PERPETUAL MONTHLY INCOME FUND

Annual Financial Report
30 June 2016

ARSN 088 692 808

Perpetual Investment Management Limited
ABN 18 000 866 535 AFSL 234426

Perpetual Monthly Income Fund

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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 Monthly Income Fund, present their report together with the annual financial report of Perpetual Monthly Income Fund ("the Scheme") for the year ended 30 June 2016 and the auditor's report thereon.

Responsible Entity

The Responsible Entity of Perpetual Monthly Income 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:

G Foster (appointed 25 January 2013, Alternate for G Larkins)
M Gordon (appointed 28 March 2013, resigned 24 February 2016)
J Hawkins (appointed 6 July 2012)
D Kiddie (appointed 24 February 2016)
G Larkins (appointed 7 January 2013)
P Lynch (appointed 6 July 2012, Alternate for J Hawkins)
P Statham (appointed 24 February 2016, Alternate for D Kiddie)
P Statham (appointed 9 September 2013, resigned 24 February 2016, Alternate for M Gordon)
D Winterton (appointed 24 February 2016, Alternate for D Kiddie)
D Winterton (appointed 20 April 2015, resigned 24 February 2016, Alternate for M Gordon)

Principal activities

Prior to 14 September 2011, the principal activity of the Scheme was to provide unitholders with a secure investment and monthly income through exposure to quality first registered mortgages and investments in deposits, money market securities and fixed income securities.

The Responsible Entity approved the wind up of the Scheme on 14 September 2011 and paid the final return of capital to unitholders on 20 June 2016. The Scheme was formally wound up on 30 June 2016.

The Scheme did not have any employees during the year.

Review and results of operations

During the year, the Scheme continued the process of winding up and returning capital.

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

	2016	2015
Operating profit before finance costs attributable to unitholders ($)	**1,383,108**	2,535,533
Distribution paid and payable ($)	**-**	875,796

Directors' report (continued)

Interests in the Scheme

The movement in units on issue in the Scheme during the year is disclosed in note 5 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

The Scheme paid the final return of capital to unitholders on 20 June 2016 and formally wound up on 30 June 2016.

Likely developments and expected results of operations

The Scheme wound up on 30 June 2016.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2016.

Environmental regulation

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

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 8 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 8 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)

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
20 September 2016

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

To: the directors of Perpetual Investment Management Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016 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

KPMG

Michael O Connell
Partner

Sydney

20 September 2016

Statement of comprehensive income

	Notes	**30 June 2016 $**	30 June 2015 $
Investment income			
Distribution income		**-**	1,266,407
Interest income		**8,052**	27,718
Net gains/(losses) on financial instruments held at fair value through profit or loss	3	**1,714,172**	1,780,524
Total net investment income/(loss)		**1,722,224**	3,074,649
Expenses			
Responsible Entity's fees	8	**333,352**	539,116
Other expenses		**5,764**	-
Total operating expenses		**339,116**	539,116
Operating profit/(loss)		**1,383,108**	2,535,533
Finance costs attributable to unitholders			
Distributions to unitholders	4	**-**	875,796
Changes in net assets attributable to unitholders (total comprehensive income)	5	**1,383,108**	1,659,737

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

Balance sheet

	Notes	**30 June 2016 $**	30 June 2015 $
Assets			
Cash and cash equivalents	11(b)	-	625,594
Financial assets held at fair value through profit or loss	6	-	28,925,239
Receivables	7	-	7,553
Total assets		-	29,558,386
Liabilities			
Payables		-	96,694
Total liabilities (excluding net assets attributable to unitholders)		-	96,694
Net assets attributable to unitholders - liability	5	-	29,461,692

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

Statement of changes in equity

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

Cash flow statement

	Notes	**30 June 2016 $**	30 June 2015 $
Cash flows from operating activities			
Distributions received		**-**	1,588,741
Interest received		**9,011**	31,052
Other income received		**31,288**	46,782
Responsible Entity's fees paid		**(454,438)**	(686,134)
Other expenses paid		**(6,066)**	-
Net cash inflow/(outflow) from operating activities	11(a)	**(420,205)**	980,441
Cash flows from investing activities			
Proceeds from sale of investments		**30,639,411**	29,504,549
Net cash inflow/(outflow) from investing activities		**30,639,411**	29,504,549
Cash flows from financing activities			
Payments for redemptions by unitholders		**(30,844,800)**	(31,005,871)
Distributions paid		**-**	(1,137,075)
Net cash inflow/(outflow) from financing activities		**(30,844,800)**	(32,142,946)
Net increase/(decrease) in cash and cash equivalents		**(625,594)**	(1,657,956)
Cash and cash equivalents at the beginning of the year		**625,594**	2,283,550
Cash and cash equivalents at the end of the year	11(b)	**-**	625,594

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

1 General Information

This annual financial report covers Perpetual Monthly Income 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 25 August 1966. The Scheme is domiciled in Australia.

