



## **ZANK INCOME FUND**

ARSN 637 888 307

FINANCIAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2021

**ZANK INCOME FUND  
ARSN 637 888 307  
RESPONSIBLE ENTITY REPORT  
FOR THE YEAR ENDED 30 JUNE 2021**

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**ZANK INCOME FUND**  
**ARSN 637 888 307**  
**RESPONSIBLE ENTITY REPORT**  
**FOR THE YEAR ENDED 30 JUNE 2021**

The Directors of the Responsible Entity, Vasco Trustees Limited present their report on the Zank Income Fund ('the Fund') for the year ended 30 June 2021. In order to comply with the provisions of the *Corporations Act 2001* the Directors report is as follows:

**1. Directors**

The names of Directors of the Responsible Entity in office at any time during the financial year were:

Craig Mathew Dunstan

Fiona Jean Dunstan (resigned 31 December 2020)

Jonathan William Martin

Reginald Bancroft

**2. Principal Activities**

The principal activities of the Fund are to invest in mortgage-backed loans secured by Australian real estate with the aim to generate a stable income for investors. Loans will be made to borrowers to use for business or investment purposes.

The Fund was established on 31 May 2016 and issued the first units on the commencement date of 5 July 2016.

**3. Operating Results**

The operating profit of the Fund for the financial year ending 30 June 2021 was \$3,726,062 (2020: \$3,046,100).

**4. Review of Operations**

During the period since inception, the Fund has issued 52,345,029 (2020: 43,491,141) units, of which 497,439 (2020: 201,879) units have resulted from the reinvestment of distributions, and 32,506,056 (2020: 22,167,384) units have been redeemed.

During the financial year, 16,492,560 (2020: 7,922,739) units have been issued, including 295,560 units as a result of reinvestment of distributions, and 10,338,672 (2020: 6,352,384) units have been redeemed.

As at 30 June 2021, the total value of loans to borrowers was \$43,845,066 (2020: 35,214,718). Interest on the loans is generally paid in advance. As a result of some interest being paid later than scheduled, the interest has been accrued and capitalised.

During the financial year two loans that were in default were secured against the property. The property was sold as mortgagee in possession and the principal was recouped. The remaining interest and costs outstanding have been written off as at 30 June 2021.

In early 2021, the Zank Select Investment Fund was established. The trustee of the Select Investment Fund is a related party of the Investment Manager. It is anticipated that from time to time the Zank Income Fund may enter into Loan Sub Participation Agreements with the Zank Select Investment Fund. As at 30 June 2021 the Zank Income Fund has entered into Loan Sub Participation Agreements with loans to two borrowers.

During the financial year, the Fund entered into a 'Deed of Indemnity' with the Investment Manager, for the Investment Manager to indemnify the Fund to satisfy the commitments it has undertaken pursuant to the Investment Managers' Investment Strategy.

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One of the loans held by the Fund defaulted on its repayment obligations. During the recovery process, the Fund obtained a valuation of the property in anticipation of selling the property as the mortgagee in possession. The valuation report stated that the property had a fair value of \$3,275,000 less than the principal amount. In order to guarantee recovery of any potential capital loss, the Investment Manager has provided a Corporate Guarantee and Indemnity to the Fund. The Investment Manager has also agreed to forgo 30% of future management fees and 100% of future performance fees until the principal has been recovered. Should at a later date the Fund recover a portion of the loan that the Investment Manager has already contributed, such amounts will be reimbursed to the Investment Manager.

During the financial year, the custody of the investments of the Fund was transferred to Perpetual Corporate Trust Limited from Sargon CT Pty Ltd.

**4. Review of Performance**

It is anticipated that unitholders will receive the interest return detailed in the Product Disclosure Statement or otherwise agreed between the unitholders and the Investment Manager.

Unit Class	2021 % p.a.	2020 % p.a.
Ordinary units	8.00%	8.38%

In the Second Supplementary Product Disclosure Statement issued 31 May 2021, it was noted that from 1 April 2020, the Investment Manager has been targeting a return to Investors of 8% per annum (pre-tax, after fees and expenses but before withholding tax payable by foreign resident Investors). Investors should note that this is a target only and is not a forecast or guaranteed return and actual returns may be lower than the target return.

In particular, should the Fund not generate sufficient income in any given month, the actual return to investors may be lower than the target return

**5. Unit Redemption Prices**

Unit redemption prices (quoted ex-distribution and exclusive of exit fees) are shown as follows:

	2021 \$	2020 \$
At 30 June	1.00	1.00
High during year	1.00	1.00
Low during year	1.00	1.00

The availability and timing of redemptions is subject to the terms of the Fund's Constitution.

**6. Distributions Paid or Recommended**

In accordance with the Product Disclosure Statement of the Fund, distributions, if any, are payable on a quarterly basis within 10 business days after the end of each quarter. Returns payable to investors are expected to be paid in accordance with the Product Disclosure Statement.

