



Australian Securities Term Fund
Annual Report 2020



[ARSN 1605 224 600]

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Directors Report

The Directors of Australian Securities Limited | the Responsible Entity | present their report together with the financial statements of the Australian Securities Term Fund | the Scheme | for the year ended 30 June 2020 and the auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards. In order to comply with the provisions of the Corporations Act 2001, the Directors report as follows:

Directors

The names of the Directors of the Responsible Entity in office during or since the end of the year are:

Executive Directors

Michael Clarebrough (CEO)

Directors have been in the office since the start of the year to the date of this report unless otherwise stated.

Non-executive Directors

Peter Bolitho (Chair)
Judi Grant (Audit Chair)

Susan Allen (appointed 13 February 2020)
Andrew Post (appointed 13 February 2020/
resigned 24 July 2020)

Service providers

The service providers during or since the end of the financial year are:

- Responsible Entity & Custodian: Australian Securities Limited
- Auditor: Pitcher Partners, Melbourne

Principal activities

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

The principal activity of the Scheme is to invest funds in accordance with the investment policy of the Scheme as outlined in the current Product Disclosure Statement | the PDS | and in accordance with the provisions of the Constitution of the Scheme.

There has been no significant change in the activities of the Scheme during the financial year.

The Scheme did not have any employees during the year.

Review of operations and financial results

The value of the Scheme's gross assets at 30 June 2020 was \$27,664,676 (2019: \$51,656,044). The value of the Scheme's assets is derived using the basis set out in Note 1 to the financial statements.

The Scheme's net operating profit before distributions to members for the current year was \$1,230,972 (2019: \$1,507,000).

Distributions

The Scheme has provided a return to investors through distribution of investment income earned from mortgage and cash securities. The majority of investments held in the Scheme are fixed interest securities.

Distributions declared during the financial year totalled \$1,230,972 (2019: \$1,507,000). The total amount unpaid at reporting date is disclosed in the Statement of Financial Position.

Unit redemption prices

The rights and entitlement of each class of units are detailed in the PDS and the Constitution of the Scheme. Unit redemption price is as follows:

	30 June 2020	30 June 2019
	\$	\$
Redemption unit price (ex-distribution)	1	1

Units on issue

The movement in units on issue of the Scheme for the year was as follows:

Class A	Year ended 30 June 2020	Year ended 30 June 2019
	\$	\$
Opening balance	51,482,677	40,616,721
Number of units issued	83,645,164	84,480,452
Number of units redeemed	(107,539,726)	(73,614,496)
Number of units on issue at 30 June	27,588,115	51,482,677
Value of total Scheme net assets as at 30 June	27,588,115	51,482,677

The basis for valuation of the Scheme's assets is disclosed in Note 1 to the financial statements.

Fees paid to and interests held by the Responsible Entity

The Responsible Entity of the Scheme is Australian Securities Limited (ACN: 005 428 231) | ASL |, which also acts as manager and custodian of the Scheme.

ASL also acts as Responsible Entity, Manager and Custodian to Australian Securities Property Fund | ASPF | and Australian Securities Income Fund | ASIF |. ASL holds an

Australian Financial Services Licence to enable it to be the Responsible Entity and Custodian to the Scheme as well as ASPF and ASTF. ASL also holds an Australian Credit Licence to be an authorised Credit Provider.

Transactions with related parties have taken place at arm's length and in the ordinary course of business.

Investment management fees of \$365,520 (2019: \$394,096), calculated daily in accordance with the PDS at 0.80% per annum of the amount invested by each member, were paid or remain payable at year end to the Responsible Entity.

A number of the Directors have invested in the Scheme via the Responsible Entity and their related superannuation funds, on terms and conditions no more favourable than those offered to any arm's length investor. At the financial year end, the investments in the Scheme by related entities including the Directors, and Director related entities or associates totalled \$8,029,746; 8,029,746 units (2019: \$12,511,487; 12,511,487 units).

As at 30 June 2020, ASIF had investments in ASTF totalling \$5,886,033 (2019: \$8,272,813) which were amounts invested on behalf of ASIF borrowers.

