

PERPETUAL CHARITABLE ENDOWMENT FUND

ANNUAL FINANCIAL REPORT
30 JUNE 2017

ARSN 147 080 377

Perpetual Investment Management Limited
ABN 18 000 866 535 AFSL 234426

Perpetual 

Perpetual Charitable Endowment Fund

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Annual Financial Report - 30 June 2017

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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 Charitable Endowment Fund, present their report together with the annual financial report of Perpetual Charitable Endowment Fund ("the Scheme") for the year ended 30 June 2017 and the auditor's report thereon.

Responsible Entity

The Responsible Entity of Perpetual Charitable Endowment 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)
 J Hawkins (appointed 6 July 2012, resigned 24 February 2017)
 D Kiddie (appointed 24 February 2016, resigned 3 November 2016)
 D Lane (appointed 20 April 2017)
 G Larkins (appointed 7 January 2013)
 P Lynch (appointed 6 July 2012, resigned 24 February 2017, Alternate for J Hawkins)
 A Shelley (appointed 24 February 2017, resigned 20 April 2017)
 M Smith (appointed 3 November 2016)
 P Statham (appointed 24 February 2016, resigned 3 November 2016, Alternate for D Kiddie)
 D Winterton (appointed 24 February 2016, resigned 14 October 2016, Alternate for D Kiddie)

Principal activities

The principal activity of the Scheme is to provide income tax exempt unitholders such as charitable trusts with a consistent income stream and long-term capital growth through investment in a diversified portfolio with an emphasis on Australian shares.

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 continued to invest in accordance with target asset allocations 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:

	2017	2016
Operating profit/(loss) before finance costs attributable to unitholders (\$'000)	<u>12,183</u>	<u>9,644</u>
Distributions paid and payable (\$'000)	<u>8,262</u>	<u>10,498</u>
Distributions (cents per unit)	<u>4.58</u>	<u>7.34</u>

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

On 21 June 2017 the Responsible Entity approved changes to the Scheme's Constitution to allow it to operate as an Attribution Managed Investment Trust ("AMIT"). These changes will be applicable from the time an election is made by the Responsible Entity to adopt the AMIT regime for the Scheme. This election has not yet been made at the date of this report.

In the opinion of the directors, there were no other 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

No matter or circumstance has arisen since 30 June 2017 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 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 12 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 12 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
14 September 2017



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 of Perpetual Charitable Endowment Fund for the financial year ended 30 June 2017 there have been:

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

KPMG.

KPMG

Jessica Davis

Partner

Sydney

14 September 2017

Perpetual Charitable Endowment Fund
Statement of comprehensive income
For the year ended 30 June 2017

Statement of comprehensive income

	Notes	30 June 2017 \$'000	30 June 2016 \$'000
Investment income			
Distribution income		5,967	5,830
Interest income		228	181
Net gains/(losses) on financial instruments held at fair value through profit or loss	3	5,930	3,471
Other income		123	371
Total net investment income/(loss)		12,248	9,853
Expenses			
Responsible Entity's fees	12	26	159
Other operating expenses	4	39	50
Total expenses		65	209
Operating profit/(loss)		12,183	9,644
Finance costs attributable to unitholders			
Distributions to unitholders	5	8,262	10,498
Changes in net assets attributable to unitholders	6	3,921	(854)
Profit/(loss)		-	-
Other comprehensive income		-	-
Total comprehensive income		-	-

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

Perpetual Charitable Endowment Fund
Balance sheet
As at 30 June 2017

Balance sheet

	Notes	30 June 2017 \$'000	30 June 2016 \$'000
Assets			
Cash and cash equivalents	10(b)	17,184	13,681
Financial assets held at fair value through profit or loss	7	201,377	160,537
Receivables	8	<u>15,085</u>	<u>3,344</u>
Total assets		<u>233,646</u>	<u>177,562</u>
Liabilities			
Distributions payable to unitholders of the Scheme	5	5,778	8,180
Payables	9	<u>25</u>	<u>33</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>5,803</u>	<u>8,213</u>
Net assets attributable to unitholders - liability	6	<u>227,843</u>	<u>169,349</u>

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.

