

PERPETUAL INSTITUTIONAL CASH MANAGEMENT TRUST

ANNUAL FINANCIAL REPORT

30 JUNE 2018

ARSN 138 160 077

Perpetual Investment Management Limited
ABN 18 000 866 535 AFSL 234426

Perpetual 

Perpetual Institutional Cash Management Trust

ARSN 138 160 077

Annual Financial Report - 30 June 2018

| Contents | Page |
|---|-------------|
| Directors' report | 2 |
| Lead auditor's independence declaration | 5 |
| Statement of comprehensive income | 6 |
| Balance sheet | 7 |
| Statement of changes in equity | 8 |
| Statement of cash flows | 9 |
| Notes to the financial statements | 10 |
| Directors' declaration | 31 |
| Independent auditor's report to the unitholders | 32 |

Directors' report

The directors of Perpetual Investment Management Limited (a wholly owned subsidiary of Perpetual Limited), the Responsible Entity of Perpetual Institutional Cash Management Trust, present their report together with the annual financial report of Perpetual Institutional Cash Management Trust ("the Scheme") for the year ended 30 June 2018 and the auditor's report thereon.

Responsible Entity

The Responsible Entity of Perpetual Institutional Cash Management Trust 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:

D Lane (appointed 20 April 2017)
G Larkins (appointed 7 January 2013)
M Smith (appointed 3 November 2016)
G Foster (appointed 25 January 2013, Alternate for G Larkins)

Principal activities

The principal activity of the Scheme is to provide unitholders with capital stability, regular income and easy access to funds by investing in deposits, money market and fixed income securities.

The Scheme did not have any employees during the year.

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

Review and results of operations

During the year, the Scheme 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:

| | 2018 | 2017 |
|---|---------------|---------------|
| Operating profit/(loss) (\$'000) | <u>25,045</u> | <u>26,940</u> |
| Distributions paid and payable (\$'000) | <u>25,364</u> | <u>26,833</u> |

Directors' report (continued)

Interests in the Scheme

The movement in units on issue in the Scheme during the year is disclosed in note 7 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 29 September 2017, the Responsible Entity announced that it has elected into the Attribution Managed Investment Trust (AMIT) regime for the Scheme for the year ending 30 June 2018 and subsequent years. The Scheme is therefore no longer contractually obliged to pay distributions as disclosed in note 1 to the financial statements.

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 2018 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

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

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

Indemnification and insurance of officers and auditors

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

Directors' report (continued)

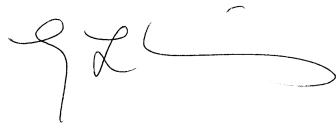
Rounding of amounts to the nearest thousand dollars

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

Lead auditor's independence declaration

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

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



Director

Sydney
12 September 2018



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 Institutional Cash Management Trust for the financial year ended 30 June 2018, 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

J. Davis

Jessica Davis

Partner

Sydney

12 September 2018

Perpetual Institutional Cash Management Trust
Statement of comprehensive income
For the year ended 30 June 2018

Statement of comprehensive income

| | Notes | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
|---|-------|---------------------------|---------------------------|
| Investment income | | | |
| Interest income | 3 | 10,505 | 11,989 |
| Net gains/(losses) on financial instruments held at fair value through profit or loss | 4 | 14,544 | 14,937 |
| Other income | | - | 14 |
| Total net investment income/(loss) | | 25,049 | 26,940 |
| Expenses | | | |
| Other operating expenses | 5 | 4 | - |
| Total expenses | | 4 | - |
| Operating profit/(loss) | | 25,045 | 26,940 |
| Finance costs attributable to unitholders | | | |
| Distributions to unitholders* | 6 | - | 26,833 |
| Changes in net assets attributable to unitholders* | 7 | - | 107 |
| Profit/(loss) | | 25,045 | - |
| Other comprehensive income | | - | - |
| Total comprehensive income | | 25,045 | - |

*Effective from 1 July 2017, distributions to unitholders and changes in net assets attributable to unitholders have been disclosed in the statement of changes in equity due to the AMIT tax regime implementation. These were disclosed in the above statement for the comparative year.