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The following distributions were paid or payable for the period to 30 June 2021:

Period	Distributions Paid / Payable
1 Jul – 30 Sep 2020	0.0002191781 per unit per day
1 Oct – 31 Dec 2020	0.0002191781 per unit per day
1 Jan – 31 Mar 2021	0.0002191781 per unit per day
1 Apr – 30 Jun 2021	0.0002191781 per unit per day

The total distributions declared for the financial year were \$3,726,062 (2020: \$3,046,100).

**7. Applications Held**

As at 30 June 2021, the value of pending unit allocations was \$5,080,000 (2020: \$3,572,000).

**8. Redemption Arrangements**

As detailed in the Fund's Constitution, the Responsible Entity is not under any obligation to buy back, purchase or redeem units from unitholders.

**9. Options**

No options over issued units or interests in the Fund were granted during or since the end of the financial year and there were no options outstanding at the date of this report. The Directors and executives of the Responsible Entity hold no options over interests in the Fund.

**10. Proceedings on Behalf of the Fund**

During the year, a previous borrower had made an Application for Assessment of Costs to the Supreme Court of New South Wales in respect to the legal costs incurred by the mortgagor. The proceedings have been resolved with the Investment Manager covering the costs. There was no impact to the Fund.

During the year, for one of the loans that was in default, a Mortgagee in Possession process has commenced, whereby the secured property will be auctioned. The Borrower, subsequently lodged a complaint with the Australian Financial Complaints Authority (AFCA). AFCA dismissed the complaint on the grounds that it was outside of their jurisdiction. In September 2021, the Borrower lodged a subsequent complaint with AFCA which prohibited further action in regards to the Mortgagee in Possession process, until the matter could be considered. The Ombudsman was approached and granted approval for the 'Mortgagee in Possession' process to continue, which has allowed for the property to be scheduled for auction.

There have been no other proceedings during the financial year, and no person has applied to the court for leave to bring other proceedings on behalf of the Fund, or to intervene in any proceedings to which the Fund is a party.

**11. Value of Scheme Assets**

The Gross Asset Value of the Fund's assets at the end of the reporting period was \$54,867,601 (2020: \$45,318,515). The Net Asset Value at the end of the reporting period was \$52,345,026 (2020: \$43,491,139).

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**12. Significant Changes in State of Affairs**

Apart from those matters referred to in the previous sections of this Report, there have been no other significant changes to the state of affairs of the Fund during the financial year.

**13. After Balance Date Events**

The Responsible Entity of the Fund acknowledges that as a result of COVID-19, and as observed in the year ended 30 June 2021, there is uncertainty surrounding the property market which may result in a decline in the fair value of the properties, particularly those in the Melbourne Metropolitan area, that are secured against the Fund's loan book. Due to a limitation on available relevant market data, it is not possible to estimate the level of any decline in fair value, and therefore any impact on the Fund's expected credit loss provision, as at the date of this report.

In September 2021, the Borrower that previously lodged a complaint with AFCA, lodged a subsequent complaint with AFCA, which then prohibited further action in regards to the Mortgagee in Possession process, until the matter could be considered. The Ombudsman was approached and granted approval for the 'Mortgagee in Possession' process to continue, which allowed for the property to be scheduled for auction in October 2021.

No other matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years other than as disclosed in this report.

**14. Future Developments**

During the course of the financial year ending 30 June 2022 it is anticipated that the current Responsible Entity will retire and Vasco Responsible Entity Services Limited will be appointed to the role.

Except for the above, there are no future developments to report on which are not otherwise disclosed in this report.

**15. Indemnifying Officers or Auditor**

During or since the end of the financial year, the Responsible Entity has paid insurance premiums to insure each of the aforementioned Directors as well as officers of the Responsible Entity against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of the Responsible Entity, other than conduct involving a willful breach of duty in relation to the Responsible Entity.

The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Responsible Entity has not otherwise, during or since the end of the financial year indemnified or agreed to indemnify an officer or auditor of the Responsible Entity or of any related body corporate against a liability incurred as such an officer or auditor.

**16. Fees, Commissions or Other Charges by the Trustee, Responsible Entity, Investment Manager or Related Parties**

Investment management fees of \$246,756 (plus GST) were accrued and paid by the Fund to the Investment Manager for the period (2020: \$77,006).

No Performance fees were paid by the Fund to the Investment Manager (2020: \$246,338).

Performance fees on default interest will be accrued by the Fund during the year and is payable to the Investment Manager for the period if the accrued default interest is received.

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Fees of \$42,197 (plus GST) were accrued and paid by the Fund to the Administration Manager (2020: \$39,705).

Fees of \$145,407 (plus GST) were accrued and paid by the Fund to the Responsible Entity (2020: \$62,826).

The Investment Manager also receives establishment fees and line fees in respect of each loan, which are negotiated with and paid directly from the borrower.

**17. Units held by the Responsible Entity, Investment Manager or Related Parties**

As at 30 June 2021, the Responsible Entity or Investment Manager and their related parties held no units in the Fund.

