
Perpetual Balanced Growth Fund No.2

Annual Financial Report – 30 June 2021

ARSN 091 102 171

Perpetual Investment Management Limited
ABN 18 000 866 535 AFSL 234426

Perpetual 

Perpetual Balanced Growth Fund No. 2

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Annual Financial Report - 30 June 2021

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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 Balanced Growth Fund No. 2, present their report together with the annual financial report of Perpetual Balanced Growth Fund No. 2 (the Scheme) for the year ended 30 June 2021 and the auditor's report thereon.

Responsible Entity

The Responsible Entity of Perpetual Balanced Growth Fund No. 2 is Perpetual Investment Management Limited (ABN 18 000 866 535). The Responsible Entity's registered office and principal place of business is Level 18, 123 Pitt Street, Sydney, NSW 2000.

Directors

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

A Apted (appointed 9 April 2020)
A Gazal (appointed 9 April 2020)
D Lane (appointed 20 April 2017)

Principal activities

The Scheme aims to achieve long-term capital growth and income through investment in a diversified portfolio of growth and income assets.

Investment exposure is achieved by investing in a diverse mix of assets (such as Australian shares, international shares, fixed income, property and enhanced cash) and by applying tactical asset allocation strategies to Australian shares and fixed income.

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:

	2021	2020
Operating profit/(loss) (\$'000)	<u>161,073</u>	<u>(25,599)</u>
Distributions paid and payable (\$'000)	<u>68,585</u>	<u>47,923</u>
Distributions (cents per unit)	<u>14.32</u>	<u>7.24</u>

Where applicable, the volatility in global and local capital markets resulting from the coronavirus (COVID-19) pandemic continues to be reflected in the valuation of the Scheme's investment portfolio and its financial results for the year ended 30 June 2021.

Directors' report (continued)

Interests in the Scheme

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

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

Significant changes in state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Scheme that occurred during the financial year.

Likely developments and expected results of operations

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

Matters subsequent to the end of the financial year

The Responsible Entity has appointed State Street Australia Limited, a subsidiary of State Street Corporation to provide the custodial and fund administration services to the Scheme. State Street Australia Limited will officially replace RBC Investor & Treasury Services effective from 27 September 2021.

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect:

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

Environmental regulation

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

Fees paid to and interests held in the Scheme by the Responsible Entity or its related parties

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

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

The number of interests in the Scheme held by the Responsible Entity or its related parties 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
15 September 2021



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

To the Directors of Perpetual Investment Management Limited as the
Responsible Entity of Perpetual Balanced Growth Fund No.2

I declare that, to the best of my knowledge and belief, in relation to the audit of Perpetual Balanced Growth Fund No.2 for the financial year ended 30 June 2021 there have been:

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

KPMG

Jessica Davis

Partner

Sydney

15 September 2021

Perpetual Balanced Growth Fund No. 2
Statement of comprehensive income
For the year ended 30 June 2021

Statement of comprehensive income

	Notes	30 June 2021 \$'000	30 June 2020 \$'000
Investment income			
Dividend/distribution income		56,279	45,956
Interest income		291	426
Net gains/(losses) on financial instruments at fair value through profit or loss	3	111,413	(61,967)
Net foreign exchange gains/(losses)		1,231	(189)
Other income		42	27
Total net investment income/(loss)		<u>169,256</u>	<u>(15,747)</u>
Expenses			
Responsible Entity's fees	13	4,406	5,488
Other operating expenses	4	3,777	4,364
Total expenses		<u>8,183</u>	<u>9,852</u>
Operating profit/(loss)		<u>161,073</u>	<u>(25,599)</u>
Finance costs			
Interest expense		165	155
Profit/(loss)		<u>160,908</u>	<u>(25,754)</u>
Other comprehensive income		-	-
Total comprehensive income		<u>160,908</u>	<u>(25,754)</u>

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

Perpetual Balanced Growth Fund No. 2
Balance sheet
As at 30 June 2021

Balance sheet

	Notes	30 June 2021 \$'000	30 June 2020 \$'000
Assets			
Cash and cash equivalents	11(b)	18,682	30,524
Financial assets at fair value through profit or loss	7	772,011	944,338
Receivables for securities sold		-	409
Receivables	9	48,987	30,917
Total assets		<u>839,680</u>	<u>1,006,188</u>
Liabilities			
Financial liabilities at fair value through profit or loss	8	4,837	8,765
Distributions payable	5	66,633	45,338
Payables for securities purchased		-	1,243
Payables	10	748	1,799
Total liabilities		<u>72,218</u>	<u>57,145</u>
Net assets attributable to unitholders - equity	6	<u>767,462</u>	<u>949,043</u>