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

Perpetual Institutional Cash Management Trust
Balance sheet
As at 30 June 2018

Balance sheet

| | Notes | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
|---|-------|---------------------------|---------------------------|
| Assets | | | |
| Cash and cash equivalents | 11(b) | 190,315 | 234,788 |
| Financial assets held at fair value through profit or loss | 8 | 1,195,281 | 1,091,837 |
| Receivables | 9 | 165 | 132 |
| Total assets | | <u>1,385,761</u> | <u>1,326,757</u> |
| Liabilities | | | |
| Distributions payable to unitholders of the Scheme | 6 | 6,855 | 6,797 |
| Payables | 10 | 24 | 300 |
| Total liabilities (excluding net assets attributable to unitholders) | | <u>6,879</u> | <u>7,097</u> |
| Net assets attributable to unitholders - liability* | 7 | <u>-</u> | <u>1,319,660</u> |
| Net assets attributable to unitholders - equity* | 7 | <u>1,378,882</u> | <u>-</u> |

* Net assets attributable to unitholders are classified as equity at 30 June 2018 and as financial liability at 30 June 2017.

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

Perpetual Institutional Cash Management Trust
Statement of changes in equity
For the year ended 30 June 2018

Statement of changes in equity

| | Notes | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
|---|-------|---------------------------|---------------------------|
| Total equity at the beginning of the year | | | |
| Reclassification due to AMIT tax regime implementation* | 7 | <u>1,319,660</u> | <u>-</u> |
| Comprehensive income for the year | | | |
| Profit/(loss) | | 25,045 | - |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Total comprehensive income for the year | | <u>25,045</u> | <u>-</u> |
| Transactions with unitholders | | | |
| Applications | 7 | 5,404,735 | - |
| Redemptions | 7 | (5,367,427) | - |
| Units issued upon reinvestment of distributions | 7 | 22,233 | - |
| Distributions to unitholders | 6, 7 | <u>(25,364)</u> | <u>-</u> |
| Total transactions with unitholders | | <u>34,177</u> | <u>-</u> |
| Total equity at the end of the year* | 7 | <u>1,378,882</u> | <u>-</u> |

* Effective from 1 July 2017, the Scheme's units have been reclassified from financial liability to equity. As a result, equity transactions including distributions have been disclosed in the above statement for the year ended 30 June 2018. There were no equity transactions for the comparative year.

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

Perpetual Institutional Cash Management Trust
Statement of cash flows
For the year ended 30 June 2018

Statement of cash flows

| | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
|---|------------------------------------|---------------------------|
| Notes | | |
| Cash flows from operating activities | | |
| Interest received | 10,516 | 12,480 |
| Other income received | - | 14 |
| Other operating expenses paid | (4) | - |
| Net cash inflow/(outflow) from operating activities | 11(a) 10,512 | <u>12,494</u> |
| Cash flows from investing activities | | |
| Proceeds from sale of investments | 13,022,624 | 13,366,955 |
| Payments for purchase of investments | (13,111,524) | <u>(13,317,272)</u> |
| Net cash inflow/(outflow) from investing activities | (88,900) | <u>49,683</u> |
| Cash flows from financing activities | | |
| Proceeds from applications by unitholders | 5,404,691 | 5,795,235 |
| Payments for redemptions by unitholders | (5,367,703) | (5,797,328) |
| Distributions paid | (3,073) | <u>(1,639)</u> |
| Net cash inflow/(outflow) from financing activities | 33,915 | <u>(3,732)</u> |
| Net increase/(decrease) in cash and cash equivalents | (44,473) | 58,445 |
| Cash and cash equivalents at the beginning of the year | 234,788 | <u>176,343</u> |
| Cash and cash equivalents at the end of the year | 11(b) 190,315 | <u>234,788</u> |

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

1 General Information

This annual financial report covers Perpetual Institutional Cash Management Trust ("the Scheme") as an individual entity. The Scheme is a registered managed investment scheme under the *Corporations Act 2001*. The Scheme was constituted on 24 June 2009. The Scheme will terminate on 22 June 2089 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 12 September 2018. The directors of the Responsible Entity have the power to amend and reissue the annual financial report.

Reclassification of units from financial liability to equity

On 5 May 2016, a new tax regime applying to Managed Investment Trusts was established under the *Tax Law Amendment (New Tax System for Managed Investment Trusts) Act 2016*. The Attribution Managed Investment Trust (AMIT) regime allows the Schemes that meet certain requirements to make an irrevocable choice to be an AMIT. The Scheme's Constitution has been amended to allow it to operate as an AMIT and the conditions to adopt the AMIT tax regime have been met. The Responsible Entity elected into the AMIT regime for the Scheme effective from 1 July 2017 and the Scheme is therefore no longer contractually obliged to pay distributions. Consequently the units in the Scheme have been reclassified from financial liability to equity from 1 July 2017.