Derivatives and other financial instruments

The Scheme's investment activities expose it to changes in interest rates and mortgage market variations as well as credit and liquidity risk. The Directors have approved policies and procedures in each of these areas to manage these exposures. The Scheme does not speculatively trade derivatives.

Significant changes in state of affairs

In the opinion of the Directors, there were no significant changes in the state of affairs of the Scheme during the financial year.

Future developments

The Scheme will continue to operate in accordance with its investment policy as detailed in the Scheme's PDS. In the opinion of the Directors, aside from the unknown impact of the Coronavirus Pandemic there are no other likely developments that will influence the operations or the expected results of the Scheme. The Scheme will continue to actively monitor the impact of the Coronavirus Pandemic (COVID-19).

Environmental regulation

The Scheme's operations are not subject to any significant environmental regulations under Commonwealth, State or Territory Legislation.

Indemnification and insurance of officers and auditors

No indemnities have been given, or insurance premiums paid, for any person who is or has been an officer or auditor of the Scheme, during or since the end of the financial year.

The Directors of the Responsible Entity are covered against all liabilities to another person (other than the company, the Scheme or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving a lack of good faith.

Subsequent events

No matters or circumstances have arisen since the end of the year which significantly affect the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

Rounding of amounts to the nearest dollar

In accordance with ASIC Corporations (Rounding in Financial/Director's report) Instrument 2016/191, the amounts in the Directors' Report and in the financial report have been rounded to the nearest dollar.

Auditor's independence declaration

An independence declaration has been received by the Directors and is attached to the Directors' Report.

The report is made in accordance with a resolution of the Directors.

On behalf of the Directors

Michael John Clarebrough (CEO)

Melbourne
24 September 2020

Peter Bolitho (Chair)

Melbourne
24 September 2020

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

	Notes	Year ended 30 June 2020 \$	Year ended 30 June 2019 \$
Investment income			
Interest	4	1,596,492	1,901,096
Total investment income		1,596,492	1,901,096
Operating expenses			
Management fees		(365,520)	(394,096)
Total operating expenses		(365,520)	(394,096)
Profit for the year		1,230,972	1,507,000
Other comprehensive income			
Other comprehensive income for the year		-	-
Total comprehensive income		1,230,972	1,507,000

The above statement should be read in conjunction with the accompanying notes

Statement of Financial Position

For the year ended 30 June 2020

	Notes	Year ended 30 June 2020 \$	Year ended 30 June 2019 \$
Assets			
Cash and cash equivalents	5	14,983,190	26,734,952
Receivables	6	46,972	128,607
Other financial assets	7	12,634,514	24,792,485
Total assets		27,664,676	51,656,044
Liabilities			
Payables	8	(20,526)	(37,867)
Distribution payable	9	(56,035)	(135,500)
Total liabilities		(76,561)	(173,367)
Net assets		27,588,115	51,482,677
Equity			
Members' funds	10	27,588,115	51,482,677
Total equity		27,588,115	51,482,677

The above statement should be read in conjunction with the accompanying notes

Statement of Changes in Equity

For the year ended 30 June 2020

	Notes	Total equity \$
Balance as at 1 July 2018		40,616,721
Total comprehensive income for the year		1,507,000
Transactions with owners in their capacity as owners:		
Applications		84,480,452
Redemptions		(73,614,496)
Distributions		(1,507,000)
Balance as at 30 June 2019	10	51,482,677
Balance as at 1 July 2019		51,482,677
Total comprehensive income for the year		1,230,972
Transactions with owners in their capacity as owners:		
Applications		83,645,164
Redemptions		(107,539,726)
Distributions		(1,230,972)
Balance as at 30 June 2020	10	27,588,115

The above statement should be read in conjunction with the accompanying notes

Statement of Cash Flows

For the year ended 30 June 2020

	Notes	Year ended 30 June 2020 \$	Year ended 30 June 2019 \$
Cash flows from operating activities			
Proceeds from repayment of mortgage investments		21,074,756	10,498,285
Investments in mortgages		(8,916,785)	(14,387,421)
Interest received		1,678,127	1,883,294
Management fees paid		(381,037)	(388,285)
Net cash provided by / (used in) operating activities	12(b)	13,455,061	(2,394,127)
Cash flows from financing activities			
Applications received from members		83,645,164	84,480,452
Payments for redemption to members		(107,539,726)	(73,614,496)
Distributions paid		(1,312,261)	(1,485,369)
Net cash provided by / (used in) financing activities		(25,206,823)	9,380,587
Net increase / (decrease) in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year		26,734,952	19,748,492
Cash and cash equivalents at the end of the year	12(a)	14,983,190	26,734,952