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

Perpetual Balanced Growth Fund No. 2
Statement of changes in equity
For the year ended 30 June 2021

Statement of changes in equity

		30 June 2021 \$'000	30 June 2020 \$'000
	Notes		
Total equity at the beginning of the year		949,043	1,119,604
Comprehensive income for the year			
Profit/(loss)		160,908	(25,754)
Other comprehensive income		-	-
Total comprehensive income for the year		<u>160,908</u>	<u>(25,754)</u>
Transactions with unitholders			
Applications	6	185,115	89,669
Redemptions	6	(506,008)	(247,848)
Units issued upon reinvestment of distributions	6	46,989	61,295
Distributions to unitholders	5, 6	(68,585)	(47,923)
Total transactions with unitholders		<u>(342,489)</u>	<u>(144,807)</u>
Total equity at the end of the year	6	<u>767,462</u>	<u>949,043</u>

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

Perpetual Balanced Growth Fund No. 2
Statement of cash flows
For the year ended 30 June 2021

Statement of cash flows

	30 June 2021 \$'000	30 June 2020 \$'000
	Notes	
Cash flows from operating activities		
Dividends/distributions received	37,442	70,632
Interest received	291	426
Other income received	410	412
Responsible Entity's fees paid	(4,810)	(5,929)
Other operating expenses paid	(3,784)	(4,368)
Net cash inflow/(outflow) from operating activities	11(a) <u>29,549</u>	<u>61,173</u>
Cash flows from investing activities		
Proceeds from sale of investments	702,431	528,784
Payments for purchase of investments	(422,500)	(413,800)
Net cash inflow/(outflow) from investing activities	<u>279,931</u>	<u>114,984</u>
Cash flows from financing activities		
Proceeds from applications by unitholders	185,843	89,697
Payments for redemptions by unitholders	(506,977)	(248,580)
Distributions paid	(301)	(415)
Interest expense paid	(165)	(155)
Net cash inflow/(outflow) from financing activities	<u>(321,600)</u>	<u>(159,453)</u>
Net increase/(decrease) in cash and cash equivalents	(12,120)	16,704
Cash and cash equivalents at the beginning of the year	30,524	13,868
Effects of foreign currency exchange rate changes on cash and cash equivalents	<u>278</u>	<u>(48)</u>
Cash and cash equivalents at the end of the year	11(b) <u>18,682</u>	<u>30,524</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 Balanced Growth Fund No. 2 (the Scheme) as an individual entity. The Scheme is a registered managed investment scheme under the *Corporations Act 2001*. The Scheme was constituted on 21 December 1992. The Scheme will terminate on 20 December 2072 unless terminated earlier in accordance with the provisions of the Scheme's Constitution (as amended). The Scheme is domiciled in Australia. For the purpose of the financial statements, the Scheme is a for-profit entity.

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

The annual financial report was authorised for issue by the directors of the Responsible Entity on 15 September 2021. 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 in the financial statements. Estimates and associated assumptions are reviewed regularly and are based on historical experience and various other factors, including expectations of future events that are believed to be reasonable under the circumstances. Where applicable to the fair value measurement, the impact of coronavirus (COVID-19) pandemic is assessed and estimated. Actual results may differ from these estimates.

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

(b) New accounting standards and interpretations

There are no new accounting standards, amendments and interpretations effective for the first time for the financial year beginning 1 July 2020 that would be expected to have a material impact on the Scheme.

2 Summary of significant accounting policies (continued)

(c) Financial instruments

(i) Classification

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

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

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

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

(ii) Recognition/derecognition

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

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

(iii) Measurement

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

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

(iv) Offsetting financial instruments

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

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 assets attributable to unitholders. The units are carried at the redemption amount that is payable at the balance sheet date if the unitholders exercise their right to put the units back to the Scheme.

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

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

(e) Cash and cash equivalents

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

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

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

2 Summary of significant accounting policies (continued)

(f) Receivables (continued)

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

(g) Payables

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

(h) Investment income

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

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

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

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

(i) Expenses

All expenses, including 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.