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 within the next financial years. These estimates and associated assumptions are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

New and amended standards adopted by the Scheme

There are no new standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2017 that have a material impact on the Scheme.

(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 2018. 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 for financial reporting periods beginning on or after 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 has concluded that the adoption of this standard does not 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 Scheme does not hold debt instruments that could result in a reclassification of financial instruments to amortised cost or fair value through other comprehensive income. The derecognition rules have not been changed from the previous requirements and the Scheme does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Scheme's investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Scheme.

(ii) AASB 15 *Revenue from Contracts with Customers* (effective for financial reporting periods beginning on or after 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 and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. Management has concluded that the new revenue recognition rules do not have a significant impact on the Scheme's accounting policies or the amounts recognised in the financial statements.

2 Summary of significant accounting policies (continued)

(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 debts, 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).

(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 in the period in which they arise.

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

2 Summary of significant accounting policies (continued)

(d) Net assets attributable to unitholders

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

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

Prior to 1 July 2017, the units were classified as financial liability as the Scheme was required to distribute its distributable income in accordance with the Scheme's Constitution. Effective from 1 July 2017, the units have been reclassified from financial liability to equity as the Scheme satisfies all criteria for the classification of puttable financial instruments as equity under AASB 132 *Financial Instruments: Presentation*. The Scheme's Constitution has been amended and it no longer has contractual obligation to pay distributions to unitholders after electing to the AMIT regime effective from 1 July 2017.

(e) Cash and cash equivalents

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

Margin accounts comprise cash held as collateral for derivative transactions. The cash is held by the broker and is only available to meet margin calls.

(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 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 for all financial instruments held at fair value through profit or loss is recognised in profit or loss using the effective interest method. Other changes in fair value for such instruments are recorded in accordance with the accounting policies described in note 2(c).

2 Summary of significant accounting policies (continued)

(h) Investment income (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial instrument. When calculating the effective interest rate, the Scheme estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

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 provided the taxable income of the Scheme is attributed in full to its unitholders each financial year either by way of cash or reinvestment. Unitholders are subject to income tax at their own marginal tax rates on amounts attributable to them effective from 1 July 2017. Prior to this date, unitholders were presently entitled to the income of the Scheme and were taxed on the distribution income paid by the Scheme.

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

(k) 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 Interest income

| | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
|---------------------------|---------------------------|---------------------------|
| Cash and cash equivalents | 1,823 | 3,429 |
| Money market securities | 2,515 | 2,468 |
| Debt securities | 6,167 | 6,092 |
| Total | 10,505 | 11,989 |

4 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 2018 \$'000 | 30 June 2017 \$'000 |
|--|---------------------------|---------------------------|
| Net unrealised gains/(losses) on financial instruments held for trading | (2) | 5 |
| Net unrealised gains/(losses) on financial instruments designated at fair value through profit or loss | 656 | (460) |
| Net realised gains/(losses) on financial instruments held for trading | 60 | - |
| Net realised gains/(losses) on financial instruments designated at fair value through profit or loss | <u>13,830</u> | <u>15,392</u> |
| Net gains/(losses) on financial instruments held at fair value through profit or loss | <u>14,544</u> | <u>14,937</u> |

5 Other operating expenses

| | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
|-----------------|---------------------------|---------------------------|
| Sundry expenses | <u>4</u> | <u>-</u> |
| Total | <u>4</u> | <u>-</u> |

6 Distributions to unitholders

The distributions for the year were as follows:

| | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
|--------------------------------|---------------------------|---------------------------|
| Distributions | | |
| Distributions paid - September | 5,910 | 6,813 |
| Distributions paid - December | 6,562 | 7,028 |
| Distributions paid - March | 6,037 | 6,195 |
| Distributions payable - June | <u>6,855</u> | <u>6,797</u> |
| Total distributions | <u>25,364</u> | <u>26,833</u> |

7 Net assets attributable to unitholders

Under AASB 132 *Financial instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Scheme shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

Prior to 1 July 2017 the Scheme classified its net assets attributable to unitholders as financial liability in accordance with AASB 132. As disclosed in note 1, the Scheme's Constitution has been amended and it no longer has contractual obligation to pay distributions to unitholders after electing to AMIT regime effective from 1 July 2017. Therefore the net assets attributable to unitholders of the Scheme meet the criteria set out under AASB 132 and are classified as equity from 1 July 2017 onwards.