**18. Interests in the Fund**

The movement of units on issue in the Fund during the year is set out in Note 15 to the financial statements.

The value of the Fund's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in Note 1 to the financial statements.

**19. Environmental Issues**

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

**20. Lead auditor's declaration under Section 307C of the Corporations Act 2001**

The lead auditor's independence declaration is set out on the following page and forms part of the Responsible Entity's report for the year ended 30 June 2021.

Signed in accordance with a resolution of the Board of Directors of Vasco Trustees Limited by:

*Craig Dunstan*

**Craig Dunstan**

Director

Date: 26 October 2021

### Auditor's Independence Declaration to the Directors of the Responsible Entity

In accordance with section 307C of the *Corporations Act 2001* (the Act), in relation to our audit of the financial report of Zank Income Fund for the financial year ended 30 June 2021, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the Act; and
- (b) no contraventions of any applicable code of professional conduct.



PKF



Steven Bradby  
Partner

Melbourne, 26 October 2021



## ZANK INCOME FUND

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 \$	2020 \$
<b>Revenue and other income</b>			
Bank interest	2 (a)	5,984	87,083
Loan interest income	2 (b)	4,277,022	3,608,524
Loan default interest income		297,955	(488,645)
Other interest income		-	31
<b>Total revenue and other income</b>		<b>4,580,961</b>	<b>3,206,993</b>
<b>Expenses</b>			
Investment manager fees	3	246,756	77,006
Performance fees	3	-	246,338
Trustee fees	4	-	53,178
Responsible Entity fees	4	145,407	62,826
Administration fees	4	42,197	39,705
Custodian fees	5	25,033	26,123
Audit fees	6	28,000	-
Sub-participation interest expense	7	19,984	-
Other expenses	8	49,567	144,362
Performance Fee, based on default interest		297,955	(488,645)
<b>Total expenses</b>		<b>854,899</b>	<b>160,893</b>
<b>Operating profit attributed to unitholders</b>		<b>3,726,062</b>	<b>3,046,100</b>
Distribution expense		3,726,062	3,046,100
<b>Total comprehensive income for the year attributable to unitholders net of distributions</b>		<b>-</b>	<b>-</b>

## ZANK INCOME FUND

### STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Notes	2021 \$	2020 \$
<b>Current assets</b>			
Cash and cash equivalents	9	7,559,633	10,043,438
Accrued loan interest income		159,047	22,119
Reduced Input Tax Credit receivable		15,125	24,774
<b>Total current assets</b>		<b>7,733,805</b>	<b>10,090,331</b>
<b>Non-current assets</b>			
Investment assets	11 (b)	43,845,066	35,214,718
Investment Manager guarantee	10	3,275,000	-
Prepaid establishment costs	12	28,855	38,240
<b>Total non-current assets</b>		<b>47,148,921</b>	<b>35,252,958</b>
<b>Total assets</b>		<b>54,882,726</b>	<b>45,343,289</b>
<b>Liabilities</b>			
Prepaid interest	11 (a)	635,911	386,443
Sub-Participation interest expense payable	7	19,984	-
Fees payable	13	867,881	588,365
Other expenses payable	14	9,541	27,792
Distributions payable		1,004,383	849,550
<b>Total liabilities</b>		<b>2,537,700</b>	<b>1,852,150</b>
<b>Net assets</b>		<b>52,345,026</b>	<b>43,491,139</b>
<b>Represented by:</b>			
Issued units	15 (a)	52,345,026	43,491,139
Undistributed profit/(loss) attributable to unitholders	15 (b)	-	-
<b>Net assets attributable to unitholders</b>		<b>52,345,026</b>	<b>43,491,139</b>

## ZANK INCOME FUND

### STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2021

	Notes	Issued Capital \$	Total \$
<b>Balance at 1 July 2020</b>		<b>43,491,139</b>	<b>43,491,139</b>
Issue of share capital		8,853,887	8,853,887
Total comprehensive income for the year		3,726,062	3,726,062
Distributions for the year		(3,726,062)	(3,726,062)
<b>Balance at 30 June 2021</b>	<b>15(a)</b>	<b>52,345,026</b>	<b>52,345,026</b>

	Notes	Issued Capital \$	Total \$
<b>Balance at 1 July 2019</b>		26,380,899	26,380,899
Issue of share capital		17,110,240	17,110,240
Total comprehensive income for the year		3,046,100	3,046,100
Distributions for the year		(3,046,100)	(3,046,100)
<b>Balance at 30 June 2020</b>	<b>15(a)</b>	<b>43,491,139</b>	<b>43,491,139</b>