Perpetual Charitable Endowment Fund
Statement of cash flows
For the year ended 30 June 2017

Statement of cash flows

	30 June 2017 \$'000	30 June 2016 \$'000
Cash flows from operating activities		
Distributions received	6,027	4,044
Interest received	245	170
Other income received	128	387
Responsible Entity's fees paid	(34)	(175)
Other operating expenses paid	(44)	(47)
Net cash inflow/(outflow) from operating activities	10(a) 6,322	4,379
Cash flows from investing activities		
Proceeds from sale of investments	10,996	18,221
Payments for purchase of investments	(45,906)	(29,461)
Net cash inflow/(outflow) from investing activities	(34,910)	(11,240)
Cash flows from financing activities		
Proceeds from applications by unitholders	45,661	25,719
Payments for redemptions by unitholders	(2,906)	(3,140)
Distributions paid	(10,664)	(5,158)
Net cash inflow/(outflow) from financing activities	32,091	17,421
Net increase/(decrease) in cash and cash equivalents	3,503	10,560
Cash and cash equivalents at the beginning of the year	13,681	3,121
Cash and cash equivalents at the end of the year	10(b) 17,184	13,681

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

1 General Information

This annual financial report covers Perpetual Charitable Endowment 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 27 October 2010. The Scheme will terminate on 25 October 2090 unless terminated earlier in accordance with the provisions of the Scheme's Constitution (as amended). 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 annual financial report was authorised for issue by the directors of the Responsible Entity on 14 September 2017. 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 makes estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are continuously evaluated and 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)

(b) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published, but are not yet mandatory and have not been early adopted by the Scheme for the reporting period ended 30 June 2017. The assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

(i) AASB 9 *Financial Instruments* (and applicable amendments) (effective from 1 January 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has also introduced revised rules around hedge accounting and impairment. The standard is available for early adoption.

Management does not expect this standard to have a significant impact on the recognition and measurement of the Scheme's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements and the Scheme does not apply hedge accounting.

(ii) AASB 15 *Revenue from Contracts with Customers* (effective from 1 January 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 *Revenue* and AASB 111 *Construction Contracts*.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

The Scheme's main sources of income are interest, distributions and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, management does not expect the adoption of the new revenue recognition rules to have a significant impact on the Scheme's accounting policies or the amounts recognised in the financial statements.

(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

All derivatives are classified as held for trading. 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.

These investments are managed and their performance is evaluated on a fair value basis in accordance with the investment strategy of the Scheme.

(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).

2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(iii) Measurement

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

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 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 14(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 are classified as financial liabilities as the Scheme is required to distribute its distributable income, in accordance with the Scheme's Constitution.

The units can be put back to the Scheme at any time for cash based on the redemption price. 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.

(e) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash on hand, 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 and application monies receivables. 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.

2 Summary of significant accounting policies (continued)

(h) Investment income

Interest income on cash balances 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 an 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.

(j) Income tax

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 paid are passed on to unitholders, providing certain conditions are met.

(k) Distributions

The Scheme distributes its distributable income, in accordance with the Scheme's Constitution, 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. Changes in net assets attributable to unitholders are recognised in profit or loss as finance costs attributable to unitholders.

(m) 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.