As a result of the reclassification of net assets attributable to unitholders from financial liability to equity, the Scheme's distributions are no longer classified as finance cost in the statement of comprehensive income, but rather as transactions with unitholders in the statement of changes in equity.

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

| | 30 June 2018 Units '000 | 30 June 2017 Units '000 | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
|---|--|-------------------------------|------------------------------------|---------------------------|
| Net assets attributable to unitholders | | | | |
| Opening balance* | 1,319,415 | 1,294,989 | 1,319,660 | 1,295,127 |
| Applications | 5,404,735 | 5,795,129 | 5,404,735 | 5,795,129 |
| Redemptions | (5,367,427) | (5,797,571) | (5,367,427) | (5,797,571) |
| Units issued upon reinvestment of distributions | 22,233 | 26,868 | 22,233 | 26,868 |
| Changes in net assets attributable to unitholders | - | - | - | 107 |
| Distributions to unitholders | - | - | (25,364) | - |
| Profit/(loss) | - | - | 25,045 | - |
| Closing balance* | 1,378,956 | 1,319,415 | 1,378,882 | 1,319,660 |

* Net assets attributable to unitholders are classified as equity at 30 June 2018 and as financial liability at 30 June 2017.

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

Capital risk management

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

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

8 Financial assets held at fair value through profit or loss

| | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
|---|---------------------------|---------------------------|
| Held for trading | | |
| Futures | <u>1</u> | <u>4</u> |
| | <u>1</u> | <u>4</u> |
| Designated at fair value through profit or loss | | |
| Money market securities | 887,990 | 851,021 |
| Debt securities | <u>307,290</u> | <u>240,812</u> |
| | <u>1,195,280</u> | <u>1,091,833</u> |
| Total financial assets held at fair value through profit or loss | <u>1,195,281</u> | <u>1,091,837</u> |

9 Receivables

| | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
|--------------------------|---------------------------|---------------------------|
| Interest receivable | 117 | 128 |
| Applications receivable | <u>48</u> | <u>4</u> |
| Total receivables | <u>165</u> | <u>132</u> |

10 Payables

| | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
|-----------------------|---------------------------|---------------------------|
| Redemptions payable | <u>24</u> | <u>300</u> |
| Total payables | <u>24</u> | <u>300</u> |

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

| | 30 June 2018 \$'000 | 30 June 2017 \$'000 |
|--|---------------------------|---------------------------|
| (a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities | | |
| Operating profit/(loss) | 25,045 | 26,940 |
| (Increase)/decrease in interest receivable | 11 | 491 |
| Net (gains)/losses on financial instruments held at fair value through profit or loss | <u>(14,544)</u> | <u>(14,937)</u> |
| Net cash inflow/(outflow) from operating activities | <u>10,512</u> | <u>12,494</u> |
| | | |
| (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 at bank | 153,803 | 2,673 |
| Deposit at call | 36,500 | 232,100 |
| Margin accounts | <u>12</u> | <u>15</u> |
| Total cash and cash equivalents | <u>190,315</u> | <u>234,788</u> |
| | | |
| (c) Non-cash financing activities | | |
| During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan | | |
| | <u>22,233</u> | <u>26,868</u> |

12 Remuneration of auditors

| | 30 June 2018 \$ | 30 June 2017 \$ |
|--|-----------------------|-----------------------|
| Amount received or due and receivable by KPMG: | | |
| Audit and review of financial report and compliance plan | <u>19,985</u> | <u>17,090</u> |

Audit fees were paid or payable by the Responsible Entity.

13 Related party transactions

Responsible Entity

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

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

Key management personnel

(a) Directors

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

D Lane (appointed 20 April 2017)
G Larkins (appointed 7 January 2013)
M Smith (appointed 3 November 2016)
G Foster (appointed 25 January 2013, Alternate for G Larkins)

(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 2018 (2017: 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 personally related entities at any time during the reporting period.