**ZANK INCOME FUND**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2021**

	Notes	2021 \$	2020 \$
<b>Cash flows from operating activities</b>			
Bank interest		5,984	87,083
Loan interest		4,389,562	3,595,733
Fees paid		(237,182)	(798,482)
Tax paid		(19,186)	(68,313)
Other expenses		(294)	(373)
Net cash provided by operating activities	16	<b>4,138,884</b>	<b>2,815,648</b>
<b>Cash flows from investing activities</b>			
Payment for the purchase of investment assets		(11,905,348)	(16,355,400)
Net cash used in investing activities		<b>(11,905,348)</b>	<b>(16,355,400)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of units		19,192,560	23,270,020
Payment for the redemption of units		(10,338,672)	(6,352,384)
Distributions paid		(3,571,229)	(2,342,874)
Net cash provided by financing activities		<b>5,282,659</b>	<b>14,574,762</b>
Net increase/ (decrease) in cash and cash equivalents		(2,483,805)	1,035,010
Cash and cash equivalents at the beginning of year		10,043,438	9,008,428
<b>Cash and cash equivalents at the end of year</b>	9	<b>7,559,633</b>	<b>10,043,438</b>

## ZANK INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

##### Reporting Entity

The financial report is for the Zank Income Fund ('the Fund'). The Fund is a retail registered managed investment scheme established and domiciled in Australia. The Responsible Entity of the Fund is Vasco Trustees Limited, and Zank and Company Pty Ltd is appointed as the Investment Manager of the Fund.

##### Basis of Preparation

###### (a) Statement of compliance

The financial report is a general-purpose financial report which has been prepared in accordance with Australian Accounting Standards (including the Australian Accounting interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*. The financial report of the Fund complies with International Financial Reporting Standards and interpretations adopted by the International Accounting Standards Board.

Zank Income Fund is a for-profit entity for the purpose of preparing the financial statements.

###### (b) Basis of measurement

The financial report is prepared on the historical cost basis except for the following material items in the statement of financial position:

Investment assets are measured at fair value.

###### (c) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Fund's functional currency.

###### (d) Critical judgements and significant accounting estimates

The preparation of financial statements requires the Directors of the Responsible Entity to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

##### ***Allowance for expected credit losses***

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, which is based on any loans where the loan to value ratio is more than 70%, where the value is represented by the independent valuation of any land, property or construction secured against the loan. These assumptions include recent default experience, historical collection rates, the impact of the Coronavirus (COVID-19) pandemic and forward-looking information that is available.

## ZANK INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (e) New, revised or amending Accounting Standards and Interpretations adopted

The Fund has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the AASB that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards and Interpretations that are not yet mandatory have not been early adopted.

##### Significant accounting policies

###### (a) Financial instruments

Financial assets and financial liabilities are recognised on the Fund's Statement of Financial Position when the Fund becomes a party to the contractual provisions of the instrument.

###### (i) Measurement

Under this approach, financial assets and financial liabilities are generally measured initially at amortised cost. As the financial assets meet the following criteria, they are also subsequently measured at amortised cost:

- the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

###### *Fair value in an inactive or unquoted market*

The fair values of financial assets and liabilities that are not traded in an active market are determined through the valuation policy identified in the Product Disclosure Statement for the Fund.

###### *Impairment of financial assets*

The Fund recognises a loss allowance for expected credit losses (ECL) on its financial assets/investments and trade receivables.

The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

## ZANK INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

##### (ii) Categorisation

The Fund's investments are categorised as follows:

###### *Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

###### *Financial liabilities and equity*

Financial liabilities and equity instruments issued by the Fund are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. The accounting policies adopted for specific financial liabilities and equity instruments are set out below:

###### *Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the Fund no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expired. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of the consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

###### *Issued units*

The Fund issues units which have a limited life under the Fund's Constitution and are classified as a liability in accordance with *AASB 132 Financial Instruments: Presentation*.

Where the Fund buys back any of its units from unitholders, the consideration paid, including any directly attributable incremental costs are recognised as a reduction in liability attributable to the Fund's unitholders.

##### (b) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the statement of financial position are shown inclusive of GST, and accruals are shown exclusive of GST.

##### (c) Income tax

Under current legislation, the Fund is not liable for income tax provided its taxable income is fully distributed to unitholders.

##### (d) Trade and Other Payables

Trade and other payables represent the liabilities for goods and services received by the Fund that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

## ZANK INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### NOTE 1: SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **(e) Interest Revenue and Other Income**

Loan interest and bank interest revenue is recognised using the effective interest method, which, for floating rate financial assets is the rate inherent in the instrument.

All revenue is stated net of the amount of Goods and Services Tax (GST).

##### **(f) Trade and Other Receivables**

Trade and Other Receivables include amounts due from borrowers and the Investment Manager with respect to principal loans and interest excluding those classified as financial assets / investments.

##### **(g) Foreign Exchange**

Items included in the financial records are measured using the currency of the primary economic environment in which the entity operates (functional currency). The financial statements are presented in Australian dollars, which is the presentation currency of the Fund.

##### **(h) Provisions**

Provisions are recognised when the Fund has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.