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

(k) Distributions

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

2 Summary of significant accounting policies (continued)

(l) Goods and Services Tax

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

(m) Foreign currency translation

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

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

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

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

	30 June 2021 \$'000	30 June 2020 \$'000
Net unrealised gains/(losses) on financial instruments at fair value through profit or loss	92,554	(75,826)
Net realised gains/(losses) on financial instruments at fair value through profit or loss	18,859	13,859
Net gains/(losses) on financial instruments at fair value through profit or loss	111,413	(61,967)

4 Other operating expenses

	30 June 2021 \$'000	30 June 2020 \$'000
Transaction costs	99	143
Derivative expenses	3,658	4,200
Sundry expenses	20	21
Total	3,777	4,364

5 Distributions to unitholders

The distributions for the year were as follows:

	30 June 2021 \$'000	30 June 2021 CPU	30 June 2020 \$'000	30 June 2020 CPU
Distributions paid - December	737	0.15	-	-
Distributions paid - March	1,215	0.25	2,585	0.38
Distributions payable - June	<u>66,633</u>	<u>13.92</u>	<u>45,338</u>	<u>6.86</u>
Total distributions	<u>68,585</u>		<u>47,923</u>	

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 2021 Units '000	30 June 2020 Units '000	30 June 2021 \$'000	30 June 2020 \$'000
Net assets attributable to unitholders				
Opening balance	661,284	724,427	949,043	1,119,604
Applications	119,319	57,926	185,115	89,669
Redemptions	(334,668)	(160,884)	(506,008)	(247,848)
Units issued upon reinvestment of distributions	32,586	39,815	46,989	61,295
Distributions to unitholders	-	-	(68,585)	(47,923)
Profit/(loss)	-	-	160,908	(25,754)
Closing balance	<u>478,521</u>	<u>661,284</u>	<u>767,462</u>	<u>949,043</u>

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

Capital risk management

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

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

7 Financial assets at fair value through profit or loss

	30 June 2021 \$'000	30 June 2020 \$'000
Derivatives		
Futures	264	704
Options	884	1,920
Foreign exchange forward contracts	9	7,042
Equities	64,710	71,113
Debt securities	11,901	11,421
Unlisted unit trusts	<u>694,243</u>	<u>852,138</u>
Total financial assets at fair value through profit or loss	<u>772,011</u>	<u>944,338</u>

8 Financial liabilities at fair value through profit or loss

	30 June 2021 \$'000	30 June 2020 \$'000
Derivatives		
Futures	320	845
Options	-	412
Swaps	3,504	7,356
Foreign exchange forward contracts	<u>1,013</u>	<u>152</u>
Total financial liabilities at fair value through profit or loss	<u>4,837</u>	<u>8,765</u>

9 Receivables

	30 June 2021 \$'000	30 June 2020 \$'000
Distributions receivable	48,434	29,597
Applications receivable	496	1,224
Other receivables	<u>57</u>	<u>96</u>
Total receivables	<u>48,987</u>	<u>30,917</u>

10 Payables

	30 June 2021 \$'000	30 June 2020 \$'000
Responsible Entity's fees payable	406	488
Redemptions payable	<u>342</u>	<u>1,311</u>
Total payables	<u>748</u>	<u>1,799</u>

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

	30 June 2021 \$'000	30 June 2020 \$'000
(a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities		
Operating profit/(loss)	161,073	(25,599)
(Increase)/decrease in distributions receivable	(18,837)	24,676
(Increase)/decrease in other receivables	39	(21)
Increase/(decrease) in payables	(82)	(39)
Net (gains)/losses on financial instruments at fair value through profit or loss	(111,413)	61,967
Net foreign exchange (gains)/losses	<u>(1,231)</u>	<u>189</u>
Net cash inflow/(outflow) from operating activities	<u>29,549</u>	<u>61,173</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	12,014	17,152
Margin accounts	<u>6,668</u>	<u>13,372</u>
Total cash and cash equivalents	<u>18,682</u>	<u>30,524</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>46,989</u>	<u>61,295</u>
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12 Remuneration of auditors

	30 June 2021 \$	30 June 2020 \$
Amount received or due and receivable by KPMG:		
Audit of financial statements	13,953	13,815
Other regulatory assurance services	<u>3,712</u>	<u>3,900</u>
Total	<u>17,665</u>	<u>17,715</u>

Audit fees were paid or payable by the Responsible Entity.