13 Related party transactions (continued)

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 2018

| Unitholders | Number of units held '000 | Interest held % | Number of units acquired '000 | Number of units disposed '000 | Distributions paid/payable \$'000 |
|---|------------------------------------|-----------------------|--|--|---|
| Perpetual Active Fixed Interest Fund | 2,815 | 0.2 | 173,951 | 184,300 | 88 |
| Perpetual Australian Share Fund | 161,514 | 11.7 | 476,920 | 431,700 | 2,637 |
| Perpetual Balanced Growth Fund No.2 | 12,722 | 0.9 | 211,854 | 221,500 | 222 |
| Perpetual Cash Management Fund | 55,902 | 4.1 | 29,528 | 35,100 | 1,102 |
| Perpetual Charitable and Community Investor Fund | 14,587 | 1.1 | 272 | - | 278 |
| Perpetual Charitable Endowment Fund | 2,833 | 0.2 | 53 | - | 54 |
| Perpetual Credit Income Fund | 80,327 | 5.8 | 564,005 | 555,300 | 1,385 |
| Perpetual Defensive Alternative Pool Fund | 38,626 | 2.8 | 35,067 | - | 156 |
| Perpetual Diversified Income Fund | 147,711 | 10.7 | 716,372 | 678,300 | 2,375 |
| Perpetual Diversified Real Return Fund | 27,371 | 2.0 | 142,826 | 138,700 | 383 |
| Perpetual Exact Market Cash Fund | 339 | - | 76,038 | 106,100 | 163 |
| Perpetual Growth Alternative Pool Fund | 50,000 | 3.6 | 50,000 | - | 114 |
| Perpetual Growth Opportunities Fund | 9,003 | 0.7 | 9,000 | - | 16 |
| Perpetual High Grade Treasury Fund | 5,772 | 0.4 | 176,607 | 185,300 | 92 |
| Perpetual Income Opportunities Fund | 3,682 | 0.3 | 3,504 | - | 10 |
| Perpetual Industrial Share Fund | 120,559 | 8.7 | 924,449 | 928,100 | 2,961 |
| Perpetual Private Balanced Fund | 9,896 | 0.7 | 200 | 1,046 | 199 |
| Perpetual Private Conservative Fund | 840 | 0.1 | 30 | 1,256 | 25 |
| Perpetual Private Credit Pooled Fund | 15,000 | 1.1 | 15,000 | - | 33 |
| Perpetual Private Diversified Fund | 449 | - | 54 | 4,055 | 35 |
| Perpetual Private Duration Fixed Income Fund | 13,000 | 0.9 | 13,000 | - | 29 |
| Perpetual Private Fixed Income Fund | 8,000 | 0.6 | 8,000 | - | 18 |
| Perpetual Private Geared High Growth Fund | 379 | - | 302 | - | 2 |
| Perpetual Private Growth Fund | 1,992 | 0.1 | 45 | 509 | 43 |
| Perpetual Pure Credit Alpha Fund | 69,490 | 5.0 | 349,460 | 296,100 | 542 |
| Perpetual Pure Equity Alpha Fund | 100,000 | 7.3 | 20,000 | 50,000 | 2,605 |
| Perpetual Pure Value Share Fund | 49,743 | 3.6 | 262,721 | 275,300 | 827 |
| Perpetual WealthFocus Investment Advantage Fund | 71,077 | 5.2 | 282,819 | 275,721 | 1,351 |
| Perpetual Wholesale Concentrated Equity Fund | 35,029 | 2.5 | 289,261 | 318,200 | 1,027 |
| Perpetual Wholesale Conservative Growth Fund | 166 | - | 46,131 | 73,000 | 207 |
| Perpetual Wholesale Diversified Growth Fund | 2,074 | 0.2 | 21,450 | 21,800 | 61 |
| Perpetual Wholesale SHARE-PLUS Long Short Fund | 100 | - | 85,000 | 85,900 | 379 |
| Perpetual Wholesale Smaller Companies Fund | 70,016 | 5.1 | 371,716 | 378,100 | 1,692 |
| Perpetual Wholesale Split Growth Fund | 41 | - | 1 | - | 1 |
| The Trust Company Philanthropy Fund | 4,186 | 0.3 | 3,065 | 3,500 | 63 |
| Australian Eligible Rollover Fund | 27,856 | 2.0 | 529 | 31 | 531 |
| Perpetual WealthFocus Superannuation Fund | 106,848 | 7.8 | 53,572 | 73,157 | 2,218 |
| Perpetual's Select Superannuation Fund | 59,012 | 4.3 | 14,168 | 45,352 | 1,440 |

13 Related party transactions (continued)

Related party unitholdings (continued)