## ZANK INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### NOTE 2: REVENUE

The Fund's revenue is analysed under the following categories

##### (a) Bank interest

	2021	2020
	\$	\$
Bank interest	5,984	87,083
	<b>5,984</b>	<b>87,083</b>

Cash on deposit is held by the Custodian (Perpetual Corporate Trust Limited) with Commonwealth Bank.

##### (b) Loan interest income

	2021	2020
	\$	\$
Airport West	110,000	-
Maidstone	-	322,055
Pakenham	342,552	292,740
Bangor	187,667	188,393
Park Ridge #1	-	155,379
Park Ridge #2	-	325,603
Miranda	-	154,195
Park Ridge #3	-	162,952
Wodonga	-	169,581
Officer	825,000	381,986
Ashwood	121,522	120,088
Lakes Entrance	7,902	6,192
Noble Park	323,756	179,685
Bronte	90,959	127,543
Geelong	55,914	15,092
Teesdale	39,737	17,640
Mount Waverley	170,826	47,250
Malvern East	248,875	76,683
Macquarie Park	-	47,096
Elizabeth	67,769	26,942
Leppington	-	352,932
Sydenham	13,895	228,267
Glenroy	864,340	210,230
West End	8,902	-
Deer Park	156,637	-
Hobart	29,642	-
Eltham	121,682	-
Pascoe Vale	32,058	-
Park Ridge #4	176,084	-
Mayfield North	105,781	-
Prahran	103,085	-
Kirrawee	69,035	-
Capel Sound	3,402	-
	<b>4,277,022</b>	<b>3,608,524</b>

## ZANK INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### NOTE 3: INVESTMENT MANAGER FEES AND PERFORMANCE FEES

	2021	2020
	\$	\$
Investment manager fees	246,756	77,006
Performance fees	-	246,338
	<u>246,756</u>	<u>323,344</u>

In accordance with the Product Disclosure Statement of the Fund, the Investment Manager is entitled to an investment manager fee equivalent to 1.5% per annum (plus GST) of the gross value of the Fund's assets on an ongoing basis, calculated and payable monthly.

The Investment Manager may be entitled to a performance fee equivalent to all surplus funds generated by the Fund after all fees, expenses, returns of capital and distributions are paid by the Fund. The performance fee is payable to Zank and Company Pty Ltd on a quarterly basis.

One of the loans held by the Fund defaulted on its repayment obligations. During the recovery process, the Fund obtained a valuation of the property in anticipation of selling the property as the mortgagee in possession. The valuation report stated that the property had a fair value of \$3,275,000 less than the principal amount. In order to guarantee recovery of any potential capital loss, the Investment Manager has provided a Corporate Guarantee and Indemnity to the Fund. The Investment Manager has also agreed to forgo 30% of future management fees and 100% of future performance fees until the principal has been recovered. Should at a later date the Fund recover a portion of the loan that the Investment Manager has already contributed, such amounts will be reimbursed to the Investment Manager.

#### NOTE 4: TRUSTEE, RESPONSIBLE ENTITY AND ADMINISTRATION FEES

	2021	2020
	\$	\$
Trustee fees	-	53,178
Responsible Entity fees	145,407	62,826
Administration fees	42,197	39,705
	<u>187,604</u>	<u>155,709</u>

In accordance with the Product Disclosure Statement, Vasco Trustees Limited as the Responsible Entity of the Fund is entitled to an annual fee of 0.3% (plus GST) of the gross asset value of the Fund, paid monthly in arrears, subject to a minimum fee of \$60,000 (plus GST).

The Responsible Entity is also entitled to a Documentation Execution Fee of \$261.25 for each set of loan documents that requires review and execution by the Responsible Entity and a Default and Arrears Management Fee of \$156.75 per hour for the review and management of recovery proceedings against borrowers in default.

Vasco Fund Services Pty Limited as the Administration Manager of the Fund is entitled to an annual administration fee of \$52,543 (plus GST) from 7 June 2021. The administration fee will increase by 5% on 1 January of each year.

## ZANK INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### NOTE 5: CUSTODIAN FEES

	2021	2020
	\$	\$
Custodian fees	25,033	26,123
	<b>25,033</b>	<b>26,123</b>
	<b>25,033</b>	<b>26,123</b>

In accordance with the Custodian Agreement, Perpetual Corporate Trust Limited as the custodian is entitled to an annual fee of \$25,000 (plus GST) calculated monthly and payable quarterly in arrears, subject to a CPI increase applied quarterly.

When the Fund has a Gross Asset Value of more than \$50 million, the custodian is entitled to a fee of 0.05% of the Gross Asset Value, calculated monthly and payable quarterly in arrears.

#### NOTE 6: REMUNERATION OF AUDITORS

The financial and compliance auditor of the Fund for the financial year ending 30 June 2021 was PKF.

The fees paid or agreed to be paid by the Fund are disclosed below.

