

##### (iv) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit/(loss) and net assets attributable to unitholders to market risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical correlation of the Fund's investments with the relevant benchmark 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 movements resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

	Price risk	
	Impact on operating profit/(loss)/Net assets attributable to unitholders	
	-10%	+10%
	\$	\$
<b>30 June 2017</b>	<b>(254,467)</b>	<b>254,467</b>

#### (b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund.

The Fund's credit risk is minimised by the Investment Manager by monitoring counterparty creditworthiness and only dealing with internally approved counterparties each with set limits. Internally approved counterparties and the associated credit limits are regularly reviewed and monitored by the Investment Manager.

At 30 June 2017, the Fund is exposed to credit risk on its cash and cash equivalents and receivables. The total carrying amount of financial assets exposed to credit risk amounted to \$133,244.

##### (i) Cash and cash equivalents

The Fund's cash and cash equivalents are held with State Street Bank and Trust Company, which is rated Aa1 based on rating agency Moody's rating. The Responsible Entity monitors the financial position of State Street Bank and Trust Company on a regular basis.

The Fund is not materially exposed to credit risk on other financial assets.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

#### (c) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Fund's reputation.

The Fund's Constitution provides for the daily application and redemptions of units and it is therefore exposed to the liquidity risk of meeting unitholders' redemptions.

The Fund's investments are mainly in unlisted unit trusts. A majority of these unlisted unit trusts enables investors to redeem units on a daily basis.

### 3 Financial risk management (continued)

#### (c) Liquidity risk (continued)

The Fund's liquidity risk is managed on an on-going basis by the Responsible Entity by monitoring current cash balances and projecting future cash flow requirements. When the Responsible Entity considers that additional cash reserves may be required, the Responsible Entity will redeem a portion of its investment holdings.

##### (i) Maturities of non-derivative financial liabilities

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at balance sheet date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Units are redeemed on demand at the unitholder's option. However, the Responsible Entity does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

As at 30 June 2017	Less than 1 month \$	1-6 months \$	6-12 months \$	At call \$	Total \$
Distributions payable	42,995	-	-	-	42,995
Payables	2,643	-	-	-	2,643
Net assets attributable to unitholders	-	-	-	2,932,335	2,932,335
Contractual cash flows	45,638	-	-	2,932,335	2,977,973

### 4 Fair value measurement

The Fund measures and recognises the financial assets and liabilities at fair value on a recurring basis.

- Financial assets designated at fair value through profit or loss (FVTPL) (see note 11)

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3)

##### (i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Fund values its investments in accordance with the accounting policies set out in note 2 of the financial statements.

Financial assets and liabilities are priced at last traded prices.

For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

#### 4 Fair value measurement (continued)

(i) *Fair value in an active market (level 1) (continued)*

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

(ii) *Fair value in an inactive or unquoted market (level 2 and level 3)*

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Investments in unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such funds.

(iii) *Recognised fair value measurements*

The following table presents the Fund's assets and liabilities measured and recognised at fair value as at 30 June 2017.

As at 30 June 2017	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss:				
Unit trusts	706,683	2,138,046	-	2,844,729
<b>Total</b>	<b>706,683</b>	<b>2,138,046</b>	<b>-</b>	<b>2,844,729</b>

The Fund held listed and unlisted unit trusts as at 30 June 2017.

(iv) *Transfers between levels*

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels in the fair value hierarchy for the period ended 30 June 2017.

(v) *Fair value measurements using significant unobservable inputs (level 3)*

The Fund did not hold any financial instruments with fair value measurements using significant unobservable inputs during the reporting period from 17 January 2017 to 30 June 2017.

(vi) *Financial instruments not carried at fair value*

The Fund did not hold any financial instruments which were not measured at fair value in the statement of financial position during the reporting period from 17 January 2017 to 30 June 2017. Due to their short-term nature, the carrying amounts of receivables and payables are assumed to approximate their fair value.

## 5 Auditors' remuneration

	Period from 17 January 2017 to 30 June 2017 \$
<b>Audit and review services</b>	
Audit and audit related services - KPMG	
Financial statements review and audit	12,000
Compliance plan audit	<u>4,500</u>
Total remuneration for audit and audit related services	<u>16,500</u>
<b>Taxation services</b>	
Tax compliance services - KPMG	<u>4,300</u>
Total remuneration for taxation services	<u>4,300</u>
<b>Total remuneration</b>	<u>20,800</u>

The auditors' remuneration is borne by the Responsible Entity.