The above statement should be read in conjunction with the accompanying notes

Notes to the Financial Statements

For the year ended 30 June 2020

Note 1: Statement of Significant Accounting Policies

The Australian Securities Term Fund | the Scheme | is a registered managed investment scheme domiciled in Australia. The Responsible Entity to the Scheme is Australian Securities Limited | ASL | and its registered office and principal place of business is Level 29, 140 William Street, Melbourne, Victoria, 3000. The principal activity of the Scheme is disclosed in the Directors' Report.

The following is a summary of significant accounting policies adopted by the Scheme in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Basis of preparation of the financial report

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board | the AASB | and the Corporations Act 2001.

This financial report has been prepared for the Scheme as an individual entity. The Scheme is a for-profit scheme for the purpose of preparing the financial statements.

The financial report is presented in Australian dollars.

The Scheme's objective is to meet the needs of investors seeking short-term investment returns by providing regular interest returns calculated daily and paid monthly in arrears. The Scheme invests in diversified asset classes comprising a mixture of first mortgage securities (fixed income) and cash equivalent investments. Members of the Scheme benefit from a low cost investment structure, in

accordance with the objectives disclosed in the Product Disclosure Statement | the PDS | dated 15 November 2019.

The financial report was authorised for issue by the Directors of the Responsible Entity as at the date of the Directors' Report.

Compliance with International Financial Reporting Standards

The financial report of the Scheme complies with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

Historical cost convention

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

The assets and liabilities presented in the statement of financial position do not distinguish between current and non-current. All assets and liabilities have been presented in decreasing order of liquidity.

Coronavirus (COVID-19)

Since the declaration by the World Health Organisation on 11 March 2020, of COVID-19 as a pandemic, there has been a significant impact on local and world economies. It is unknown at this stage what impact (if any) the pandemic may have on the financial position and financial performance of the scheme in the future.

(b) New and revised accounting standards effective at 30 June 2020

The scheme has applied all new and revised Australian Accounting Standards that apply to annual reporting periods beginning on or after 1 July 2019. None of the new standards effective on or after 1 July 2019 had a material impact on the financial statements.

(c) Financial instruments

Financial assets and liabilities are recognised on the date the Scheme becomes party (for a specific sub scheme) to the contractual agreement, usually the settlement date.

The carrying amounts of mortgages, members' funds, current receivables and current payables are considered to be a reasonable approximation of their fair value.

Financial assets

(i) Mortgages and other receivables

Financial instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss (FVtPL), in which case transaction costs are immediately recognised as expenses in profit or loss.

Financial assets are classified as subsequently measured at amortised cost when both of the following conditions are met:

(a) the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

(b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial liabilities

Financial liabilities include members' funds, trade payables, other creditors, loans from third parties and loans or other amounts due to Director related entities.

Financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation. Financial liabilities are classified as current liabilities unless the aggregated entity has an unconditional right to

defer settlement of the liability for at least 12 months after the reporting date.

Impairment of assets

The Scheme has applied the general approach under AASB 9 Financial Instruments to measuring impairment provisions for mortgages and other receivables. Under the AASB 9 general approach, the Scheme determines the impairment provision for receivables on the basis of default events possible within 12 months after reporting date and lifetime expected credit losses of the receivable. Lifetime expected credit losses represent the expected credit losses that are expected to result from default events over the expected life of the receivable.