	2021	2020
	\$	\$
<b>Remuneration of Auditors:</b>		
Audit services		
Audit of financial report and compliance plan – year ended 30 June 2020	14,000	-
Audit of financial report and compliance plan – year ended 30 June 2021	14,000	-
	<b>28,000</b>	<b>-</b>
	<b>28,000</b>	<b>-</b>

#### NOTE 7: SUB-PARTICIPATION INTEREST EXPENSE

The Fund has engaged with the Zank Select Investment Fund, who have become sub-participants on certain loans held by the Fund. The interest expense of the Fund on certain loans payable to the sub-participant is disclosed below:

	2021	2020
	\$	\$
Officer	18,115	-
Capel Sound	1,869	-
	<b>19,984</b>	<b>-</b>
	<b>19,984</b>	<b>-</b>

## ZANK INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### NOTE 8: OTHER EXPENSES

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Tax return fees	2,500	2,300
Bank fees	294	373
GST expense (non-claimable)	17,221	27,550
Default management fee	1,125	1,050
Legal fees	-	11,735
Other administration expense	11,925	10,188
Establishment fees	9,385	5,886
ASIC fees	1,267	3,029
Professional fees	5,850	82,251
	<u><b>49,567</b></u>	<u><b>144,362</b></u>

#### NOTE 9: CASH AND CASH EQUIVALENTS

##### Cash at bank

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Commonwealth Bank	7,559,633	10,043,438
	<u><b>7,559,633</b></u>	<u><b>10,043,438</b></u>

#### NOTE 10: INVESTMENT MANAGER GUARANTEE

One of the loans held by the Fund defaulted on its repayment obligations. During the recovery process, the Fund obtained a valuation of the property in anticipation of selling the property as the mortgagee in possession. The valuation report stated that the property had a fair value of \$3,275,000 less than the principal amount. In order to guarantee recovery of any potential capital loss, the Investment Manager has provided a Corporate Guarantee and Indemnity to the Fund. The Investment Manager has also agreed to forgo 30% of future management fees and 100% of future performance fees until the principal has been recovered. Should at a later date the Fund recover a portion of the loan that the Investment Manager has already contributed, such amounts will be reimbursed to the Investment Manager.

## ZANK INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### NOTE 11: INVESTMENTS

##### (a) Prepaid interest

	<b>2021</b>	<b>2020</b>
	<b>\$</b>	<b>\$</b>
Ashwood	(10,173)	662
Sydenham	-	13,895
Officer	29,384	70,069
Bronte	-	58,231
Elizabeth	-	5,606
Teesdale	-	4,174
Lakes Entrance	-	1,828
Glenroy	-	231,978
Deer Park	16,349	-
Pascoe Vale	16,588	-
Park Ridge #4	24,197	-
Mayfield North	43,940	-
Prahran	1,529	-
Capel Sound	514,097	-
	<u><b>635,911</b></u>	<u><b>386,443</b></u>

## ZANK INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### NOTE 11: INVESTMENTS (continued)

##### (b) Investment assets

As at 30 June 2021, the total value of loans to borrowers was \$43,845,066. The interest on loans is generally paid in advance. The section below summarises the current status of the loan investments:

	2021	2020
	\$	\$
Loan advance - Airport West	2,971,843	2,660,599
Loan advance – Brucam	-	1,952,794
Loan advance – Shackel	1,415,941	1,407,607
Loan advance – Ashwood	1,076,586	1,050,000
Loan advance – Sydenham	-	2,100,000
Loan advance – Officer	4,250,000	8,250,000
Loan advance – Bronte	-	2,075,000
Loan advance – Elizabeth	600,000	600,000
Loan advance – Teesdale	-	479,500
Loan advance – Noble Park	1,600,000	4,911,752
Loan advance – Geelong	930,550	390,000
Loan advance – Lakes Entrance	-	210,000
Loan advance – Glenroy	6,322,493	6,300,000
Loan advance – Mount Waverley	2,000,000	1,104,900
Loan advance – Malvern East	3,478,805	1,722,566
Loan advance – Prahran	1,015,000	-
Loan advance – Deer Park	1,750,000	-
Loan advance – Park Ridge #4	2,400,000	-
Loan advance – Mayfield North	1,800,000	-
Loan advance – Eltham	3,630,800	-
Loan advance – Pascoe Vale	1,078,750	-
Loan advance – West End	975,000	-
Loan advance – MBC President	1,949,298	-
Loan advance – Capel Sound	4,600,000	-
	<b><u>43,845,066</u></b>	<b><u>35,214,718</u></b>

#### NOTE 12: PREPAID EXPENSES AND AMORTISATION

	2021	2020
	\$	\$
Prepaid establishment cost	46,927	46,927
Less: amortisation	(18,072)	(8,687)
	<b><u>28,855</u></b>	<b><u>38,240</u></b>

Prepaid establishment costs are amortised on a straight-line basis over five years.

