

# PERPETUAL EXACT MARKET CASH FUND

ANNUAL FINANCIAL REPORT  
30 JUNE 2020

ARSN 110 147 389

Perpetual Investment Management Limited  
ABN 18 000 866 535 AFSL 234426

Perpetual 

# Perpetual Exact Market Cash Fund

ARSN 110 147 389

## Annual Financial Report - 30 June 2020

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## Directors' report

The directors of Perpetual Investment Management Limited (a wholly owned subsidiary of Perpetual Limited), the Responsible Entity of Perpetual Exact Market Cash Fund, present their report together with the annual financial report of Perpetual Exact Market Cash Fund (the Scheme) for the year ended 30 June 2020 and the auditor's report thereon.

### Responsible Entity

The Responsible Entity of Perpetual Exact Market Cash Fund is Perpetual Investment Management Limited (ABN 18 000 866 535). The Responsible Entity's registered office and principal place of business is Level 18, 123 Pitt Street, Sydney, NSW 2000.

### Directors

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

A Apted (appointed 9 April 2020)  
A Gazal (appointed 9 April 2020)  
D Lane (appointed 20 April 2017)  
R Adams (appointed 17 October 2018, resigned 9 April 2020)  
C Green (appointed 17 October 2018, resigned 9 April 2020)

### Principal activities

The principal activity of the Scheme is to provide unitholders with a return that matches the pre-tax benchmark performance of the Bloomberg Ausbond Bank Bill Index. While exact benchmarking applies, unitholders in the Scheme will earn the pre-tax benchmark return regardless of the return that the Scheme actually derives from its underlying assets. The Scheme predominantly invests in deposits, money market securities and fixed income securities.

The Scheme did not have any employees during the year.

There were no significant changes in the nature of the Scheme's activities during the year.

### Review and results of operations

During the year, the Scheme's assets were invested in accordance with the investment objectives and guidelines as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

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

	2020	2019
Profit/(loss) (\$'000)	<u>1,447</u>	<u>3,596</u>
Distributions paid and payable (\$'000)	<u>1,406</u>	<u>3,370</u>
Distributions (cents per unit)	<u>0.84</u>	<u>1.89</u>

The rapid spread of the coronavirus (COVID-19) across the globe has led to unprecedented economic times and governments taking extreme measures to limit the spread of the virus. This has resulted in significant volatility in global and local capital markets which has been reflected in the valuation of the Scheme's investment portfolio and its financial results for the year ended 30 June 2020.

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

### **Interests in the Scheme**

The movement in units on issue in the Scheme during the year is disclosed in note 6 to the financial statements.

The value of the Scheme's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in note 2 to the financial statements.

### **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 that occurred during the financial year under review.

### **Likely developments and expected results of operations**

The Scheme will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

### **Matters subsequent to the end of the financial year**

The uncertainty around COVID-19 is expected to continue to present social and economic challenges in the next financial year and the resulting impact on the capital markets remains uncertain. Since the reporting date, there have been no significant changes in the valuation of the Scheme's investment portfolio arising from the changes in the estimates and assumptions in relation to COVID-19. The Responsible Entity is closely monitoring the liquidity of the Scheme and any impact on the valuation of the Scheme's investment portfolio.

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

- (i) the operations of the Scheme in future financial years; or
- (ii) the results of those operations in future financial years; or
- (iii) the state of affairs of the Scheme in future financial years.

### **Environmental regulation**

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

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

Fees paid to the Responsible Entity and its related parties out of Scheme property during the year are disclosed in note 13 to the financial statements.

No fees were paid out of Scheme property to the directors of the Responsible Entity during the year.

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 13 to the financial statements.

### **Indemnification and insurance of officers and auditors**

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of Perpetual Investment Management Limited or the auditor of the Scheme. So long as the officers of Perpetual Investment Management Limited act in accordance with the Scheme's Constitution and the law, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditor of the Scheme is in no way indemnified out of the assets of the Scheme.

## Directors' report (continued)

### Rounding of amounts to the nearest thousand dollars

The Scheme is an entity of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars in accordance with the legislative instrument, unless otherwise indicated.

### Lead auditor's independence declaration

A copy of the lead auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

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



Director

Sydney  
16 September 2020



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

To the Directors of Perpetual Investment Management Limited as the  
Responsible Entity of Perpetual Exact Market Cash Fund

I declare that, to the best of my knowledge and belief, in relation to the audit of Perpetual Exact Market Cash Fund for the financial year ended 30 June 2020 there have been:

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

KPMG

Jessica Davis

Partner

Sydney

16 September 2020

**Perpetual Exact Market Cash Fund**  
**Statement of comprehensive income**  
**For the year ended 30 June 2020**

**Statement of comprehensive income**

	Notes	30 June 2020 \$'000	30 June 2019 \$'000
<b>Investment income</b>			
Distribution income		179	197
Interest income	3	2,558	4,837
Net gains/(losses) on financial instruments at fair value through profit or loss	4	<u>(107)</u>	<u>34</u>
<b>Total net investment income/(loss)</b>		<u>2,630</u>	<u>5,068</u>
<b>Expenses</b>			
Swap expenses	13	1,183	1,442
Other operating expenses		<u>-</u>	<u>30</u>
<b>Total expenses</b>		<u>1,183</u>	<u>1,472</u>
<b>Profit/(loss)</b>		<u>1,447</u>	<u>3,596</u>
Other comprehensive income		<u>-</u>	<u>-</u>
<b>Total comprehensive income</b>		<u>1,447</u>	<u>3,596</u>