For all other financial assets subject to impairment testing, when there has been a significant increase in credit risk since the initial recognition of the financial asset, the allowance for credit losses is recognised on the basis of the lifetime expected credit losses. When there has not been an increase in credit risk since initial recognition, the allowance for credit losses is recognised on the basis of 12-month expected credit losses. '12-month expected credit losses' is the portion of lifetime expected credit losses that represent the expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date

The Scheme considers a range of information when assessing whether the credit risk has increased significantly since initial recognition. The Scheme recognises an impairment loss (or, in the case of the reversal of a previous impairment loss, a gain) in profit or loss for all financial assets with a corresponding adjustment to a loss allowance account. The Scheme directly reduces the gross carrying amount (writes off) of a financial asset, even when the financial asset is still subject to enforcement action, when the debtor is in

severe financial difficulty and there is no realistic prospect of recovery, which would be evidenced by:

- the debtor being placed into liquidation or voluntarily entering into bankruptcy arrangements; or
- the financial asset is more than 60 days past a default event and the Scheme has received no satisfactory response from the debtor regarding the past due feature of the financial asset; or
- significant drop in value

(d) Cash and cash equivalents

Cash and cash equivalents includes cash at call and short-term deposits held with an original maturity of six months or less. Cash is held at call with reputable banks or financial institutions which the Responsible Entity uses in its day to day management of the Scheme's cash requirements.

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

(e) Income and expenses

Investment income and expenses are brought to account on an accruals basis. Interest income is recognised using the effective interest method.

(f) Receivables

Receivables include accrued income on interest-bearing assets.

Interest is accrued at the reporting date from the time of last payment. Amounts are generally received within 30 days of being recorded as receivable.

(g) Payables

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

The distribution amount payable to members as at year end is recognised separately on the Statement of Financial Position as members are presently entitled to the distributable income as at 30 June 2020 under the Scheme's Constitution.

(h) Distributions and taxation

Under current legislation the Scheme is not subject to income tax as its taxable income (including assessable realised capital gains) is distributed in full to the members.

In accordance with the PDS, the Scheme fully distributes its distributable income to members by cash or reinvestment. Distributable income is determined by reference to the taxable income of the Scheme.

(i) Determination of application and redemption prices

The application and redemption prices are determined by the value of net assets which is the value of Scheme assets less its liabilities (other than liabilities representing rights attaching to members funds), adjusted for estimated transaction costs, divided by the total value of members funds within the Scheme.

(j) Goods and services tax | GST |

The Scheme is not currently registered for GST, and as such revenues and expenses are recognised gross of the amount of GST. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities is classified as operating cash flows.

(k) Rounding of amounts to nearest dollars

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the Directors' Report and in the financial report have been rounded to the nearest dollar.

(l) Functional and presentation currency

The Scheme's financial statements are measured and presented in Australian dollars, being the currency of the primary economic environment in which the Scheme operates.

(m) Accounting standards issued but not yet effective at 30 June 2020

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Scheme. The Scheme has decided not to early adopt any of these new and amended pronouncements.

The Scheme has assessed that none of these standards will have a material impact on the Scheme's financial statements in the period of initial application.

The Scheme's assessment of the new and amended pronouncements that are relevant to the Scheme but applicable in future

AASB 2018-7: Amendments to Australian Accounting Standards- Definition of Material

AASB 2018-7 principally amends AASB 101: Presentation of Financial Statements and AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors. The amendments refine the definition of material in AASB 101. The amendments clarify the definition of material and its application by improving the wording and aligning the definition across AASB Standards and other publications. The amendment also includes some supporting requirements in AASB 101 in the definition to give it more prominence and clarifies the explanation accompanying the definition of material.

AASB 2018-7 mandatorily applies to annual reporting periods commencing on or after 1 January 2020 and will be first applied by the Scheme in the financial year commencing 1 July 2020.

This accounting standard is not expected to have a material impact on the financial statements of the Scheme.

Note 2: Significant Accounting Estimates and Judgements

The preparation of the financial report requires the use of certain estimates and judgements in applying the Scheme's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 1(c).

Note 3: Financial Risk Management

The Directors of the Responsible Entity have the overall responsibility for identifying and managing operational and financial risks. The Scheme holds the following financial instruments, all of which are carried at amortised cost:

		30 June 2020	30 June 2019
	Notes	\$	\$
Financial assets			
Cash and cash equivalents	5	14,983,190	26,734,952
Receivables	6	46,972	128,607
Other financial assets	7	12,634,514	24,792,485
		27,664,676	51,656,044
Financial liabilities			
Payables	8	20,526	37,867
Distribution payable	9	56,035	135,500
		76,561	173,367

The Scheme is exposed to a variety of financial risks comprising:

- (a) Market price risk
- (b) Liquidity risk
- (c) Credit risk
- (d) Interest rate risk

(a) Market price risk

Market price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in the market price (other than those arising from interest rate risk or currency risk).