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 2017 \$'000	30 June 2016 \$'000
Net unrealised gains/(losses) on financial instruments designated at fair value through profit or loss	3,898	(686)
Net realised gains/(losses) on financial instruments designated at fair value through profit of loss	2,032	4,157
Net gains/(losses) on financial instruments held at fair value through profit or loss	5,930	3,471

4 Other operating expenses

	30 June 2017 \$'000	30 June 2016 \$'000
Custody fees	26	33
Sundry expenses	13	17
Total	39	50

5 Distributions to unitholders

The distributions for the year were as follows:

	30 June 2017 \$'000	30 June 2017 CPU	30 June 2016 \$'000	30 June 2016 CPU
Distributions				
Distributions paid - September	730	0.47	596	0.43
Distributions paid - December	979	0.59	884	0.63
Distributions paid - March	775	0.45	838	0.59
Distributions payable - June	5,778	3.07	8,180	5.69
Total distributions	8,262		10,498	

6 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 2017 Units '000	30 June 2016 Units '000	30 June 2017 \$'000	30 June 2016 \$'000
Net assets attributable to unitholders				
Opening balance	143,678	124,725	169,349	147,662
Applications	46,864	21,492	57,479	25,681
Redemptions	(2,348)	(2,539)	(2,906)	(3,140)
Changes in net assets attributable to unitholders	<u>-</u>	<u>-</u>	<u>3,921</u>	<u>(854)</u>
Closing balance	188,194	143,678	227,843	169,349

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, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the 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 held at fair value through profit or loss

	30 June 2017 \$'000	30 June 2016 \$'000
Designated at fair value through profit or loss		
Unlisted unit trusts	<u>201,377</u>	<u>160,537</u>
Total financial assets held at fair value through profit or loss	201,377	160,537

8 Receivables

	30 June 2017 \$'000	30 June 2016 \$'000
Distributions receivable	3,263	3,323
Interest receivable	1	18
Applications receivable	11,818	-
Other receivables	3	3
Total receivables	15,085	3,344

9 Payables

	30 June 2017 \$'000	30 June 2016 \$'000
Responsible Entity's fees payable	3	9
Other fees payable	22	24
Total payables	25	33

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

	30 June 2017 \$'000	30 June 2016 \$'000
(a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities		
Operating profit/(loss)	12,183	9,644
(Increase)/decrease in distributions receivable	60	(1,786)
(Increase)/decrease in interest receivable	17	(11)
(Increase)/decrease in other receivables	-	1
Increase/(decrease) in payables	(8)	2
Net (gains)/losses on financial instruments held at fair value through profit or loss	(5,930)	(3,471)
Net cash inflow/(outflow) from operating activities	6,322	4,379

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

	30 June 2017 \$'000	30 June 2016 \$'000
(b) Components of cash and cash equivalents		
Cash at the end of the year as shown in the statement of cash flows is reconciled to the balance sheet as follows:		
Cash on hand	<u>17,184</u>	<u>13,681</u>
Total cash and cash equivalents	<u>17,184</u>	<u>13,681</u>

11 Remuneration of auditors

	30 June 2017 \$	30 June 2016 \$
Amount received or due and receivable by KPMG: Audit and review of financial report and compliance plan	<u>10,549</u>	<u>10,001</u>

Audit fees were paid or payable by the Scheme.

12 Related party transactions

Responsible Entity

The Responsible Entity of Perpetual Charitable Endowment 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.

12 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 were as follows:

G Foster (appointed 25 January 2013, Alternate for G Larkins)
J Hawkins (appointed 6 July 2012, resigned 24 February 2017)
D Kiddie (appointed 24 February 2016, resigned 3 November 2016)
D Lane (appointed 20 April 2017)
G Larkins (appointed 7 January 2013)
P Lynch (appointed 6 July 2012, resigned 24 February 2017, Alternate for J Hawkins)
A Shelley (appointed 24 February 2017, resigned 20 April 2017)
M Smith (appointed 3 November 2016)
P Statham (appointed 24 February 2016, resigned 3 November 2016, Alternate for D Kiddie)
D Winterton (appointed 24 February 2016, resigned 14 October 2016, Alternate for D Kiddie)

(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 2017 (2016: 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.