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

**Perpetual Exact Market Cash Fund**  
**Balance sheet**  
**As at 30 June 2020**

**Balance sheet**

	Notes	30 June 2020 \$'000	30 June 2019 \$'000
<b>Assets</b>			
Cash and cash equivalents	11(b)	2,234	1,526
Financial assets at fair value through profit or loss	7	164,064	175,362
Receivables	9	130	278
<b>Total assets</b>		<u>166,428</u>	<u>177,166</u>
<b>Liabilities</b>			
Financial liabilities at fair value through profit or loss	8	123	439
Distributions payable to unitholders of the Scheme	5	43	671
Payables	10	374	421
<b>Total liabilities</b>		<u>540</u>	<u>1,531</u>
<b>Net assets attributable to unitholders - equity</b>	6	<u>165,888</u>	<u>175,635</u>

*The above balance sheet should be read in conjunction with the accompanying notes.*



**Perpetual Exact Market Cash Fund**  
**Statement of changes in equity**  
**For the year ended 30 June 2020**

**Statement of changes in equity**

		30 June 2020 \$'000	30 June 2019 \$'000
	Notes		
<b>Total equity at the beginning of the year</b>	6	<b>175,635</b>	184,052
<b>Comprehensive income for the year</b>			
Profit/(loss)		1,447	3,596
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<u>1,447</u>	<u>3,596</u>
<b>Transactions with unitholders</b>			
Applications	6	119,633	68,390
Redemptions	6	(130,054)	(78,737)
Units issued upon reinvestment of distributions	6	633	1,704
Distributions to unitholders	5, 6	(1,406)	(3,370)
<b>Total transactions with unitholders</b>		<u>(11,194)</u>	<u>(12,013)</u>
<b>Total equity at the end of the year</b>	6	<u>165,888</u>	<u>175,635</u>

*The above statement of changes in equity should be read in conjunction with the accompanying notes.*

**Perpetual Exact Market Cash Fund**  
**Statement of cash flows**  
**For the year ended 30 June 2020**

**Statement of cash flows**

	<b>30 June 2020 \$'000</b>	<b>30 June 2019 \$'000</b>
<b>Cash flows from operating activities</b>		
Distributions received	290	69
Interest received	2,569	4,886
Swap expenses paid	(1,181)	(1,489)
Other operating expenses paid	-	(30)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>1,678</b>	<b>3,436</b>
	11(a)	
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	240,653	235,874
Payments for purchase of investments	(229,778)	(226,490)
<b>Net cash inflow/(outflow) from investing activities</b>	<b>10,875</b>	<b>9,384</b>
<b>Cash flows from financing activities</b>		
Proceeds from applications by unitholders	119,659	68,985
Payments for redemptions by unitholders	(130,103)	(79,341)
Distributions paid	(1,401)	(2,060)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(11,845)</b>	<b>(12,416)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>708</b>	<b>404</b>
Cash and cash equivalents at the beginning of the year	<b>1,526</b>	<b>1,122</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>2,234</b>	<b>1,526</b>
	11(b)	

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

## **1 General Information**

This annual financial report covers Perpetual Exact Market Cash Fund (the Scheme) as an individual entity. The Scheme is a registered managed investment scheme under the *Corporations Act 2001*. The Scheme was constituted on 16 July 2004. The Scheme will terminate on 14 July 2084 unless terminated earlier in accordance with the provisions of the Scheme's Constitution (as amended). The Scheme is domiciled in Australia. For the purpose of the financial statements, the Scheme is a for-profit entity.

The Responsible Entity of the Scheme is Perpetual Investment Management Limited. The Responsible Entity's registered office is Level 18, 123 Pitt Street, Sydney, NSW 2000.

The annual financial report was authorised for issue by the directors of the Responsible Entity on 16 September 2020. The directors of the Responsible Entity have the power to amend and reissue the annual financial report.

## **2 Summary of significant accounting policies**

The principal accounting policies applied in the preparation of this annual financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

### **(a) Basis of preparation**

The annual financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* in Australia.

The annual financial report is prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

#### *Compliance with International Financial Reporting Standards*

The annual financial report of the Scheme also complies with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

#### *Functional and presentation currency*

The annual financial report is presented in Australian dollars, which is the Scheme's functional currency.

#### *Use of estimates*

Management has taken into consideration the impacts of COVID-19 to make estimates and assumptions that affect the reported amounts in the financial statements. Estimates and associated assumptions are reviewed regularly and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The use of estimates and critical judgements in fair value measurement that can have significant effect on the amounts recognised in the financial statements is described in note 15(d).

### **(b) New accounting standards and interpretations**

There are no new accounting standards, amendments and interpretations effective for the first time for the financial year beginning 1 July 2019 that would be expected to have a material impact on the Scheme.

## **2 Summary of significant accounting policies (continued)**

### **(c) Financial instruments**

#### *(i) Classification*

The Scheme classifies its investments based on its business model for managing those financial assets and their contractual cash flow characteristics. The Scheme's portfolio of financial assets is managed and its performance is evaluated on a fair value basis in accordance with the Scheme's documented investment strategy. The Scheme evaluates the information about its investments on a fair value basis together with other related financial information.

Derivatives and unlisted unit trusts are classified as financial assets at fair value through profit or loss.

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

Derivative contracts that have negative values are presented as financial liabilities at fair value through profit or loss.