The Scheme's exposure to market price risk arises from its investments in mortgages which are made within financial markets to lend money for interest. The mortgages are made at contracted fixed interest rates. Interest rates contracted are entered into recognising the current status of financial markets.

The Scheme is also exposed to market price risk in relation to property prices. Investments in fixed income mortgages are contracted for amounts that do not exceed 66% of property valuations for Tier 1 mortgages, obtained from qualified, reputable property valuers.

Impaired valuations

There are no current non-performing loans with collateral mortgage security assessed as inadequate to fully recover the loan amount, default interest and charges.

(b) Liquidity risk

Liquidity risk is the risk that an entity will

encounter difficulty in meeting obligations associated with financial liabilities and arises when the Scheme is unable to meet its financial obligations as they fall due. The Scheme operates under a fair payments policy of settling normal operating financial obligations within 30 days.

The Scheme has exposure to liquidity risk in regards of mortgage default of the mortgage investments held. The Scheme bears the ultimate risk of default as a direct investor in the individual mortgage.

The scheme is currently invested in Tier 1 mortgages. Where a mortgage goes into default, the Tier 1 mortgage investments are assurance funded, ensuring receipt of the ongoing interest income that the mortgagor would otherwise have paid. The Scheme bears the ultimate risk of default as a direct investor in the individual mortgage.

The Scheme's PDS states that where the borrower fails to repay capital advanced on the repayment date, the Scheme does not guarantee the recovery of the invested value.

Further exposure to liquidity risk for the Scheme may arise from the requirement to meet daily member redemption requests. In order to manage the Scheme's overall liquidity, the Responsible Entity maintains a level of

liquidity to meet expected withdrawals by holding cash and term deposits sufficient to meet investor withdrawals. Additionally, the Responsibility Entity has the discretion to suspend in full or part redemption requests if the exercise of such discretion is in the best interest of members in line with the Scheme's PDS. The Scheme did not reject or withhold any redemption during the period.

Maximum exposure to liquidity risk is the carrying amounts of financial liabilities and equity.

Maturity analysis

The table below represents the undiscounted contractual settlement terms for financial instruments and managements expectation for settlement of undiscounted maturities.

Year ended 30 June 2020	< 6 Months	6-12 Months	1-5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
Cash and cash equivalents	14,983,190	-	-	14,983,190	14,983,190
Receivables	46,972	-	-	46,972	46,972
Other financial assets	7,405,322	2,458,225	2,770,967	12,634,514	12,634,514
Payables	(20,526)	-	-	(20,526)	(20,526)
Distribution payable	(56,035)	-	-	(56,035)	(56,035)
Net maturities	22,358,923			27,588,115	27,588,115

Year ended 30 June 2019	< 6 Months	6-12 Months	1-5 years	Total contractual cash flows	Carrying amount
	\$	\$	\$	\$	\$
Cash and cash equivalents	26,734,952	-	-	26,734,952	26,734,952
Receivables	128,607	-	-	128,607	128,607
Other financial assets	10,664,410	2,383,970	11,744,105	24,792,485	24,792,485
Payables	(37,867)	-	-	(37,867)	(37,867)
Distribution payable	(135,500)	-	-	(135,500)	(135,500)
Net maturities	37,354,602	2,383,970	11,744,105	51,482,677	51,482,677

(c) Credit risk

Credit risk refers to the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Scheme has exposure to credit risk regarding the mortgage investments held, and the risk that a borrower will default on contractual obligations resulting in financial loss to the Scheme. The Scheme also has exposure to credit risk in regards of the distributable income of the Scheme being impacted adversely either by financial asset performance such as mortgage defaults leading to a loss of income and increased costs as a result of enforcement action, or the availability of suitable investments for the Scheme.