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 Responsible Entity approved the wind up of the Scheme on 14 September 2011 and commenced returning capital to unitholders. The Scheme paid final return of capital to unitholders on 20 June 2016 and formally wound up on 30 June 2016.

The annual financial report was authorised for issue by the directors of the Responsible Entity on 20 September 2016. 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 in the following text.

(a) Basis of preparation

This general purpose annual financial report 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.

As the Scheme wound up on 30 June 2016, the financial statements are prepared on a non-going concern basis. The financial statements are being prepared on the basis set out in the accounting policy notes. There is no difference between this basis and preparing the financial statements on a going concern basis. No additional provision or liabilities have been recognised as a result of the realisation as the Scheme does not incur any additional legal or contractual obligations.

Compliance with International Financial Reporting Standards

The annual financial report of the Scheme also complies with International Financial Reporting Standards ("IFRS") and Interpretations as issued by the International Accounting Standards Board ("IASB").

Functional and presentation currency

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

Use of estimates and judgement

The preparation of the annual financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Use of estimates and judgement (continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

(b) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2016 reporting period and will not be adopted by the Scheme.

(c) Financial instruments

(i) Classification

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

- Financial instruments held for trading

  Derivative financial instruments such as futures, forward contracts, options and swaps are included under this classification. The Scheme does not designate any derivatives as hedges in a hedging relationship.

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

  These include financial assets that are not held for trading purposes and which may be sold. These are investments in exchange traded debt, equity instruments, unlisted unit trusts and commercial papers.

  Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Scheme's documented investment strategy. The Scheme's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

(ii) Recognition/derecognition

The Scheme recognises financial assets and financial 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

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

At initial recognition, the Scheme measures financial assets and financial liabilities at fair value. Transaction costs are expensed in profit or loss as incurred. Subsequently, all financial assets and financial 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 included in profit or loss.

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 12(d) to the financial statements.

2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount 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

During the year, units were no longer redeemable at the unitholders' option except when returns of capital were made to the unitholders. The units were classified as financial liabilities.

The units were measured at the redemption amount that is payable at the balance sheet date if unitholders exercise their right to redeem units in the Scheme.

(e) Cash and cash equivalents

For the purpose of presentation in the cash flow statement, cash and cash equivalents include cash on hand, deposits held at call with financial institutions, 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, and bank overdrafts. Bank overdrafts are shown as a liability on the balance sheet.

(f) Receivables

Receivables include accrued income, application monies receivable and Reduced Input Tax Credits ("RITC") refund. Receivables are measured at their nominal amounts. Amounts are generally received within 30 days of being accrued for. Given the short term nature of most receivables, the nominal amount approximates fair value.

(g) Payables

Payables include accrued expenses and redemption monies owing by the Scheme which are unpaid at the end of the reporting date. Amounts are generally paid within 30 days of being accrued for. Given the short term nature of most payables, the nominal amount approximates fair value.

(h) Investment income

Interest income is recognised in profit or loss as it accrues using the nominated interest rates available on the bank accounts held.

Trust distributions (including distributions from cash management trusts) are recognised on a present entitlements basis.

Other income is brought to account on an accruals basis.

(i) Expenses

All expenses, including Responsible Entity's fees, are recognised in profit or loss on an accruals basis.

2 Summary of significant accounting policies (continued)

(j) Income tax

Under current legislation, the Scheme is not subject to income tax as unitholders are presently entitled to the income of the Scheme, provided the taxable income of the Scheme is fully distributed either by way of cash or reinvestment.

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

(k) Distributions

In accordance with the Scheme's Constitution, the Scheme distributes its distributable income to unitholders by cash or reinvestment. The distributions are recognised in profit or loss as finance costs attributable to unitholders.

(l) Changes in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in profit or loss as finance costs attributable to unitholders.

(m) Goods and Services Tax ("GST")

The GST incurred on the cost of various services provided to the Scheme by third parties such as Responsible Entity's fees, has been passed onto the Scheme. The Scheme qualifies for RITC; hence Responsible Entity's fees and other expenses have been recognised in profit or loss net of the amount of GST recoverable from the Australian Taxation Office ("ATO"). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the balance sheet. Cash flows relating to GST are included in the cash flow statement on a gross basis.