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

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

Investments are derecognised on the date the Scheme becomes party to the sale contractual agreement (trade date).

#### *(iii) Measurement*

At initial recognition, a financial asset or liability is measured at fair value. Transaction costs are expensed in profit or loss as incurred. Subsequently all financial assets and liabilities are measured at fair value without any deduction for estimated future selling cost. Gains and losses arising from changes in the fair value measurement are recognised in profit or loss in the period in which they arise.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Further details of fair value measurement are disclosed in note 15(d).

#### *(iv) Offsetting financial instruments*

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

### **(d) Net assets attributable to unitholders**

Units are redeemable at unitholders' option, however applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders.

The units can be put back to the Scheme at any time for cash based on the redemption price, which is equal to a proportionate share of the Scheme's net assets attributable to unitholders. The units are carried at the redemption amount that is payable at the balance sheet date if the unitholders exercise their right to put the units back to the Scheme.

## **2 Summary of significant accounting policies (continued)**

### **(d) Net assets attributable to unitholders (continued)**

Under AASB 132 *Financial instruments: Presentation*, puttable financial instruments are classified as equity where certain strict criteria are met. The Scheme classifies the net assets attributable to unitholders as equity as they satisfy the following criteria:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Scheme's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and the class features are identical;
- no contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Scheme, and it is not a contract settled in the Scheme's own equity instrument; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

### **(e) Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash at bank, margin accounts, other short term and highly liquid financial assets with a maturity period of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### **(f) Receivables**

Receivables include accrued income, application monies receivables and receivables for securities sold. Amounts are generally received within 30 days of being accrued for.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Scheme shall measure the loss allowance on receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Scheme shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance.

The amount of the impairment loss is recognised in profit or loss within other operating expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other operating expenses in profit or loss.

### **(g) Payables**

Payables include accrued expenses, redemption monies owing by the Scheme and payables for securities purchased which are unpaid at the end of the reporting date. Amounts are generally paid within 30 days of being accrued for.

## **2 Summary of significant accounting policies (continued)**

### **(h) Investment income**

Interest income from financial assets at amortised cost is recognised using the effective interest method and includes interest from cash and cash equivalents.

Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities.

Distribution income from financial assets at fair value through profit or loss is recognised in profit or loss when the Scheme's right to receive payment is established.

Other changes in fair value for such instruments are recorded in accordance with the accounting policies described in note 2(c).

### **(i) Expenses**

All expenses, including swap expenses, are recognised in profit or loss on an accruals basis.

### **(j) Income tax**

The Scheme is not subject to income tax provided the taxable income of the Scheme is attributed in full to its unitholders each financial year either by way of cash or reinvestment. Unitholders are subject to income tax at their own marginal tax rates on amounts attributable to them.

The benefits of franking credits and foreign tax paid are passed on to unitholders, providing certain conditions are met.

### **(k) Distributions**

Distributions are payable as set out in the Scheme's Constitution. Such distributions are recognised as payable when they are determined by the Responsible Entity of the Scheme.

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

The Goods and Services Tax (GST) is incurred on the cost of various services provided to the Scheme by third parties. The Scheme qualifies for Reduced Input Tax Credit; hence expenses such as Responsible Entity's fees have been recognised in profit or loss net of the amount of GST recoverable from the Australian Taxation Office. Payables are stated with the amount of GST included. The net amount of GST recoverable is included in receivables in the balance sheet. Cash flows are included in the statement of cash flows on a gross basis.

## 2 Summary of significant accounting policies (continued)

### (m) Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in profit or loss on a net basis within net gains/(losses) on financial instruments at fair value through profit or loss.

## 3 Interest income

	30 June 2020 \$'000	30 June 2019 \$'000
Cash and cash equivalents	15	25
Money market securities	68	236
Debt securities	2,514	4,576
Derivatives	(39)	-
<b>Total</b>	<u>2,558</u>	<u>4,837</u>

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

Net gains/(losses) arising from changes in the fair value measurement comprise:

	30 June 2020 \$'000	30 June 2019 \$'000
Net unrealised gains/(losses) on financial instruments at fair value through profit or loss	(174)	(22)
Net realised gains/(losses) on financial instruments at fair value through profit or loss	<u>67</u>	<u>56</u>
<b>Net gains/(losses) on financial instruments at fair value through profit or loss</b>	<u>(107)</u>	<u>34</u>

## 5 Distributions to unitholders

The distributions for the year were as follows:

	<b>30 June 2020 \$'000</b>	<b>30 June 2020 CPU</b>	30 June 2019 \$'000	30 June 2019 CPU
Distributions paid - September	491	0.27	912	0.50
Distributions paid - December	464	0.29	887	0.49
Distributions paid - March	408	0.25	900	0.51
Distributions payable - June	43	0.03	671	0.39
<b>Total distributions</b>	<b>1,406</b>		<b>3,370</b>	

## 6 Net assets attributable to unitholders

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

	<b>30 June 2020 Units '000</b>	30 June 2019 Units '000	<b>30 June 2020 \$'000</b>	30 June 2019 \$'000
<b>Net assets attributable to unitholders</b>				
Opening balance	171,135	179,548	175,635	184,052
Applications	116,421	66,514	119,633	68,390
Redemptions	(126,578)	(76,589)	(130,054)	(78,737)
Units issued upon reinvestment of distributions	617	1,662	633	1,704
Distributions to unitholders	-	-	(1,406)	(3,370)
Profit/(loss)	-	-	1,447	3,596
<b>Closing balance</b>	<b>161,595</b>	<b>171,135</b>	<b>165,888</b>	<b>175,635</b>

As stipulated within the Scheme's Constitution, each unit represents a right to an individual unit in the Scheme and does not extend to a right to the underlying assets of the Scheme. There are no separate classes of units and each unit has the same right attaching to it as all other units of the Scheme.