Credit risk is managed partly by the provider of mortgage investments by:

- adopting a conservative loan to value ratio (LVR);
- actively managing non-performing loans; and
- assurance funding for Tier 1 loans.

Credit risk is also managed by portfolio diversification through adopting a maximum LVR and setting investment parameters.

The Scheme does not have any significant credit risk exposure to any single borrower or any group of borrowers having similar characteristics. As at 30 June 2020, the Scheme had no exposure to mortgage loans that were in default.

The carrying amount of financial assets, net of any allowance for credit losses, recorded in the financial statements represents the Scheme's maximum exposure to credit risk without taking into account the value of any collateral or other security obtained in relation to those assets.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of fluctuation in market interest rates.

The majority of the Scheme's financial assets are investments in interest bearing, fixed-rate term deposits and mortgage loans, and therefore the Scheme is exposed to significant interest rate risk. The Scheme manages the exposure to interest rate risk by diversifying its portfolio of investments in term deposits and mortgages and restricting investments in mortgages to a maximum of 55% of the Scheme's investments respectively.

The Scheme's exposure to interest rate risks in relation to future cash flows and the effective weighted average interest rates on classes of financial assets and liabilities at balance date are as follows:

Financial instruments	Interest bearing	Non interest bearing	Total carrying amount	Weighted average effective interest rate	Fixed / variable rate
	\$	\$	\$	%	
30 June 2020					
(i) Financial assets					
Cash and cash equivalents	14,983,190	-	14,983,190	0.89	Fixed/variable
Other financial assets	12,634,514	-	12,634,514	5.99	Fixed
Receivables	-	46,972	46,972		
Total financial assets	27,617,704	46,972	27,664,676		
(ii) Financial liabilities					
Payables	-	(20,526)	(20,526)		
Distribution payable	-	(56,035)	(56,035)		
Total financial liabilities	-	(76,561)	(76,561)		
Net financial assets	27,617,704	(29,589)	27,588,115		

Financial instruments	Interest bearing	Non interest bearing	Total carrying amount	Weighted average effective interest rate	Fixed / variable rate
	\$	\$	\$	%	
30 June 2019					
(i) Financial assets					
Cash and cash equivalents	26,734,952	-	26,734,952	2.22	Fixed/variable
Other financial assets	24,792,485	-	24,792,485	6.16	Fixed
Receivables	-	128,607	128,607		
Total financial assets	51,527,437	128,607	51,656,044		
(ii) Financial liabilities					
Payables	-	(37,867)	(37,867)		
Distribution payable	-	(135,500)	(135,500)		
Total financial liabilities	-	(173,367)	(173,367)		
Net financial assets	51,527,437	(44,760)	51,482,677		

Note 3: Financial Risk Management continued

Sensitivity

If interest rates were to increase/decrease by 100 basis points from rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then the impact on profit for the year and equity is \$12,945 / (\$12,945).

	Year ended 30 June 2020	Year ended 30 June 2019
	\$	\$
Note 4: Interest Income		
Interest – cash	32,743	122,448
Interest – deposits at call	357,792	485,267
Interest – mortgage loans	1,205,957	1,293,381
	<hr/> 1,596,492	<hr/> 1,901,096

Note 5: Cash and Cash Equivalents

Cash at bank	1,432,369	5,484,952
Deposits at call	13,550,821	21,250,000
	<hr/> 14,983,190	<hr/> 26,734,952

Note 6: Receivables

Interest receivable- deposits at call	25,917	74,818
Interest receivable- mortgage loans	21,055	53,789
	<hr/> 46,972	<hr/> 128,607

	Year ended 30 June 2020	Year ended 30 June 2019
	\$	\$
Note 7: Other Financial Assets		
Mortgage loans	12,634,514	24,792,485
	12,634,514	24,792,485
	12,634,514	24,792,485
Note 8: Payables		
Accrued management fees payable	19,624	35,141
Withholding tax payable	902	2,726
	20,526	37,867
	20,526	37,867
Note 9: Distribution Payable		
Distribution payable	56,035	135,500
	56,035	135,500
	56,035	135,500
Note 10: Members' Funds		
Opening balance	51,482,677	40,616,721
Application	83,645,164	84,480,452
Redemption	(107,539,726)	(73,614,496)
Total members' funds	27,588,115	51,482,677
	27,588,115	51,482,677

Note 10: Members' Funds continued

Capital management

When managing capital, management's objective is to ensure the Scheme continues to provide members with returns in accordance with the PDS.