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

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

	30 June 2016 $	30 June 2015 $
Net unrealised gains/(losses) on financial instruments designated at fair value through profit or loss	**-**	3,061,874
Net realised gains/(losses) on financial instruments designated at fair value through profit or loss	**1,714,172**	(1,281,350)
Net gains/(losses) on financial instruments held at fair value through profit or loss	**1,714,172**	1,780,524

4 Distributions to unitholders

The distributions for the year were as follows:

	30 June 2016 $	30 June 2015 $
Distributions		
Distributions paid - July	-	222,533
Distributions paid - August	-	102,510
Distributions paid - September	-	186,295
Distributions paid - October	-	93,818
Distributions paid - November	-	100,127
Distributions paid - December	-	73,083
Distributions paid - January	-	69,747
Distributions paid - February	-	27,683
Distributions paid - March	-	-
Distributions paid - April	-	-
Distributions paid - May	-	-
Distributions payable - June	-	-
Total distributions	-	875,796

5 Net assets attributable to unitholders

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

	30 June 2016 Units	30 June 2015 Units	30 June 2016 $	30 June 2015 $
Net assets attributable to unitholders				
Opening balance	**29,273,623**	61,828,311	**29,461,692**	58,807,826
Redemptions	**(29,273,623)**	(32,554,688)	**(30,844,800)**	(31,005,871)
Changes in net assets attributable to unitholders	**-**	-	**1,383,108**	1,659,737
Closing balance	**-**	29,273,623	**-**	29,461,692

As stipulated within the Scheme's Constitution, each unit represents a right to an individual share 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 had 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, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders reduced to $nil as the Scheme paid the final return of capital to unitholders during the year.

6 Financial assets held at fair value through profit or loss

	Fair value 30 June 2016 $	Fair value 30 June 2015 $
Designated at fair value through profit or loss		
Unlisted unit trusts*	-	28,925,239
Total financial assets held at fair value through profit or loss	-	28,925,239

**These unlisted unit trusts have an exposure to mortgages.*

7 Receivables

	30 June 2016 $	30 June 2015 $
Interest receivable	-	959
Other receivables	-	6,594
Total receivables	-	7,553

8 Related party transactions

Responsible Entity

The Responsible Entity of Perpetual Monthly Income 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.

8 Related party transactions (continued)

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 are as follows:

G Foster (appointed 25 January 2013, Alternate for G Larkins)
M Gordon (appointed 28 March 2013, resigned 24 February 2016)
J Hawkins (appointed 6 July 2012)
D Kiddie (appointed 24 February 2016)
G Larkins (appointed 7 January 2013)
P Lynch (appointed 6 July 2012, Alternate for J Hawkins)
P Statham (appointed 24 February 2016, Alternate for D Kiddie)
P Statham (appointed 9 September 2013, resigned 24 February 2016, Alternate for M Gordon)
D Winterton (appointed 24 February 2016, Alternate for D Kiddie)
D Winterton (appointed 20 April 2015, resigned 24 February 2016, Alternate for M Gordon)

(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 Scheme investors.

No key management personnel of the Responsible Entity held units in the Scheme as at 30 June 2016 (2015:nil).

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 related entities at any time during the reporting period.

Responsible Entity's fees and other transactions

The Responsible Entity’s fees are calculated in accordance with the Scheme's Constitution (as amended). The Responsible Entity’s fee is 1.270% p.a. and expense of recoveries of 0.030% p.a. of the net asset value of the Scheme.

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

8 Related party transactions (continued)

Responsible Entity's fees and other transactions (continued)

	30 June 2016 $	30 June 2015 $
Responsible Entity's fees paid and payable directly by the Scheme	**333,352**	539,116
Fees payable to the Responsible Entity as at reporting date (included in payables)	**-**	96,694

Investments

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

30 June 2016

Managed Investment Schemes	**Number of units held**	**Fair value of investment $**	**Interest held %**	**Number of units acquired**	**Number of units disposed**	**Distributions received by the Scheme $**
Perpetual Mortgage Pool Fund	**-**	**-**	**-**	**-**	**28,925,239**	**-**

30 June 2015

Managed Investment Schemes	Number of units held	Fair value of investment $	Interest held %	Number of units acquired	Number of units disposed	Distributions received/ receivable by the Scheme $
Perpetual Liquidity Pool Fund	-	-	-	-	8,114,438	92,333
Perpetual Mortgage Pool Fund	28,925,239	28,925,239	32.1	-	22,671,460	1,174,074

9 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 managed in accordance with the investment strategy by the respective investment managers. The investment decisions are based on the analysis conducted by the managers. The return of the unlisted unit trusts is exposed to the variability of the performance of the investment strategies. 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 interest to unconsolidated structured entities at 30 June 2016 was $nil (2015:$ 28,925,239). The fair value of these entities is included in financial assets held at fair value through profit or loss in the balance sheet.