### *Capital risk management*

The Scheme considers its net assets attributable to unitholders as capital. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Scheme is subject to daily applications and daily redemptions at the discretion of unitholders.

Applications and redemptions are reviewed relative to the liquidity of the Scheme's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Scheme's Constitution, the Responsible Entity has the discretion to reject an application and to defer or adjust a redemption if the exercise of such discretion is in the best interests of unitholders.



**7 Financial assets at fair value through profit or loss**

	30 June 2020 \$'000	30 June 2019 \$'000
Debt securities	161,535	140,325
Unlisted unit trusts	<u>2,529</u>	<u>35,037</u>
<b>Total financial assets at fair value through profit or loss</b>	<u><b>164,064</b></u>	<u><b>175,362</b></u>

**8 Financial liabilities at fair value through profit or loss**

	30 June 2020 \$'000	30 June 2019 \$'000
<b>Derivatives</b>		
Swaps	<u>123</u>	<u>439</u>
<b>Total financial liabilities at fair value through profit or loss</b>	<u><b>123</b></u>	<u><b>439</b></u>

**9 Receivables**

	30 June 2020 \$'000	30 June 2019 \$'000
Distributions receivable	22	133
Interest receivable	20	31
Applications receivable	<u>88</u>	<u>114</u>
<b>Total receivables</b>	<u><b>130</b></u>	<u><b>278</b></u>

**10 Payables**

	30 June 2020 \$'000	30 June 2019 \$'000
Swap expense payable	106	104
Redemptions payable	<u>268</u>	<u>317</u>
<b>Total payables</b>	<u><b>374</b></u>	<u><b>421</b></u>

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

	30 June 2020 \$'000	30 June 2019 \$'000
<b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Profit/(loss)	1,447	3,596
(Increase)/decrease in distributions receivable	111	(128)
(Increase)/decrease in interest receivable	11	49
Increase/(decrease) in payables	2	(47)
Net (gains)/losses on financial instruments at fair value through profit or loss	107	(34)
<b>Net cash inflow/(outflow) from operating activities</b>	<u>1,678</u>	<u>3,436</u>
<b>(b) Components of cash and cash equivalents</b>		
Cash at the end of the year as shown in the statement of cash flows is reconciled to the balance sheet as follows:		
Cash at bank	<u>2,234</u>	<u>1,526</u>
<b>Total cash and cash equivalents</b>	<u>2,234</u>	<u>1,526</u>
<b>(c) Non-cash financing activities</b>		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan		
	<u>633</u>	<u>1,704</u>

## 12 Remuneration of auditors

	30 June 2020 \$	30 June 2019 \$
Amount received or due and receivable by KPMG:		
Audit of financial statements	29,902	29,606
Other regulatory assurance services	4,458	4,431
<b>Total</b>	<u>34,360</u>	<u>34,037</u>

Audit fees were paid or payable by the Responsible Entity.

## **13 Related party transactions**

### **Responsible Entity**

The Responsible Entity of Perpetual Exact Market Cash Fund is Perpetual Investment Management Limited (ABN 18 000 866 535), a wholly owned subsidiary of Perpetual Limited (ACN 000 431 827).

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

### **Key management personnel**

#### **(a) Directors**

The directors of Perpetual Investment Management Limited during the financial year or since the end of the year and up to the date of this report were as follows:

A Apted (appointed 9 April 2020)  
A Gazal (appointed 9 April 2020)  
D Lane (appointed 20 April 2017)  
R Adams (appointed 17 October 2018, resigned 9 April 2020)  
C Green (appointed 17 October 2018, resigned 9 April 2020)

#### **(b) Other key management personnel**

There were no other persons with responsibility for planning, directing and controlling the activities of the Scheme, directly or indirectly, during or since the end of the financial year.

### **Key management personnel unitholdings**

From time to time directors of the Responsible Entity, or their related entities, may invest in or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other unitholders of the Scheme.

No key management personnel of the Responsible Entity held units in the Scheme as at 30 June 2020.

### **Transactions with key management personnel**

Key management personnel services are provided by Perpetual Investment Management Limited and included in the Responsible Entity's fees. There is no separate charge for these services. There was no compensation paid directly by the Scheme to any of the key management personnel during the year.

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

### **Responsible Entity's fees and other transactions**

Under the terms of the Scheme's Constitution, the Responsible Entity is entitled to receive management fees calculated by reference to the net asset value of the Scheme. The Responsible Entity's fees are currently nil % per annum when exact benchmarking applies. The Responsible Entity's fees of 0.226% will be charged to the Scheme if exact benchmarking ceases to apply.

### 13 Related party transactions (continued)

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

The Scheme aims to achieve the exact benchmarking to the Bloomberg AusBond Bank Bill Index (the benchmark) by entering into a total return swap agreement with Perpetual Australia Pty Limited (PAPL), a wholly owned subsidiary of Perpetual Limited (the parent company of the Responsible Entity). Under the swap agreement, the Scheme pays PAPL the excess of the total return of the Scheme's investments over the benchmark (swap expenses) and in return PAPL pays the Scheme the shortfall (swap revenues). PAPL can terminate the swap agreement with 60 days' notice to the Responsible Entity. Exact benchmarking will cease to apply if there is no replacement swap agreement by the end of the notice period.