The amount of members funds can change on a daily basis as the Scheme is subject to daily applications and redemptions at the discretion of members.

Redemptions from the Scheme may be made whilst the Scheme is liquid by written

request to ASL when the member gives the Responsible Entity no less than 14 days written notice to withdraw part of all their investment; and after the minimum investment period of three months has expired. The Responsible Entity attempts to process all redemptions as early as possible.

The Responsible Entity reserves the right to suspend in full or part large individual requests over \$250,000. Where the Scheme is deemed by the Responsible Entity to not be liquid, all redemption requests are immediately suspended. Once the Scheme is deemed

liquid, all redemption requests will be met in the order in which they have been received by the Responsible Entity.

Note 11: Auditor's Remuneration

Amounts paid and payable to Pitcher Partners, Melbourne for:

	Year ended 30 June 2020	Year ended 30 June 2019
	\$	\$
Audit and other assurance services		
Audit or review of financial report	15,500	15,500
Audit of compliance plan	1,832	1,832
	<hr/> 17,332	<hr/> 17,332
Other non-audit services		
Taxation services	2,000	2,000
	<hr/> 2,000	<hr/> 2,000
Total remuneration of Pitcher Partners, Melbourne	<hr/> 19,332	<hr/> 19,332

Remuneration paid to the auditors was paid by the Responsible Entity for the year ended 30 June 2020. The above audit and related services are for the Scheme.

Note 12: Cash

a) Reconciliation of cash

For the purpose of the Statement of Cash Flows, cash includes cash on hand, cash held at bank, and short-term deposits at call, net of outstanding bank overdrafts. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the statement of financial position as follows:

	Year ended 30 June 2020	Year ended 30 June 2019
	\$	\$
Cash at bank	1,432,369	5,484,952
Deposits at call	13,550,821	21,250,000
Total cash and cash equivalents	<u>14,983,190</u>	<u>26,734,952</u>

(b) Reconciliation of net cash used in operating activities to net operating profit

Net operating profit	1,230,972	1,507,000
Changes in assets and liabilities during the financial year:		
(Increase) / Decrease in mortgages	12,157,971	(3,889,136)
(Increase) / Decrease in receivables	81,635	(17,802)
Increase / (decrease) in payables	(15,517)	5,811
Net cash provided by / (used) in operating activities	<u>13,455,061</u>	<u>(2,394,127)</u>

Note 13: Related Parties

The Responsible Entity of the Scheme is Australian Securities Limited (ACN: 005 428 231) | ASL |, which also acts as manager and custodian of the Scheme.

ASL also acts as responsible entity, manager and custodian to Australian Securities Income Fund | ASIF | and Australian Securities Property Fund | ASPF |. ASL holds an Australian Financial Services Licence to enable it to be the responsible entity and custodian to the Scheme as well as ASIF and ASPF. ASL also holds an Australian Credit Licence to be an authorised Credit Provider.

Transactions with related parties have taken place at arm's length and in the ordinary course of business.

Investment management fees of \$365,520 (2019: \$394,096), calculated in accordance with the PDS at 0.80% per annum (2019: 0.80%), were paid or remain payable at year end to the Responsible Entity. Management fees payable to the Responsible Entity at 30 June 2020 totalled \$19,624 (2019: \$35,141).

A number of the Directors have invested in the Scheme via the Responsible Entity and their related superannuation funds, on terms and conditions no more favourable than those offered to any arm's length investor.

At the financial year end, the investments in the Scheme by related entities including the Directors, and Director related entities or associates totalled \$8,029,746; 8,029,746 units (2019: \$12,511,487; 12,511,487 units)

As at 30 June 2020 ASTF had \$12,634,514 (2019: \$24,792,485) invested in ASIF. Interest income of \$1,205,956 (2019: \$1,293,380) was received or remained receivable at year end from ASIF. Interest receivable from ASIF at 30 June 2020 totalled \$21,054 (2019: \$53,789).