The Scheme's maximum exposure to loss 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.

10 Auditor's remuneration

During the year the following fees were paid or payable by the Responsible Entity for services provided by the auditor of the Scheme of which $5,465.35 was recovered from the Scheme (2015: $nil):

	30 June 2016 $	30 June 2015 $
Audit and audit related services		
KPMG		
Total remuneration for audit and audit related services	**10,995**	12,953

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

	30 June 2016 $	30 June 2015 $
(a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities		
Operating profit/(loss)	**1,383,108**	2,535,533
(Increase)/decrease in distributions receivable	**-**	322,334
(Increase)/decrease in interest receivable	**959**	3,334
(Increase)decrease in other receivables	**6,594**	7,335
Increase/(decrease) in payables	**(96,694)**	(107,571)
Net (gains)/losses on financial instruments held at fair value through profit or loss	**(1,714,172)**	(1,780,524)
Net cash inflow/(outflow) from operating activities	**(420,205)**	980,441

(b) Components of cash and cash equivalents

Cash at the end of the year as shown in the cash flow statement is reconciled to the balance sheet as follows:

Cash on hand	**-**	625,594
Total cash and cash equivalents	**-**	625,594

12 Financial risk management

The Scheme's investing activities are exposed to a variety of financial risks. These risks include 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 minimise the risks in its investment activities. This framework incorporates a regular assessment process to ensure procedures and controls adequately manage investment activities.

The investment activities of the Scheme are carried out by the asset managers in accordance with the investment strategy specifically tailored for the Scheme’s objectives. The strategy is approved by the Board of Directors of the Responsible Entity, and must comply with any authorised investments and management restrictions specified in the Scheme's Constitution. The Scheme is permitted to use derivative products. The use of derivatives is considered to be part of the investment management process and is not managed in isolation.

This note presents information about the Scheme’s exposure to each of the above risks. 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 interest rate risk, currency risk and price risk; and credit ratings analysis for credit risk.

12 Financial risk management (continued)

(a) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices such as foreign exchange rates, interest rates, equity prices and credit spreads.

The Scheme may use derivative instruments to manage its exposure to market risk. However, the use of derivatives is limited to the investment strategy and restrictions specified in the Scheme's governing documents.

There were no derivatives held as at 30 June 2016 and 30 June 2015.

(i) Currency risk

A Scheme that invests in financial instruments denominated in currencies other than the Australian dollar is exposed to 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 may enter into derivative contracts 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 significant exposure to currency risk at the reporting date.

(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 variable 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 is limited to its cash and cash equivalents, which earn/charge a floating rate of interest.

(iii) Price risk

The Scheme is exposed to market price risk predominantly through its investment in unlisted trusts for which prices in the future are uncertain (other than arising from currency risk or interest rate risk).

The Scheme's asset managers aim to manage the impact of market price risk through the use of consistent and carefully considered investment guidelines. Risk management techniques are used in the selection of investments. Investments (including derivatives) are only purchased that meet investment criteria. Risk can be reduced by diversifying investments across several asset managers, markets, regions and different asset classes.

As at 30 June 2016, the fair value of the Scheme's investments exposed to price risk was $nil (2015: $28,925,239).

Sensitivity analysis

The sensitivity analysis estimates the sensitivity of the Scheme's operating profit and net assets attributable to unitholders to market price risk. The sensitivity rate is based on management's best estimate of a reasonably possible movement in the market price, having regard to historical correlation of the Scheme's investments with the relevant benchmark and market volatility.

12 Financial risk management (continued)

(a) Market risk (continued)

(iii) Price risk (continued)

An increase of 15% at the reporting date of the market prices would have increased the Scheme's operating profit and net assets attributable to unitholders by $nil (2015: $4,338,786). This analysis assumes that all other variables remain constant.

A decrease of 15% would have an equal, but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts when they fall due. The Scheme was exposed to credit risk on cash and cash equivalents and other receivables.