The fair value of the total return swap recognised within the financial liability at fair value through profit or loss as at 30 June 2020 was \$80,501 (2019: \$199,919). The valuation of the swap is discussed in note 15(d).

The transactions during the year and amounts payable at the reporting date between the Scheme and the Responsible Entity and its related parties were as follows:

	30 June 2020 \$	30 June 2019 \$
Swap expenses paid and payable to Perpetual Australia Pty Limited	1,183,124	1,442,627
Swap expenses payable to Perpetual Australia Pty Limited	105,516	103,658

#### Related party unitholdings

Parties related to the Scheme (including the Responsible Entity, its related parties and other schemes managed by Responsible Entity), held units in the Scheme as follows:

##### 30 June 2020

Unitholders	Number of units held '000	Interest held %	Number of units acquired '000	Number of units disposed '000	Distributions paid/payable \$'000
Australian Eligible Rollover Fund	14,688	9.1	337	25,122	195
Perpetual's Select Superannuation Fund	7,571	4.7	546	1,475	65

##### 30 June 2019

Unitholders	Number of units held '000	Interest held %	Number of units acquired '000	Number of units disposed '000	Distributions paid/payable \$'000
Australian Eligible Rollover Fund	39,473	23.1	1,045	14,128	915
Perpetual's Select Superannuation Fund	8,500	5.0	634	1,730	172

### 13 Related party transactions (continued)

#### Investments

The Scheme held investments in the following schemes which are also managed by the Responsible Entity or its related parties:

#### 30 June 2020

Investments	Number of units held '000	Fair value of investments \$'000	Interest held %	Number of units acquired '000	Number of units disposed '000	Distributions received/ receivable \$'000
Perpetual Institutional Cash Management Trust	2,529	2,529	0.2	110,792	143,300	179

#### 30 June 2019

Investments	Number of units held '000	Fair value of investments \$'000	Interest held %	Number of units acquired '000	Number of units disposed '000	Distributions received/ receivable \$'000
Perpetual Institutional Cash Management Trust	35,037	35,037	2.5	128,268	93,570	197

### 14 Structured entities

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

The Scheme considers all investments in unlisted unit trusts to be structured entities. The Scheme invests in unlisted unit trusts for the purpose of capital appreciation and earning investment income.

The unlisted unit trusts are invested in accordance with the investment strategy by their respective investment managers. The return of the unlisted unit trusts is exposed to the variability of the performance of their investments. The unlisted unit trusts finance their operations by issuing redeemable units which are puttable at the holder's option and entitle the holder to a proportional stake in the respective trusts' net assets and distributions.

The Scheme's exposure to structured entities at 30 June 2020 was \$2,528,564 (2019: \$35,037,332).

The fair value of these entities is included in financial assets at fair value through profit or loss in the balance sheet.

## **14 Structured entities (continued)**

The Scheme's maximum exposure to loss from its interests in the structured entities is equal to the total fair value of its investments in these entities as there are no off balance sheet exposures relating to them. The Scheme's exposure to any risk from the structured entities will cease when these investments are disposed of.

The Scheme does not have current commitments or intentions and contractual obligations to provide financial or other support to the structured entities. There are no loans or advances currently made to these entities.

## **15 Financial risk management**

The Scheme's investing activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk.

A risk management framework has been established by the Responsible Entity of the Scheme to monitor the Scheme's compliance with its governing documents and to minimise risks in its investment activities. This framework incorporates a regular assessment process to ensure procedures and controls adequately manage the investment activities. The Scheme is permitted to use derivative products. However, the use of derivatives must be consistent with the investment strategy and restrictions specified in the Scheme's governing documents.

During the market disruption led by COVID-19 during the year, the Responsible Entity continued to follow its established policies and processes in monitoring the risks as discussed in this note.

All investment securities present a risk of loss of capital. The maximum loss of capital on unlisted unit trusts and debt securities is limited to the fair values of those positions. The maximum loss of capital on derivatives is limited to the notional contract values of those positions.

The Scheme's asset managers aim to manage these risks through the use of consistent and carefully considered investment strategy and guidelines specifically tailored for the Scheme's investment objectives. Risk management techniques are used in the selection of investments. These include periodic stress testing for debt securities. Asset managers will only purchase securities (including derivatives) which meet the prescribed investment criteria. Risk may also be reduced by diversifying investments across several asset managers, markets, regions or different asset classes and counterparties.

The Scheme uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of currency risk, interest rate risk and price risk; and credit ratings analysis for credit risk.

### **(a) Market risk**

#### *(i) Currency risk*

Currency risk arises as the fair value or future cash flows of monetary securities denominated in foreign currency will fluctuate due to changes in exchange rates. The currency risk relating to non-monetary assets and liabilities is a component of price risk not currency risk. However, management monitors the exposures on all foreign currency denominated assets and liabilities.

The Scheme held cross currency swaps to protect the valuation of financial assets and liabilities against variations in the exchange rates. The Scheme does not designate any derivatives as hedges, and hence these derivative financial instruments are classified at fair value through profit or loss.

The Scheme did not have any significant net exposure to currency risk at the reporting date.

## 15 Financial risk management (continued)

### (a) Market risk (continued)

#### (ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Scheme is exposed to cash flow interest rate risk on financial instruments with floating interest rates. Financial instruments with fixed interest rates expose the Scheme to fair value interest rate risk.