## ZANK INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### NOTE 13: FEES PAYABLE

	2021	2020
	\$	\$
Custodian fees payable	-	6,483
Administration fees payable	-	3,376
Investment manager fees payable	36,376	50,909
Reimbursement from Investment Manager	(93,258)	(83,041)
Responsible Entity fees payable	13,529	11,359
Performance fees payable on default interest	897,234	599,279
Fund audit fee payable	14,000	-
	<b>867,881</b>	<b>588,365</b>

#### NOTE 14: OTHER EXPENSES PAYABLE

	2021	2020
	\$	\$
GST payable	-	8,857
Income tax payable	2,423	5,180
Provision for tax return fees	2,500	2,500
Other accrued fees	4,618	7,705
Other administration expenses	-	3,550
	<b>9,541</b>	<b>27,792</b>

#### NOTE 15: NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

##### (a) Issued units in \$

	2021 Units	2021 \$	2020 Units	2020 \$
Opening balance	43,491,141	43,491,139	26,380,899	26,380,899
Redemptions	(12,083,539)	(12,083,539)	(6,352,384)	(6,352,384)
Units issued – applications	20,641,867	20,641,867	23,270,020	23,270,020
Units issued – reinvestment of distributions	295,560	295,560	192,606	192,604
<b>Closing balance</b>	<b>52,345,029</b>	<b>52,345,026</b>	<b>43,491,141</b>	<b>43,491,139</b>

As stipulated in the Fund's Constitution, each unit represents a right to an individual unit in the Fund and does not extend to a right to the underlying assets of the Fund. For distributions that have reinvested during the year, units have been rounded to the nearest whole unit in accordance with the Responsible Entity's Unit Pricing Policy.

## ZANK INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### NOTE 15: NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (continued)

##### (b) Undistributed profit/(loss) attributable to unitholders

	2021	2020
	\$	\$
Opening balance	-	-
Net operating profit attributable to unitholders	3,726,062	3,046,100
Distributions paid	(2,721,679)	(2,196,550)
Distributions payable	(1,004,383)	(849,550)
<b>Closing balance</b>	<u>-</u>	<u>-</u>

Withholding taxes applicable to the distributions payable during the 2021 financial year were \$94,757 (2020: \$131,831)

Total distributions payable for the financial year were \$3,726,062 (2020: \$3,046,100).

##### (c) Capital management

The Fund regards total unitholders' interests as capital. The objective of the Fund is to invest in mortgage-backed loans secured by Australian real estate with the aim to generate a stable income for investors. Loans will be made to borrowers to use for business or investment purposes.

The Investment Manager aims to invest to meet the Fund's investment objectives while maintaining sufficient liquidity to meet its commitments, including unitholder redemptions.

#### NOTE 16: NET CASH PROVIDED BY OPERATING ACTIVITIES

Reconciliation of cash flows from operating activities with profit/ (loss) for the year

	2021	2020
	\$	\$
Gain / (Loss) for the year	3,726,062	3,046,100
Changes in assets and liabilities:		
(Increase) in receivables	(127,543)	(49,158)
Increase/(decrease) in payables	540,365	(181,294)
Cash flows from operating activities	<u>4,138,884</u>	<u>2,815,648</u>



## ZANK INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### NOTE 17: RELATED PARTY TRANSACTIONS

The Fund's related parties include those described below.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received. Outstanding balances are usually settled in cash.

##### (a) Responsible Entity

Vasco Trustees Limited is the Responsible Entity of Zank Income Fund.

Fees of \$145,407 (2020 part year: \$62,826) have been paid by the Fund to Vasco Trustees Limited for its role as Responsible Entity, of which \$7,997 (2020: \$3,455) is claimable as RITC.

##### (b) Investment Manager

The Investment Manager of the Zank Income Fund is Zank and Company Pty Ltd.

Fees of \$268,182 (plus GST) (2020: \$77,006 (plus GST)) were accrued and paid by the Fund to Zank and Company Pty Ltd for its role as Investment Manager for the period, of which \$20,114 (2020: \$5,775) is claimable by the Fund as RITC.

There were no performance fees payable by the Fund to Zank and Company Pty Ltd for its role as Investment Manager for the period.

The Investment Manager agreed to waive part of its management fee for the year as a reimbursement to the Fund, totaling \$21,426 (2020: \$433,879), in order to keep the Fund's unit price at \$1.

At 30 June 2021, the Investment Manager and their related parties held no units in the Fund.

##### (c) Administration Manager

The Administration Manager of the Zank Income Fund is Vasco Fund Services Pty Limited.

Administration fees of \$42,197 (plus GST) (2020: \$39,705 (plus GST)) were accrued and paid by the Fund to Vasco Fund Services Pty Limited for its role as Administration Manager of the Fund, of which \$3,165 (2020: \$2,978) is claimable by the Fund as RITC.

Vasco Fund Services Pty Limited is a related party of the Responsible Entity.