30 June 2017

| Unitholders | Number of units held '000 | Interest held % | Number of units acquired '000 | Number of units disposed '000 | Distributions paid/payable \$'000 |
|---|---------------------------------|-----------------------|--|--|---|
| Perpetual Active Fixed Interest Fund | 13,164 | 1.0 | 256,726 | 246,800 | 166 |
| Perpetual Australian Share Fund | 116,294 | 8.8 | 811,290 | 788,938 | 2,227 |
| Perpetual Balanced Growth Fund No.2 | 22,368 | 1.7 | 268,803 | 281,200 | 698 |
| Perpetual Cash Management Fund | 61,474 | 4.7 | 27,801 | 36,000 | 1,307 |
| Perpetual Charitable and Community Investor Fund | 14,315 | 1.1 | 298 | - | 283 |
| Perpetual Charitable Endowment Fund | 2,780 | 0.2 | 58 | 6 | 55 |
| Perpetual Credit Income Fund | 71,622 | 5.4 | 498,735 | 536,900 | 1,641 |
| Perpetual Defensive Alternative Pool Fund | 3,559 | 0.3 | 74 | - | 70 |
| Perpetual Diversified Income Fund | 109,639 | 8.3 | 540,639 | 557,700 | 2,142 |
| Perpetual Diversified Real Return Fund | 23,245 | 1.8 | 111,091 | 118,400 | 536 |
| Perpetual Exact Market Cash Fund | 30,401 | 2.3 | 132,401 | 102,100 | 181 |
| Perpetual Growth Opportunities Fund | 3 | - | - | - | - |
| Perpetual High Grade Treasury Fund | 14,465 | 1.1 | 207,592 | 206,900 | 156 |
| Perpetual Income Opportunities Fund | 178 | - | 3 | - | 4 |
| Perpetual Industrial Share Fund | 124,210 | 9.4 | 1,046,144 | 1,129,563 | 3,617 |
| Perpetual Private Balanced Fund | 10,742 | 0.8 | 1,218 | 54 | 209 |
| Perpetual Private Conservative Fund | 2,066 | 0.2 | 246 | 62 | 41 |
| Perpetual Private Diversified Fund | 4,450 | 0.3 | 1,088 | 63 | 84 |
| Perpetual Private Geared High Growth Fund | 77 | - | 1 | - | 2 |
| Perpetual Private Growth Fund | 2,456 | 0.2 | 448 | 10 | 47 |
| Perpetual Pure Credit Alpha Fund | 16,130 | 1.2 | 133,709 | 120,500 | 256 |
| Perpetual Pure Equity Alpha Fund | 130,000 | 9.9 | 130,000 | - | 1,783 |
| Perpetual Pure Value Share Fund | 62,322 | 4.7 | 340,005 | 341,200 | 1,314 |
| Perpetual WealthFocus Investment Advantage Fund | 63,979 | 4.8 | 357,524 | 364,371 | 1,443 |
| Perpetual Wholesale Concentrated Equity Fund | 63,968 | 4.8 | 299,380 | 311,200 | 1,578 |
| Perpetual Wholesale Conservative Growth Fund | 27,035 | 2.0 | 82,386 | 95,500 | 415 |
| Perpetual Wholesale Diversified Growth Fund | 2,424 | 0.2 | 20,079 | 23,300 | 64 |
| Perpetual Wholesale SHARE-PLUS Long Short Fund | 1,000 | 0.1 | 100,000 | 99,000 | 516 |
| Perpetual Wholesale Smaller Companies Fund | 76,400 | 5.8 | 496,040 | 453,113 | 899 |
| Perpetual Wholesale Split Growth Fund | 40 | - | 1 | - | 1 |
| The Trust Company Philanthropy Fund | 4,621 | 0.4 | 3,065 | - | 78 |
| Australian Eligible Rollover Fund | 27,358 | 2.1 | 34,921 | 57,547 | 763 |
| Perpetual WealthFocus Superannuation Fund | 126,433 | 9.6 | 75,062 | 81,375 | 2,549 |
| Perpetual's Select Superannuation Fund | 90,196 | 6.8 | 35,764 | 36,366 | 1,779 |

14 Financial risk management

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

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

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

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

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

(a) Market risk

(i) Currency risk

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

The Scheme did not have any significant direct 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.