The Scheme's exposure to interest rate risk also arises from cash and cash equivalents and units in cash management trusts, which earn/charge a floating rate of interest.

The following table summarises the Scheme's exposure to interest rate risk:

	<b>Floating interest rate \$'000</b>	<b>Fixed interest rate \$'000</b>	<b>Total \$'000</b>
<b>30 June 2020</b>			
<b>Financial assets</b>			
Cash and cash equivalents	2,234	-	2,234
Cash management trusts	2,529	-	2,529
Debt securities	152,322	9,213	161,535
<b>Financial liabilities</b>			
Derivatives	123	-	123
	Floating interest rate \$'000	Fixed interest rate \$'000	Total \$'000
<b>30 June 2019</b>			
<b>Financial assets</b>			
Cash and cash equivalents	1,526	-	1,526
Cash management trusts	35,037	-	35,037
Debt securities	132,250	8,075	140,325
<b>Financial liabilities</b>			
Derivatives	299	140	439

The table presented in note 15(a)(iv) summarises sensitivity analysis to interest rate risk. This analysis assumes that all other variables, in particular foreign currency exchange rates remain constant.

## 15 Financial risk management (continued)

### (a) Market risk (continued)

#### (iii) Price risk

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

The Scheme predominantly invests in debt securities. As a result, the price risk arising from the Scheme's investments is impacted by movements in interest rates and is reflected in note 15(a)(ii).

The Scheme held total return swap with PAPL to achieve the benchmark return (Bloomberg AusBond Bank Bill Index) during the financial year ended 2020 and 2019.

#### (iv) Sensitivity analysis

The following table summarises the sensitivity of the profit and net assets attributable to unitholders to interest rate risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and historical correlation of the Scheme's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusual large market movements resulting from changes in the performance of and/or correlation between the performances of the economies, markets and securities in which the Scheme invests. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

	Sensitivity rates	Impact on profit/net	
		assets attributable to unitholders	
		30 June 2020 \$'000	30 June 2019 \$'000
Interest rate risk	+0.25%	336	-
	-0.25%	(336)	-
	+0.5%	-	806
	-0.5%	-	(806)

### (b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts when they fall due. The main concentration of counterparty credit risk, to which the Scheme is exposed to, arises predominantly from the Scheme's investments in debt securities. The Scheme is also exposed to counterparty credit risk on derivative financial instruments, cash and cash equivalents, and receivables for securities sold. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

The Scheme determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management considers relevant, historical analysis and forward looking information in determining any expected credit loss. At the reporting date, all receivables and cash and cash equivalents are held with approved counterparties and are either callable on demand or due within 30 days. Management consider the probability of default to be low, as a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Scheme. The expected credit loss remained low during the period of market disruption led by COVID-19.



## 15 Financial risk management (continued)

### (b) Credit risk (continued)

#### (i) Debt securities

Investment management processes include the consideration of counterparty risk. The asset managers may refer to the credit ratings issued by rating agencies to assess the creditworthiness of counterparties. The asset managers consider (among other things) branding, stability and security marketability of counterparties and consistently monitor exposure through electronic systems.

The asset managers monitor the credit ratings of debt securities on a regular basis.

The table below sets out the analysis of debt securities by credit ratings as issued by Standard & Poor's:

<b>30 June 2020</b>	<b>AAA to AA- \$'000</b>	<b>A+ to A- \$'000</b>	<b>BBB+ to BBB- \$'000</b>	<b>NON- RATED \$'000</b>	<b>Total \$'000</b>
Debt securities	<u>91,837</u>	<u>29,237</u>	<u>6,542</u>	<u>33,919</u>	<u>161,535</u>
	<u>91,837</u>	<u>29,237</u>	<u>6,542</u>	<u>33,919</u>	<u>161,535</u>
<b>30 June 2019</b>	<b>AAA to AA- \$'000</b>	<b>A+ to A- \$'000</b>	<b>BBB+ to BBB- \$'000</b>	<b>NON- RATED \$'000</b>	<b>Total \$'000</b>
Debt securities	<u>80,639</u>	<u>30,882</u>	<u>5,888</u>	<u>22,916</u>	<u>140,325</u>
	<u>80,639</u>	<u>30,882</u>	<u>5,888</u>	<u>22,916</u>	<u>140,325</u>

Debt securities that are not rated by Standard & Poor's may be rated by other rating agencies.

#### (ii) Derivative financial instruments

The risk of counterparty default for the total return swap is minimised with the available limited bank guarantee provided by the National Australia Bank Limited (NAB) for the amount up to \$3 million as at 30 June 2020 (2019: \$3 million). The guarantee can be called on by the Responsible Entity in the event of a shortfall by PAPL under the swap agreement.

The risk of counterparty default for other over the counter derivatives is minimised by applying minimum credit ratings to counterparties at the time of entering into a contract and ISDA agreements are put in place with counterparties.

#### (iii) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of A or higher (as determined by Standard & Poor's).

#### (iv) Receivables for securities sold

All transactions in debt securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment from the counterparty. Payments on securities acquired are only made after the broker has received the securities. The trade will fail if either party fails to meet its obligations.

All transactions in unlisted unit trusts are settled/unitised when unit prices are issued. The risk of default is considered low except when trading in a suspended unlisted unit trust.

## 15 Financial risk management (continued)

### (c) Liquidity risk

Liquidity risk is the risk that the Scheme will not be able to meet its financial obligations as they fall due.