As at 30 June 2020, ASIF had investments in ASTF totalling \$5,886,033 (2019: \$8,272,813) which were amounts invested on behalf of ASIF borrowers.

Compensation of key management personnel of the Responsible Entity

Key management personnel | KMP | of the Responsible Entity for the financial year, unless otherwise stated, were:

Non-executive Directors

Peter Bolitho (Chair)

Judi Grant (Audit Chair)

Susan Allen (appointed 13 February 2020)

Andrew Post (appointed 13 February 2020/
resigned 24 July 2020)

Executive Directors

Michael Clarebrough (CEO)

Management Team

Natalie Bode (Operations / Alternate CEO)

Steven Cain (Portfolio Manager- ASPF)

Maryanne Hanlon (Senior Investment
Manager)

David Sell (Financial Controller – resigned
February 2020)

Melanie Mirabella (Acting Financial
Controller – April 2020)

Nicole Wain (Financial Controller –
appointed July 2020)

Remuneration of Directors is paid directly by the Responsible Entity. The Directors are not provided with any remuneration by the Scheme itself. Directors are not entitled to any equity interests in the Scheme, or any rights to or options for equity interests in the Scheme, as a result of the remuneration provided by the Responsible Entity.

The Directors of the Responsible Entity do not consider there is any direct correlation between the level of remuneration provided to Directors of the Responsible Entity and the management fees paid by the Scheme to the

Responsible Entity in accordance with the Scheme's Constitution and PDS.

Note 14: Commitments and Contingencies

There are no commitments or contingent assets or liabilities as at 30 June 2020.

Note 15: Subsequent Events

There has been no matter or circumstance, which has arisen since 30 June 2020 which has significantly affected or which may significantly

affect the operations of the Scheme, the results of those operations, or the state of affairs of the Scheme, in future financial years.

Note 16: Responsible Entity Details

The registered office and principal place of business of the Responsible Entity is:

Level 29, 140 William Street
MELBOURNE, VIC, 3000

Declaration of the Directors of the Responsible Entity

In the opinion of the Directors of Australian Securities Limited, the Responsible Entity of Australian Securities Term Fund:

1. The financial statements and notes as set out on pages 6 to 23 are in accordance with the *Corporations Act 2001* and:
 - (a) Comply with Accounting Standards in Australia and the *Corporations Regulations 2001*;
 - (b) As stated in Note 1(a) the financial statements also comply with International Financial Reporting Standards; and
 - (c) Give a true and fair view of the financial position of the Scheme as at 30 June 2020 and of its performance, as represented by the results of its operations and its cash flows for the financial year ended on that date.
2. In the directors' opinion there are reasonable grounds to believe the Scheme will be able to pay its debts as and when they become due and payable.

This Declaration has been made in accordance with a Resolution of the Directors of the Responsible Entity, Australian Securities Limited.

Michael John Clarebrough (CEO)

Melbourne
24 September 2020

Peter Bolitho (Chair)

Melbourne
24 September 2020

Independent Auditor's Report to the Directors of the Responsible Entity of Australian Securities Term Fund

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Australian Securities Term Fund, "the Scheme", 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 Members' Funds 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 Australian Securities Term Fund, is in accordance with the Corporations Act 2001, including:

- (a) giving a true and fair view of the Scheme's financial position as at 30 June 2020 and of its financial performance for the year then ended; 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 Scheme in accordance

with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants "the Code" that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the Scheme, would be in the same terms if given to the directors of the Responsible Entity as at the time of this auditor's report.

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

Other Information

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the Scheme's directors' report for the year ended 30 June 2020, but does not include the financial report and our auditor's report thereon.

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 Scheme are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors 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 Scheme'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 the directors either intend to liquidate the Scheme 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,

*Independent Auditor's Report to the Directors of the Responsible Entity
of Australian Securities Term Fund Cont.*

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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the

Scheme's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Responsible Entity.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors of the Responsible Entity regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including

any significant deficiencies in internal control that we identify during our audit.

We also provide the directors of the Responsible Entity with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

N Bull

Pitcher Partners
Partner
Melbourne
24 September 2020





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SECURITIES**

Private fund since 1925

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Responsible Entity and Fund Custodian

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