13 Related party transactions

Responsible Entity

The Responsible Entity of Perpetual Balanced Growth Fund No. 2 is Perpetual Investment Management Limited (ABN 18 000 866 535), a wholly owned subsidiary of Perpetual Limited (ACN 000 431 827).

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

Key management personnel

(a) Directors

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

A Apted (appointed 9 April 2020)
A Gazal (appointed 9 April 2020)
D Lane (appointed 20 April 2017)

(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 2021.

13 Related party transactions (continued)

Transactions with key management personnel

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

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

Responsible Entity's fees and other transactions

Under the terms of the Scheme's Constitution, the Responsible Entity is entitled to receive management fees calculated by reference to the net asset value of the Scheme. The Responsible Entity's fees of 1.040% per annum are charged to the Scheme. Where the Scheme invests into other schemes, the Responsible Entity's fees are calculated after rebating management fees charged by the underlying schemes.

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

	30 June 2021 \$	30 June 2020 \$
Responsible Entity's fees	4,406,166	5,488,470
Responsible Entity fees payable	405,471	487,515
Responsible Entity's rebates	20,736	26,670

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 2021

Unitholders	Number of units held '000	Interest held %	Number of units acquired '000	Number of units disposed '000	Distributions paid/payable \$'000
Perpetual WealthFocus Investment Advantage Fund	47,179	9.9	4,179	6,313	6,760
Perpetual WealthFocus Super Plan	89,664	18.7	11,172	14,934	12,851
Perpetual Wholesale Balanced Growth Fund	337,305	70.5	123,671	160,258	48,338
Perpetual's Pooled Superannuation Trust	-	-	204	2,690	10
Perpetual's Select Superannuation Fund	-	-	12,627	149,594	-

30 June 2020

Unitholders	Number of units held '000	Interest held %	Number of units acquired '000	Number of units disposed '000	Distributions paid/payable \$'000
Perpetual WealthFocus Investment Advantage Fund	49,313	7.5	4,701	7,208	3,571
Perpetual WealthFocus Super Plan	93,426	14.1	12,634	24,735	6,770
Perpetual Wholesale Balanced Growth Fund	373,892	56.5	52,953	95,289	27,103
Perpetual's Pooled Superannuation Trust	2,486	0.4	216	508	180
Perpetual's Select Superannuation Fund	136,967	20.7	27,179	32,367	9,921

13 Related party transactions (continued)

Investments

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

30 June 2021

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 Active Fixed Interest Fund	32,660	34,028	6.0	1,348	24,939	988
Perpetual Active Fixed Interest Fund - class A	18,875	19,578	10.3	493	-	434
Perpetual Australian Share Fund	46,164	233,330	25.9	2,935	25,405	21,380
Perpetual Diversified Income Fund	7,321	7,108	0.6	1,285	-	288
Perpetual Diversified Real Return Fund	71,599	82,494	11.0	4,433	21,939	326
Perpetual Economic Diversification Global Equity Fund	77,028	118,895	64.0	4,318	26,070	15,405
Perpetual Institutional Cash Management Trust	47,102	47,102	4.9	337,249	311,600	21
Perpetual Pure Credit Alpha Fund	12,238	15,468	2.4	-	5,375	835
Perpetual Pure Equity Alpha Fund	14,136	18,157	4.3	1,124	5,931	126
Perpetual Smart Beta Emerging Market Equities Fund	42,746	47,088	53.2	17,734	17,133	4,113
Perpetual Wholesale Global Share Fund	29,992	54,391	10.5	1,786	14,033	6,657
Perpetual Wholesale Smaller Companies Fund	12,172	16,604	2.7	837	7,276	2,388

13 Related party transactions (continued)

Investments (continued)

30 June 2020

Investments	Number of units held '000	Fair value of investments \$'000	Interest held %	Number of units acquired '000	Number of units disposed '000	Distributions received/ receivable \$'000
Perpetual Active Fixed Interest Fund	56,251	59,458	13.2	3,918	18,195	2,298
Perpetual Active Fixed Interest Fund - class A	18,382	19,343	10.5	985	-	636
Perpetual Australian Share Fund	68,634	272,584	24.7	4,619	6,354	16,852
Perpetual Diversified Income Fund	6,036	5,760	0.5	-	-	111
Perpetual Diversified Real Return Fund	89,105	92,901	18.9	2,585	21,609	4,723
Perpetual Economic Diversification Global Equity Fund	98,780	140,727	70.7	14,854	4,143	6,162
Perpetual Institutional Cash Management Trust	21,453	21,453	1.9	245,024	259,300	166
Perpetual Pure Credit Alpha Fund	17,613	21,353	3.1	-	11,002	1,007
Perpetual Pure Equity Alpha Fund	18,493	20,727	5.9	898	3,410	1,426
Perpetual Smart Beta Emerging Market Equities Fund	42,145	42,062	80.4	1,984	3,875	3,623
Perpetual Wholesale Global Share Fund	42,239	61,924	12.8	5,368	21,588	3,021
Perpetual Wholesale Smaller Companies Fund	18,611	20,689	3.9	635	2,674	1,113