14 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

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

| | Floating interest rate \$'000 | Fixed interest rate \$'000 | Total \$'000 |
|---------------------------|--|-------------------------------------|-----------------|
| 30 June 2018 | | | |
| Financial assets | | | |
| Cash and cash equivalents | 190,315 | - | 190,315 |
| Money market securities | - | 887,990 | 887,990 |
| Debt securities | 307,290 | - | 307,290 |
| Derivatives | - | 1 | 1 |
| | Floating interest rate \$'000 | Fixed interest rate \$'000 | Total \$'000 |
| 30 June 2017 | | | |
| Financial assets | | | |
| Cash and cash equivalents | 169,788 | 65,000 | 234,788 |
| Money market securities | - | 851,021 | 851,021 |
| Debt securities | 239,798 | 1,014 | 240,812 |
| Derivatives | - | 4 | 4 |

The table presented in note 14(a)(iv) summarises sensitivity analysis to interest rate risk. This analysis assumes that all other variables, in particular foreign currency exchange rates remain constant.

(iii) Price risk

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

The Scheme predominantly invests in money market securities and highly liquid debt securities. As a result, the price risk arising from the Scheme's investments is impacted by movements in interest rates and is reflected in note 14(a)(ii).

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 interest rate risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates. 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 2018 \$'000 | 30 June 2017 \$'000 |
| Interest rate risk | +1% | 2,951 | 1,903 |
| | -1% | (2,951) | (1,903) |

(b) Credit risk

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

(i) Debt securities

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

The Scheme monitors the credit ratings of debt securities on a regular basis.

14 Financial risk management (continued)

(b) Credit risk (continued)

(i) Debt securities (continued)

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

| 30 June 2018 | AAA to AA- \$'000 | A+ to A- \$'000 | BBB+ to BBB- \$'000 | NON- RATED \$'000 | Total \$'000 |
|-------------------------|-------------------------|-----------------------|---------------------------|-------------------------|------------------|
| Money market securities | 630,003 | 257,987 | - | - | 887,990 |
| Debt securities | <u>266,599</u> | <u>40,691</u> | - | - | <u>307,290</u> |
| | <u>896,602</u> | <u>298,678</u> | - | - | <u>1,195,280</u> |
| | | | | | |
| 30 June 2017 | AAA to AA- \$'000 | A+ to A- \$'000 | BBB+ to BBB- \$'000 | NON- RATED \$'000 | Total \$'000 |
| Money market securities | 603,077 | 247,944 | - | - | 851,021 |
| Debt securities | <u>117,566</u> | <u>59,546</u> | - | 63,700 | <u>240,812</u> |
| | <u>720,643</u> | <u>307,490</u> | - | <u>63,700</u> | <u>1,091,833</u> |

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

(ii) Derivative financial instruments

The risk of counterparty default in a derivative transaction is minimised by predominantly using exchange traded derivatives (except for currency hedging, contracts for differences, and occasionally other approved over the counter instruments). The exchange traded derivatives are only executed and cleared through approved members of the exchanges. For over the counter derivatives, minimum credit ratings apply for counterparties at the time of entering into a contract and ISDA agreements are put in place with counterparties.

(iii) Cash and cash equivalents

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

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 and daily margin calls on derivatives.

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

In order to manage the Scheme's overall liquidity, asset managers will only purchase securities (including derivatives) which meet the Scheme's investment criteria, including the assessment of saleability in different market conditions. The Scheme's investment strategy generally defines a minimum liquidity level for the Scheme which is monitored regularly. The Responsible Entity has the discretion to reject an application and to defer or adjust redemption of units if the exercise of such discretion is in the best interests of unitholders. The Scheme did not reject or withhold any redemptions during the reporting period.

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

| | Carrying amount \$'000 | Contractual cash flows | |
|--|---------------------------|------------------------|------------------------------|
| | | At call \$'000 | less than 6 months \$'000 |
| 30 June 2018 | | | |
| Non-derivative financial liabilities | | | |
| Distributions payable to unitholders of the Scheme | 6,855 | - | 6,855 |
| Payables | 24 | - | 24 |
| Net assets attributable to unitholders - liability | - | - | - |
| Total | 6,879 | - | 6,879 |
| | | | |
| | Carrying amount \$'000 | Contractual cash flows | |
| | | At call \$'000 | less than 6 months \$'000 |
| 30 June 2017 | | | |
| Non-derivative financial liabilities | | | |
| Distributions payable to unitholders of the Scheme | 6,797 | - | 6,797 |
| Payables | 300 | - | 300 |
| Net assets attributable to unitholders - liability | 1,319,660 | 1,319,660 | - |
| Total | 1,326,757 | 1,319,660 | 7,097 |

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.