##### (d) Key management personnel

The Fund does not employ personnel in its own right. However, it has incorporated the Responsible Entity, Vasco Trustees Limited, and an Investment Manager, Zank and Company Pty Ltd, to manage the activities of the Fund. The Directors of the Responsible Entity and Investment Manager are key management personnel of those corporate entities. No compensation is paid directly by the Fund to Directors or to any of the key management personnel of the Responsible Entity or Investment Manager. Payments made by the Fund to the Responsible Entity and Investment Manager do not specifically include any amounts attributable to the compensation of key management personnel.

#### NOTE 18: CONTINGENT LIABILITIES

There are no contingent liabilities at the end of the period.

## ZANK INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### NOTE 20: EVENTS SUBSEQUENT TO REPORTING DATE

The Responsible Entity of the Fund acknowledges that as a result of COVID-19, and as observed in the year ended 30 June 2021, there is uncertainty surrounding the property market which may result in a decline in the fair value of the properties, particularly those in the Melbourne Metropolitan area, that are secured against the Fund's loan book. Due to a limitation on available relevant market data, it is not possible to estimate the level of any decline in fair value, and therefore any impact on the Fund's expected credit loss provision, as at the date of this report.

In September 2021, the Borrower that previously lodged a complaint with AFCA, lodged a subsequent complaint with AFCA, which then prohibited further action in regards to the Mortgagee in Possession process, until the matter could be considered. The Ombudsman was approached and granted approval for the 'Mortgagee in Possession' process to continue, which allowed for the property to be scheduled for auction in October 2021.

No other matters or circumstances have arisen since the end of the financial year which have significantly affected or may significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund in future financial years other than as disclosed in this report.

As at the date of this report, there have been no other events subsequent to the reporting date that require additional disclosure.

#### NOTE 21: FINANCIAL RISK MANAGEMENT

##### (a) Liquidity Risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund holds investments in mortgage-backed loans, which are not considered to be assets that are readily realisable.

In order to address this risk, the Responsible Entity retains broad discretion to restrict distributions, withdrawals and/or redemptions.

##### (b) Credit Risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Fund. The Fund is exposed to this risk for various financial instruments, for example, placing money at financial institutions or interest revenue that is paid in arrears. The Fund's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	2021	2020
	\$	\$
Cash and cash equivalents	7,559,633	10,043,438
Investment assets	43,845,066	35,214,718
	<u>54,838,746</u>	<u>45,258,156</u>

The Responsible Entity, through the Investment Manager manages the exposure to credit risk on an ongoing basis. The Fund's management considers that all the above financial assets that are not impaired or past due for each of the reporting dates under review are of good credit quality.

## ZANK INCOME FUND

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

#### NOTE 21: FINANCIAL RISK MANAGEMENT (continued)

##### (c) Market Risk

The Fund is exposed to market risk through its use of financial instruments and specifically to interest rate risk and property value risk, which results from both its operating and investing activities. Market risk is the risk that changes in market prices which will affect the Fund's income. Market risk embodies the potential for both loss and gains. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk. Market risk is monitored by the Responsible Entity.

##### (d) Interest Rate Risk

The Fund's interest rate risk is monitored by the Responsible Entity, through the Investment Manager.

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments.

At the reporting date the interest rate profile of the Fund's interest-bearing financial instruments was:

	<b>2021</b>	<b>2020</b>
	\$	\$
Cash and cash equivalents	7,559,633	10,043,438
Investment assets	43,845,066	35,214,718

An increase or decrease of 100 basis points in interest rates as at the reporting date would not have a material effect on the net assets attributable to unitholders and operating results.

#### NOTE 22: RESPONSIBLE ENTITY DETAILS

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

Vasco Trustees Limited

Level 4

99 William Street

Melbourne Victoria 3000

## ZANK INCOME FUND

### DIRECTORS' DECLARATION

In the opinion of the Directors of Vasco Trustees Limited:

- (a) The financial statements and notes of Zank Income Fund are in accordance with the *Corporations Act 2001*, including
  - (i) Complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting obligations; and
  - (ii) Giving a true and fair view of its financial position as at 30 June 2021 and its performance for the financial year ended on that date;
- (b) There are reasonable grounds to believe that Zank Income Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors.

*Craig Dunstan*

**Craig Dunstan**

Director

26 October 2021

## **Independent Auditor's Report to the Members of Zank Income Fund and the Directors of the Responsible Entity**

### **Report on the Financial Report**

#### ***Auditor's opinion***

We have audited the accompanying financial report of Zank Income Fund (the Fund), which comprises the statement of financial position as at 30 June 2021, the statements of profit or loss and other comprehensive income, changes in equity, and cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' Declaration.

In our opinion, the financial report of the Fund is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 30 June 2021 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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.

#### ***Responsibility of the Directors of the Responsible Entity for the financial report***

The Directors of the Responsible Entity 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 is free from material misstatement, whether due to fraud or error. In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

In preparing the financial report, the Directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters relating 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, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

As part of an audit in accordance with 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- 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 Fund'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 Fund 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 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 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, actions taken to eliminate threats or safeguards applied.



PKF  
Melbourne, 26 October 2021



Steven Bradby  
Partner