## 6 Net gains/(losses) on financial instruments held at fair value through profit or loss

Net gains/(losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	Period from 17 January 2017 to 30 June 2017 \$
Net unrealised gains/(losses) on financial instruments designated at fair value through profit or loss	<u>(17,395)</u>
	<u>(17,395)</u>
Net realised gains/(losses) on financial instruments designated at fair value through profit or loss	<u>2,298</u>
	<u>2,298</u>
<b>Total net gains/(losses) on financial instruments held at fair value through profit or loss</b>	<u>(15,097)</u>

## 7 Net assets attributable to unitholders

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

	Period from 17 January 2017 to 30 June 2017 Units	Period from 17 January 2017 to 30 June 2017 \$
Opening balance	-	-
Applications	2,928,761	2,940,805
Redemptions	(5,000)	(5,009)
Units issued upon reinvestment of distributions	12,626	12,759
Increase/(decrease) in net assets attributable to unitholders	-	(16,220)
<b>Closing balance</b>	<b>2,936,387</b>	<b>2,932,335</b>

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.

### Capital risk management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. 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.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Responsible Entity. 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.

## 8 Distributions to unitholders

	Period from 17 January 2017 to 30 June 2017 \$	Period from 17 January 2017 to 30 June 2017 CPU
Distributions paid	15,924	0.5880
Distributions payable	42,995	1.4642
<b>Total distributions</b>	<b>58,919</b>	<b>2.0522</b>

## 9 Cash and cash equivalents

	As at 30 June 2017 \$
Cash at bank	99,057
<b>Total cash and cash equivalents</b>	<b>99,057</b>

## 10 Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

	Period from 17 January 2017 to 30 June 2017 \$
<b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>	
Increase/(decrease) in net assets attributable to unit holders (Total comprehensive income)	(16,220)
Distributions to unitholders	58,919
Distribution income reinvested	(26,687)
Net changes in financial instruments held at fair value through profit or loss	15,097
Net change in receivables	(34,187)
Net change in payables	2,643
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(435)</b>
<b>(b) Non-cash financing activities</b>	
The following distribution payments to unit holders were satisfied by the issue of units under the distribution reinvestment plan	12,759
<b>Total Non-cash financing activities</b>	<b>12,759</b>

As described in note 2, income not distributed is included in net assets attributable to unitholders. The change in this amount (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.

## 11 Financial assets held at fair value through profit or loss

	As at 30 June 2017 \$
<b>Designated at fair value through profit or loss</b>	
Unit trusts	2,844,729
Total designated at fair value through profit or loss	<u>2,844,729</u>
<b>Total financial assets held at fair value through profit or loss</b>	<u>2,844,729</u>

An overview of the risk exposures relating to financial assets held at fair value through profit or loss is included in note 3.

## 12 Receivables

	As at 30 June 2017 \$
Distribution receivable	32,895
Interest receivable	41
Management fee rebate receivable	1,157
Other receivables	<u>94</u>
<b>Total receivables</b>	<u>34,187</u>

## 13 Payables

	As at 30 June 2017 \$
Management fees payable	730
Other payables	<u>1,913</u>
<b>Total payables</b>	<u>2,643</u>



## 14 Other operating income

	Period from 17 January 2017 to 30 June 2017 \$
Management fee rebate income	1,241
<b>Total other operating income</b>	<b>1,241</b>

## 15 Related party transactions

### Responsible Entity

The Responsible Entity of Sestante Conservative Fund is AZ Sestante Limited (ABN 94 106 888 662) (AFSL 284442). Accordingly, transactions with entities related to AZ Sestante Limited are disclosed below.

#### (a) Key management personnel

The Fund does not employ personnel in its own right. However it is required to have an incorporated Responsible Entity to manage the activities of the Fund and this is considered the key management personnel.

Key management personnel of the Responsible Entity include persons who held office as directors of the Responsible Entity at any time during the period end up to the date of this report:

B Carpenter  
C Larsen  
A Ciaccio  
M Guiati  
M Sterbizzi

#### (b) Key management personnel unitholdings

Key management personnel of the Responsible Entity did not hold units in the Fund as at 30 June 2017.

#### (c) Key management personnel compensation

Key management personnel are paid by the Responsible Entity. Payments made from the Fund to the Responsible Entity do not include any amounts directly attributable to the compensation of key management personnel.

#### (d) Key management personnel loan disclosures

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

#### (e) Other transactions within the Fund

Apart from those details disclosed in this note, the Responsible Entity has not entered into any other material contract with the Fund since the end of the previous financial period and there were no material contracts involving director's interests at period end.

## 15 Related party transactions (continued)

### (f) Responsible Entity's fees and other transactions

#### Management fees

Management fees are calculated in accordance with the Fund's Constitution. For the period ended 30 June 2017, the management fee was 0.314% per annum of the net asset value of the Fund, inclusive of the net effect of GST.