12 Related party transactions (continued)

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 fees comprise a base management fee of 0.740% p.a. and an investment management fee of 0.470% p.a. of the Scheme's net asset value. The amount of fees deducted from the Scheme is net of investment fees charged or deducted from unit prices of its underlying funds.

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:

	30 June 2017	30 June 2016
	\$	\$
Responsible Entity's fees paid and payable directly by the Scheme	25,742	158,704
Fees payable to the Responsible Entity at the reporting date	3,132	9,485

Related party unitholdings

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

30 June 2017

Unitholder	Number of units held '000	Interest held %	Number of units acquired '000	Number of units disposed '000	Distributions paid/payable \$'000
Perpetual Foundation	187,342	99.6	46,543	2,298	8,227

30 June 2016

Unitholder	Number of units held '000	Interest held %	Number of units acquired '000	Number of units disposed '000	Distributions paid/payable \$'000
Perpetual Foundation	143,097	99.6	21,492	2,454	10,454

12 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 2017

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 Credit Income Fund	21,847	22,965	3.0	7,504	-	719
Perpetual Institutional Cash Management Trust Perpetual Private	2,780	2,780	0.2	58	6	55
Australian Share Fund Perpetual Private Duration	60,380	100,412	8.2	13,257	1,852	2,057
Fixed Income Fund Perpetual Private Real Estate Fund	28,917	28,559	5.2	5,624	1,994	617
	19,146	16,687	2.9	10,148	-	87

30 June 2016

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 Credit Income Fund	14,343	14,844	2.3	3,719	-	428
Perpetual Institutional Cash Management Trust Perpetual Private	2,728	2,728	0.2	65	82	65
Australian Share Fund Perpetual Private Duration	48,975	75,788	6.3	6,492	707	1,527
Fixed Income Fund Perpetual Private Real Estate Fund	25,287	25,342	4.7	2,384	2,989	1,446
	8,998	7,991	1.5	8,998	-	-

13 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 their 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 strategy. 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 2017 was \$201,377,494 (2016: \$160,537,345). 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 from its interests in the unconsolidated 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 unconsolidated structured entities. There are no loans or advances currently made to these entities.

There are no significant restrictions on the ability of the unconsolidated structured entities to transfer funds to the Scheme in the form of cash distributions.

14 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 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.

All securities investments present a risk of loss of capital. The maximum loss of capital on unlisted unit trusts is limited to the fair values of those positions.

The Scheme's asset managers aim to manage these risks through the use of consistent and carefully considered investment guidelines. Risk management techniques are used in the selection of investments. 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.

14 Financial risk management (continued)

(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 did not have any 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 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 arises from cash and cash equivalents and units in cash management trusts, which earn/charge a floating rate of interest. Units in cash management trusts are priced at \$1 and the underlying investments are predominantly exposed to highly liquid interest bearing securities. From 1 July 2016 the Scheme changed the risk assessment for cash management trusts from price risk to interest rate risk to align to how the underlying exposures are monitored. The Scheme previously included all unlisted unit trusts (including cash management trusts) in the assessment of price risk (refer to note 14(a)(iii)).

(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 is exposed to price risk predominantly through its investments in unlisted unit trusts.

The fair value of the Scheme's investments exposed to price risk at 30 June 2017 was \$198,597,060 (2016: \$160,537,345). From 1 July 2016, the Scheme analysed its exposure to price risk arising from unlisted unit trusts by their type of asset class. The Scheme measured price risk for the units in fixed income trusts with a lower sensitivity rate which reflects the reasonably possible movement of the unit prices of a typical fixed income trust. The Scheme excluded its holding in cash management trusts from price risk analysis as the unit price for cash management trusts is valued at \$1 and is subject to insignificant risk of changes in value.

The table presented in note 14(a)(iv) summarises sensitivity analysis to price risk. This analysis assumes that all other variables remain constant.