Listed securities and exchange traded derivatives are valued at the last traded price.

(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.

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. Quoted market prices or dealer quotes for similar instruments are used for debt securities held.

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 2018 and 30 June 2017.

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 2018 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|------------------|
| Financial assets | | | | |
| Financial assets held for trading: | | | | |
| Futures | 1 | - | - | 1 |
| Financial assets designated at fair value through profit or loss: | | | | |
| Money market securities | - | 887,990 | - | 887,990 |
| Debt securities | - | 307,290 | - | 307,290 |
| Total | 1 | 1,195,280 | - | 1,195,281 |

| 30 June 2017 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|------------------|
| Financial assets | | | | |
| Financial assets held for trading: | | | | |
| Futures | 4 | - | - | 4 |
| Financial assets designated at fair value through profit or loss: | | | | |
| Money market securities | - | 851,021 | - | 851,021 |
| Debt securities | - | 240,812 | - | 240,812 |
| Total | 4 | 1,091,833 | - | 1,091,837 |

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 2018 and 30 June 2017.

15 Offsetting financial assets and financial liabilities

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

| | Effects of offsetting on the balance sheet | | | Related amounts not offset | |
|----------------------------------|--|--|--|--|-----------------------|
| | Gross amounts \$'000 | Gross amounts set off in the balance sheet \$'000 | Net amounts presented in the balance sheet \$'000 | Amounts subject to master netting arrangements \$'000 | Net amounts \$'000 |
| 30 June 2018 | | | | | |
| Financial assets | | | | | |
| Margin accounts | 12 | - | 12 | - | 12 |
| Derivative financial instruments | 1 | - | 1 | - | 1 |
| Total | 13 | - | 13 | - | 13 |

| | Effects of offsetting on the balance sheet | | | Related amounts not offset | |
|----------------------------------|--|--|--|--|-----------------------|
| | Gross amounts \$'000 | Gross amounts set off in the balance sheet \$'000 | Net amounts presented in the balance sheet \$'000 | Amounts subject to master netting arrangements \$'000 | Net amounts \$'000 |
| 30 June 2017 | | | | | |
| Financial assets | | | | | |
| Margin accounts | 15 | - | 15 | - | 15 |
| Derivative financial instruments | 4 | - | 4 | - | 4 |
| Total | 19 | - | 19 | - | 19 |

Master netting arrangement - not currently enforceable

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

16 Derivative financial instruments

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

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

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

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

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

The Scheme held the following derivative instrument during the year:

Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange.

Risk exposures and fair value measurements

Information about the Scheme's exposure to financial risks and the methods and assumptions used in determining fair values is provided in note 14. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of the derivative financial instruments.

17 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 2018 or on the results and cash flows of the Scheme for the year ended on that date.

18 Contingent assets, liabilities and commitments


There were no outstanding contingent assets, liabilities or commitments as at 30 June 2018 and 30 June 2017.

Directors' declaration

In the opinion of the directors of Perpetual Investment Management Limited, the Responsible Entity of Perpetual Institutional Cash Management Trust:

- (a) the annual financial statements and notes, set out on pages 6 to 30, 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 2018 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
12 September 2018



Independent Auditor's Report

To the unitholders of Perpetual Institutional Cash Management Trust

Opinion

We have audited the **Financial Report** of Perpetual Institutional Cash Management Trust (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 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises the:

- Balance sheet as at 30 June 2018
- 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
- Directors' Declaration.

Basis for opinion

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

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

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

Other Information

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

The Other Information we obtained prior to the date of this Auditor's Report was the Director's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we will 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 and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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_responsibilities/ar4.pdf
This description forms part of our Auditor's Report.

KPMG

Jessica Davis

Partner

Sydney

12 September 2018

**AUSTRALIAN CAPITAL
TERRITORY**

Level 6
10 Rudd Street
Canberra ACT 2601

NEW SOUTH WALES

Angel Place
Level 18
123 Pitt Street
Sydney NSW 2000

QUEENSLAND

Central Plaza 1
Level 15
345 Queen Street
Brisbane QLD 4000

SOUTH AUSTRALIA

Level 11
101 Grenfell Street
Adelaide SA 5000

VICTORIA

Rialto South Tower
Level 29
525 Collins Street
Melbourne VIC 3000

WESTERN AUSTRALIA

Exchange Tower
Level 29
2 The Esplanade
Perth WA 6000

www.perpetual.com.au

Perpetual 