The Scheme is exposed to daily cash redemptions of redeemable units.

The Scheme's investments in unlisted unit trusts expose it to the risk that the Responsible Entity or the manager of those trusts may be unwilling or unable to fulfill the redemption requests within the timeframe requested by the Scheme. However, these investments are considered readily realisable unless the unlisted unit trusts are declared illiquid or suspended. The Scheme did not hold any units in unlisted unit trusts that have suspended their redemption during the market volatility resulting from COVID-19.

The Scheme may, from time to time, invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the Scheme may not be able to quickly liquidate its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events. No significant over the counter derivative contracts were held at year end.

In order to manage the Scheme's overall liquidity, asset managers will only purchase securities (including derivatives) which meet the Scheme's investment criteria, including the assessment of saleability in different market conditions. The Scheme's investment strategy generally defines a minimum liquidity level for the Scheme which is monitored regularly.

During the period of market disruption led by COVID-19, management increased its monitoring frequency of the Scheme's liquidity including the large transaction flows requested by the unitholders and the liquidity of the underlying assets.

The following tables summarise the contractual maturities of financial liabilities, including interest payments where applicable:

30 June 2020	Carrying amount \$'000	At call \$'000	Contractual cash flows		
			less than 6 months \$'000	6 - 12 months \$'000	more than 12 months \$'000
<b>Non-derivative financial liabilities</b>					
Distributions payable to unitholders of the Scheme					
	43	-	43	-	-
Payables	374	-	374	-	-
<b>Total</b>	<b>417</b>	<b>-</b>	<b>417</b>	<b>-</b>	<b>-</b>
<b>Derivative financial liabilities</b>					
Swaps					
Outflow	123	-	16	16	33
Inflow	-	-	(6)	(6)	(10)
<b>Total</b>	<b>123</b>	<b>-</b>	<b>10</b>	<b>10</b>	<b>23</b>

## 15 Financial risk management (continued)

### (c) Liquidity risk (continued)

	Carrying amount \$'000	At call \$'000	Contractual cash flows		
			less than 6 months \$'000	6 - 12 months \$'000	more than 12 months \$'000
30 June 2019					
Non-derivative financial liabilities					
Distributions payable to unitholders of the Scheme					
Payables	671	-	671	-	-
Total	<u>421</u>	<u>-</u>	<u>421</u>	<u>-</u>	<u>-</u>
Derivative financial liabilities					
Swaps					
Outflow	439	-	1,542	24	48
Inflow	-	-	(1,522)	-	-
Total	<u>439</u>	<u>-</u>	<u>20</u>	<u>24</u>	<u>48</u>

### (d) Fair value measurement

The Scheme classifies fair value measurement of its financial assets and liabilities using a fair value hierarchy model that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

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

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

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

An unlisted unit trust is considered to be quoted in an active market if it publishes daily prices and there is evidence that transactions occur at that unadjusted prices regularly. Investments in such trusts are valued using the redemption value per unit as reported by the investment managers without any adjustment.

## 15 Financial risk management (continued)

### (d) Fair value measurement (continued)

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

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

Valuation models use observable data to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in the assumptions about these factors could affect the reported fair value of financial instruments. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions held.

Debt securities are generally valued using broker quotes. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. Management monitored credit spreads closely and conducted regular review to ensure any estimates and assumptions used in the valuation model remained appropriate. No impairment related to COVID-19 was included in the valuation of the Scheme's assets.

The fair value of derivatives that are not exchange traded is estimated at the amount that would be received or paid to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties.

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

The Scheme's level 3 financial instruments include the total return swap with PAPL. The total return swap is valued based on the difference between fair value and held to maturity value of the Scheme's net assets. Any excess in the total return of Scheme's investments (based on held to maturity value) over the benchmark is recognised as swap expense and any shortfall is recognised as swap revenue in the statement of comprehensive income.

The following tables present the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy:

30 June 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at fair value through profit or loss</b>				
Debt securities	-	161,535	-	161,535
Unlisted unit trusts	2,529	-	-	2,529
<b>Total</b>	<b>2,529</b>	<b>161,535</b>	<b>-</b>	<b>164,064</b>
<b>Financial liabilities at fair value through profit or loss</b>				
Derivatives				
Swaps	-	42	81	123
<b>Total</b>	<b>-</b>	<b>42</b>	<b>81</b>	<b>123</b>

## 15 Financial risk management (continued)

### (d) Fair value measurement (continued)

30 June 2019	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Debt securities	-	140,325	-	140,325
Unlisted unit trusts	35,037	-	-	35,037
Total	<u>35,037</u>	<u>140,325</u>	<u>-</u>	<u>175,362</u>
Financial liabilities at fair value through profit or loss				
Derivatives				
Swaps	-	239	200	439
Total	<u>-</u>	<u>239</u>	<u>200</u>	<u>439</u>

#### *Transfers between levels*

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

There were no transfers between levels for the years ended 30 June 2020 and 30 June 2019.