#### Balances with related parties

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

	<b>30 June 2017</b>
	<b>\$</b>
Management fees for the period	<b>2,938</b>
Aggregate amounts payable to the Responsible Entity at the reporting date	<b>730</b>

### (g) Related party unitholdings

Parties related to the Fund including the Responsible Entity, its related parties and other funds managed by the Responsible Entity, did not hold any units in the Fund as at 30 June 2017.

### (h) Investments

The Fund holds an investment in the AZ Multi Asset Institutional Macro Dynamic Trading Fund (AZ Macro Fund). The Investment Manager of the AZ Macro Fund is AZ Fund Management S.A. who is a subsidiary of Azimut Holding S.P.A, the ultimate parent entity of the Fund's Responsible Entity.

The Fund may purchase and sell shares in the AZ Macro Fund in the ordinary course of business at application and redemption prices calculated in accordance with AZ Macro Fund's prospectus. These prices are no more favorable than those available or might be expected to be available, on a similar purchase or sales of shares by any other investor. Details of the Fund's investments in the AZ Macro Fund is set out below:

	Fair value of investment	Interest held	Distributions received/ receivable	Units acquired during the period	Units disposed during the period
<b>30 June 2017</b>	<b>\$</b>	<b>%</b>	<b>\$</b>	<b>No.</b>	<b>No.</b>
AZ Multi Asset Institutional Macro Dynamic Trading Fund	<b>192,615</b>	<b>0.07</b>	<b>-</b>	<b>36,780</b>	<b>-</b>

## 16 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual arrangements.

The Fund considers all investments in unlisted unit trusts (funds) to be structured entities. The Fund invests in managed investment schemes for the purpose of capital appreciation and or earning investment income.

The unlisted unit trusts are managed in accordance with the investment strategy of the respective investment managers. The investment decisions are based on the analysis conducted by the investment managers. The return of the unlisted unit trusts is exposed to the variability of the performance of the investment strategies. The unlisted unit trusts are financed through the issue of redeemable shares to investors, and investment returns made on the funds invested. The investment managers receive a management fee for undertaking the management of these investments.

## 16 Structured entities (continued)

The Fund holds redeemable shares in each of the funds it invests in.

The exposure to investments in unlisted unit trusts are disclosed in the following table:

	Fair value of investment 30 June 2017
Structured entities	\$
Unit trusts	<u>1,527,151</u>
<b>Total</b>	<u>1,527,151</u>

The fair value of the unlisted unit trusts is included in financial assets held at fair value through profit or loss in the statement of financial position. The fair value of the unlisted unit trusts will change on a daily basis throughout the period and in subsequent periods and will cease when the investments are disposed of.

During the period, the Fund did not provide financial support to the unlisted unit trusts and had no intention of providing financial or other support.

The Fund generated realised and unrealised gains via its investment in the unlisted unit trusts which are disclosed in note 6.

The Fund also received distributions via its investment in the unlisted unit trusts which are disclosed in the statement of comprehensive income.

## 17 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund as disclosed in the statement of financial position as at 30 June 2017 or on the results and cash flows of the Fund for the period ended on that date.

## 18 Contingent assets and liabilities and commitments

There were no outstanding contingent assets and liabilities or commitments as at 30 June 2017.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 26 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 2017 and of its performance for the financial period 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, and
- (c) Note 2(a) confirms that the financial statements 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 for and on behalf of the Responsible Entity.



Director

Sydney  
26 September 2017



# Independent Auditor's Report

To the unitholders of Sestante Conservative Fund

## Opinion

We have audited the **Financial Report** of Sestante Conservative Fund (the Fund).

In our opinion, the accompanying **Financial Report** of Sestante Conservative Fund is in accordance with the *Corporations Act 2001*, including

- giving a true and fair view of the Fund's financial position as at 30 June 2017, and of its financial performance and its cash flows for the period ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises the:

- Statement of financial position as at 30 June 2017
- Statement of comprehensive income for the period then ended
- Statement of changes in equity and Statement of cash flows for the period then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

## Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 relevant ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code). We have fulfilled our other ethical responsibilities in accordance with the Code.

## Other Information

Other Information is financial and non-financial information in the Fund's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of AZ Sestante Ltd (the Responsible Entity) are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' report.

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. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

### Responsibilities of Directors for the Financial Report

The Directors of the Responsible Entity are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Fund's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they 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 objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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\\_files/ar3.pdf](http://www.auasb.gov.au/auditors_files/ar3.pdf). This description forms part of our Auditor's Report.

KPMG

David Kells

Partner

Sydney

26 September 2017