14 Financial risk management (continued)

(a) Market risk (continued)

(iv) Sensitivity analysis

The following table summarises the sensitivity of the operating profit and net assets attributable to unitholders to price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical correlation of the 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 unusually 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 operating profit/net assets attributable to unitholders	
		30 June 2017 \$'000	30 June 2016*** \$'000
Price risk*	+15%		24,081
	-15%		(24,081)
Units in equity and other trusts	+15%	20,648	
	-15%	(20,648)	
Units in fixed income trusts**	+5%	3,047	
	-5%	(3,047)	

*The Scheme changed the risk assessment of its holdings in cash management trusts from price risk to interest rate risk, as discussed in note 14(a)(ii) and note 14(a)(iii), for current year.

**The Scheme applied a lower sensitivity rate to measure price risk for units in fixed income trusts as discussed in note 14(a)(iii) for current year.

***The sensitivity analysis for the comparative year ended 30 June 2016 was not restated.

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay amounts when they fall due. The Scheme is predominantly exposed to credit risk on cash and cash equivalents. The maximum exposure to credit risk at the reporting date is carrying amount of the financial assets.

(i) 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 the Standard & Poor's).

14 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 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 or suspended.

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

30 June 2017	Carrying amount \$'000	At call \$'000	Contractual cash flows less than 6 months \$'000
Non-derivative financial liabilities			
Distributions payable to unitholders of the Scheme	5,778	-	5,778
Payables	25	-	25
Net assets attributable to unitholders	<u>227,843</u>	<u>227,843</u>	<u>-</u>
Total	<u>233,646</u>	<u>227,843</u>	<u>5,803</u>

30 June 2016	Carrying amount \$'000	At call \$'000	Contractual cash flows less than 6 months \$'000
Non-derivative financial liabilities			
Distributions payable to unitholders of the Scheme	8,180	-	8,180
Payables	33	-	33
Net assets attributable to unitholders	<u>169,349</u>	<u>169,349</u>	<u>-</u>
Total	<u>177,562</u>	<u>169,349</u>	<u>8,213</u>

14 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:

- 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. For the majority of exchange traded financial assets and liabilities, information provided by the 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.

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

(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.

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

Some of the inputs to a valuation model 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.

The Scheme did not hold any financial instruments with fair value measurements using significant unobservable inputs (level 3) at 30 June 2017 and 30 June 2016.

14 Financial risk management (continued)

(d) Fair value measurement (continued)

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 2017	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	<u>119,879</u>	<u>81,498</u>	-	<u>201,377</u>
Total	<u>119,879</u>	<u>81,498</u>	-	<u>201,377</u>

30 June 2016	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	<u>86,507</u>	<u>74,030</u>	-	<u>160,537</u>
Total	<u>86,507</u>	<u>74,030</u>	-	<u>160,537</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 2017 and 30 June 2016.

15 Events occurring after the reporting period

No 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 2017 or on the results and cash flows of the Scheme for the year ended on that date.

16 Contingent assets, liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2017 and 30 June 2016.

Directors' declaration

In the opinion of the directors of Perpetual Investment Management Limited, the Responsible Entity of Perpetual Charitable Endowment Fund:

- (a) the annual financial statements and notes, set out on pages 6 to 26, are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards 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 2017 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
14 September 2017



Independent Auditor's Report

To the unitholders of Perpetual Charitable Endowment Fund

Opinion

We have audited the **Financial Report** of Perpetual Charitable Endowment Fund (the Scheme).

In our opinion, the accompanying Financial Report of the Scheme 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 2017 and of its financial performance and its cash flows for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Balance sheet as at 30 June 2017;
- Statement of comprehensive income, Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' declaration made by the Directors of Perpetual Investment Management Limited (the Responsible Entity).

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 Perpetual Charitable Endowment Fund's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of 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 the Directors for the Financial Report

The Directors of the Responsible Entity are responsible for:

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

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar3.pdf. This description forms part of our Auditor's Report.

KPMG

Jessica Davis

Partner

Sydney

14 September 2017

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