## 15 Financial risk management (continued)

### (d) Fair value measurement (continued)

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

The following tables present the movement in level 3 instruments, by class of financial instruments, for the years ended 30 June 2020 and 30 June 2019:

<b>30 June 2020</b>	<b>Total return swaps \$'000</b>	<b>Total \$'000</b>
Opening balance	(200)	(200)
Gains/(losses) recognised in profit or loss	<u>119</u>	<u>119</u>
<b>Closing balance</b>	<u>(81)</u>	<u>(81)</u>
Total unrealised gains/(losses) for the year included in the statement of comprehensive income for financial assets and liabilities held at the end of the year		
	<u>119</u>	<u>119</u>
<b>30 June 2019</b>	<b>Total return swaps \$'000</b>	<b>Total \$'000</b>
Opening balance	(245)	(245)
Gains/(losses) recognised in profit or loss	<u>45</u>	<u>45</u>
Closing balance	<u>(200)</u>	<u>(200)</u>
Total unrealised gains/(losses) for the year included in the statement of comprehensive income for financial assets and liabilities held at the end of the year		
	<u>45</u>	<u>45</u>

## 16 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the balance sheet are disclosed in the first three columns of the table below:

	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts set off in the balance sheet	Net amounts presented in the balance sheet	Amounts subject to master netting arrangements	Net amounts	
30 June 2020	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial liabilities</b>					
Derivative financial instruments	(123)	-	(123)	-	(123)
<b>Total</b>	<b>(123)</b>	<b>-</b>	<b>(123)</b>	<b>-</b>	<b>(123)</b>

	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts set off in the balance sheet	Net amounts presented in the balance sheet	Amounts subject to master netting arrangements	Net amounts	
30 June 2019	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial liabilities</b>					
Derivative financial instruments	(439)	-	(439)	-	(439)
<b>Total</b>	<b>(439)</b>	<b>-</b>	<b>(439)</b>	<b>-</b>	<b>(439)</b>

### *Master netting arrangement - not currently enforceable*

Agreements with derivative counterparties are based on the ISDA Master Agreements. Under the terms of these arrangements, only where certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Scheme does not presently have a legally enforceable right of set-off, these amounts have not been offset in the balance sheet, but have been presented separately in this note.

## **17 Derivative financial instruments**

A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign currency exchange rates, index of prices or rates, credit rating or credit index or other variables.

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

Derivative transactions include many different instruments such as foreign exchange forward contracts, futures and options. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Scheme's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Scheme against a fluctuation in market values or to reduce volatility;
- a substitution for trading of physical securities; and
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Scheme.

The Scheme held the following derivative instruments during the year:

### **Swaps**

Swaps are derivative instruments in which two counterparties agree to exchange one stream of cash flow against another stream.

Interest rate swaps are valued based on the estimated amount that the entity would receive or pay to terminate the swap at the balance sheet date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

Cross currency swaps are valued at fair value which is based on the estimated amount the Scheme would pay or receive to terminate the currency derivatives at the balance sheet date, taking into account current interest rates, foreign exchange rates, volatility and the current creditworthiness of the currency derivatives counterparties. Cross currency swaps are used to hedge the Scheme's interest rate and foreign currency exposure. However, hedge accounting has not been applied.

Total return swaps are valued at fair value in which payments made by the Scheme or the counterparty are based on the total return of a particular reference asset or assets (such as an equity or fixed-income security, a combination of such securities, or an index). The value of the Scheme's swap positions will increase or decrease depending on the changes in value of the underlying benchmark.

### **Risk exposures and fair value measurements**

Information about the Scheme's exposure to financial risks and the methods and assumptions used in determining fair values is provided in note 15. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of the derivative financial instruments.



## **18 Events occurring after the reporting period**

The uncertainty around COVID-19 is expected to continue to present social and economic challenges in the next financial year and the resulting impact on the capital markets remains uncertain. Since the reporting date, there have been no significant changes in the valuation of the Scheme's investment portfolio arising from the changes in the estimates and assumptions in relation to COVID-19. The Responsible Entity is closely monitoring the liquidity of the Scheme and any impact on the valuation of the Scheme's investment portfolio.

No other significant events have occurred since the reporting date which would have impact on the financial position of the Scheme disclosed in the balance sheet as at 30 June 2020 or on the results and cash flows of the Scheme for the year ended on that date.

## **19 Contingent assets, liabilities and commitments**

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2020 and 30 June 2019.

## Directors' declaration

In the opinion of the directors of Perpetual Investment Management Limited, the Responsible Entity of Perpetual Exact Market Cash Fund:

- (a) the annual financial statements and notes, set out on pages 6 to 32, are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Regulations 2001*; and
  - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2020 and of its performance for the financial year ended on that date;
- (b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable; and
- (c) note 2(a) confirms that the financial statements comply with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

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



Director

Sydney  
16 September 2020



# Independent Auditor's Report

To the unitholders of Perpetual Exact Market Cash Fund

## Opinion

We have audited the **Financial Report** of the Perpetual Exact Market Cash Fund (the Scheme).

In our opinion, the accompanying **Financial Report** of the Perpetual Exact Market Cash Fund is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Scheme's financial position as at 30 June 2020 and of its financial performance and cash flows for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises the:

- Balance sheet as at 30 June 2020
- Statement of comprehensive income for the year then ended
- Statement of changes in equity, and Cash flow statement for the year then ended
- Notes to the financial statements including a summary of significant accounting policies
- Directors' Declaration.

## Basis for opinion

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

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Scheme in accordance with *the Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

## Other Information

Other Information is financial and non-financial information in the Perpetual Exact Market Cash Fund's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Perpetual Investment Management Limited (the Responsible Entity) are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



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

### Responsibilities of Directors for the Financial Report

The Directors of Perpetual Investment Management Limited (the Responsible Entity) are responsible for:

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

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). This description forms part of our Auditor's Report.

KPMG

Jessica Davis

Partner

Sydney

16 September 2020

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