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).

(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 paid the final return of capital to unitholders and formally wound up on 30 June 2016.

The Scheme did not have any outstanding financial liabilities as at 30 June 2016.

The Scheme’s investments in unlisted unit trusts expose the Scheme 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.

The following table summarises the contractual maturities of financial liabilities, including interest payments where applicable:

		Contractual cash flows	
30 June 2015	Carrying amount $	less than 6 months $	6 - 12 months $
Non-derivative financial liabilities			
Payables	96,694	96,694	-
Net assets attributable to unitholders	29,461,692	-	29,461,692
Total	29,558,386	96,694	29,461,692

12 Financial risk management (continued)

(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:

- Inputs that are 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 (such as publicly traded derivatives and listed securities) is based on quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. For the majority of financial assets and liabilities, information provided by the quoted market independent pricing services is relied upon for valuation.

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

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

The fair value of financial assets and liabilities that are not traded in an active market is determined 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 technique that provides a reliable estimate of prices obtained in actual market transactions.

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. For other pricing models, inputs are based on market data at the end of the reporting period.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. 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.

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 assets include holdings in Perpetual Mortgage Pool Fund. The underlying assets of this fund are mortgage loans which are carried at amortised cost with adjustments for impairment provisions. These impairment provisions are calculated using a range of data that includes unobservable inputs such as probability of default, loss given default ratios, property valuations, discount rates, market yields and estimated market profiles.

There are no individual significant unobservable inputs into the valuation of the level 3 assets and, accordingly, a sensitivity analysis by input is not included in the notes to the financial statements.

12 Financial risk management (continued)

(d) Fair value measurement (continued)

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

30 June 2015	Level 1 $	Level 2 $	Level 3 $	Total $
Financial assets				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	-	-	28,925,239	28,925,239
Total	-	-	28,925,239	28,925,239

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 2016 and 30 June 2015.

Fair value measurements using significant unobservable inputs (level 3)

The following tables present the movement in level 3 instruments for the years ended 30 June 2016 and 30 June 2015 by class of financial instrument:

30 June 2016	**Unlisted unit trusts $**	**Total $**
Opening balance	**28,925,239**	**28,925,239**
Sales	**(30,639,411)**	**(30,639,411)**
Gains/(losses) recognised in profit or loss	**1,714,172**	**1,714,172**
Closing balance	**-**	**-**
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	**-**	**-**

30 June 2015	Unlisted unit trusts $	Total $
Opening balance	56,649,264	56,649,264
Sales	(29,504,548)	(29,504,548)
Gains/(losses) recognised in profit or loss	1,780,523	1,780,523
Closing balance	28,925,239	28,925,239
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	2,958,503	2,958,503

13 Events occurring after the reporting period

No significant events have occurred since the reporting date which would impact on the financial position of the Scheme disclosed in the balance sheet as at 30 June 2016 or on the results and cash flows of the Scheme for the year ended on that date.

14 Contingent assets, liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2016 and 30 June 2015.

15 Wind up

The Responsible Entity approved the wind up of the Scheme on 14 September 2011 and paid the final return of capital to unitholders on 20 June 2016. The Scheme was formally wound up on 30 June 2016.

Directors' declaration

In the opinion of the directors of Perpetual Investment Management Limited, the Responsible Entity of Perpetual Monthly Income Fund:

(a) the annual financial statements and notes, set out on pages 6 to 24, are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001;* and

   (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2016 and of its performance for the financial year ended on that date;

(b) the financial report also complies with International Financial Reporting Standards as discussed in note 2(a).

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

Director

Sydney
20 September 2016

Independent auditor's report to the unitholders of Perpetual Monthly Income Fund

Report on the financial report

We have audited the accompanying financial report of Perpetual Monthly Income Fund (the Scheme), which comprises the balance sheet as at 30 June 2016, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, notes 1 to 15 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of Perpetual Investment Management Limited (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 2(a), the directors of the Responsible Entity also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Scheme's financial position, and of its performance.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

(a) the financial report of Perpetual Monthly Income Fund is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Scheme's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

Basis of preparation

Without modifying our opinion, we draw attention to note 2(a) of the financial report which describes the basis of preparation. The financial report has been prepared on a non-going concern basis. Following a resolution to terminate the Scheme made by the Board of Directors of the Responsible Entity, Perpetual Monthly Income Fund is no longer considered a going concern.

KPMG

KPMG

Michael O Connell
Partner

Sydney

20 September 2016

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