14 Structured entities

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

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

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

The Scheme's exposure to structured entities at 30 June 2021 was \$694,242,923 (2020: \$852,138,393).

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

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

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

Unconsolidated subsidiaries

The Scheme applies the investment entity exception to consolidation available under AASB 10 *Consolidated Financial Statements* and measures its subsidiaries at fair value through profit or loss.

The following unconsolidated structured entities are considered to be the Scheme's subsidiaries at the reporting date:

	Fair value		Ownership interest	
	30 June 2021 \$'000	30 June 2020 \$'000	30 June 2021 %	30 June 2020 %
Perpetual Economic Diversification Global Equity Fund	118,895	140,727	64.0	70.7
Perpetual Smart Beta Emerging Market Equities Fund	47,088	42,062	53.2	80.4

Each of the above subsidiaries is domiciled in Australia.

15 Financial risk management

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

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

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

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

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

(a) Market risk

(i) Currency risk

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

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

The Scheme did not have 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.

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

15 Financial risk management (continued)

(a) Market risk (continued)

(iii) Price risk

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

The Scheme is exposed to price risk predominantly through its investments for which prices in the future are uncertain.

The fair value of the Scheme's investments exposed to price risk was as follows:

	30 June 2021 \$'000	30 June 2020 \$'000
Derivatives	604	888
Equities	64,710	71,113
Units in fixed income trusts	76,182	105,914
Units in equity and other trusts	570,959	724,771
	<u>712,455</u>	<u>902,686</u>

The table presented in note 15(a)(iv) summarises sensitivity analysis to price risk. This analysis assumes that all other variables remain constant.

(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 unusual large market movements resulting from changes in the performance of and/or correlation between the performances of the economies, markets and securities in which the Scheme invests. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

	Sensitivity rates	Impact on operating profit/net assets attributable to unitholders	
		30 June 2021 \$'000	30 June 2020 \$'000
Price risk			
Equities and equity related securities*	+10%	63,627	79,677
	-10%	(63,627)	(79,677)
Units in fixed income trusts	+5%	3,809	5,296
	-5%	(3,809)	(5,296)

*include equities, derivatives and units in equity and other trusts.

15 Financial risk management (continued)

(b) Credit risk

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

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

(i) Debt securities

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

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

(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).

(iv) Receivables for securities sold

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

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

15 Financial risk management (continued)

(c) Liquidity risk

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

The Scheme is exposed to daily cash redemptions of redeemable units and daily margin calls on derivatives.

The Scheme's investments in equity securities are considered to be readily realisable. The Scheme primarily holds investments in an active market which can be readily disposed. Only a limited proportion of these investments are not actively traded on a stock exchange.

The Scheme's investments in unlisted unit trusts expose it to the risk that the responsible entity or the manager of those trusts may be unwilling or unable to fulfill the redemption requests within the timeframe requested by the Scheme. However, these investments are considered readily realisable unless the unlisted unit trusts are declared illiquid or suspended.

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

	Carrying amount \$'000	At call \$'000	Contractual cash flows		
			less than 6 months \$'000	6 - 12 months \$'000	more than 12 months \$'000
30 June 2021					
Non-derivative financial liabilities					
Distributions payable	66,633	-	66,633	-	-
Payables	748	-	748	-	-
Total	67,381	-	67,381	-	-
Derivative financial liabilities					
Futures	320	-	320	-	-
Swaps	3,504	-	-	-	-
Outflow	-	-	1,808	363,313	-
Foreign exchange forward contracts	1,013	-	-	-	-
Outflow	-	-	107,363	-	-
Inflow	-	-	(106,350)	-	-
Total	4,837	-	3,141	363,313	-

15 Financial risk management (continued)

(c) Liquidity risk (continued)

30 June 2020	Carrying amount \$'000	At call \$'000	Contractual cash flows		
			less than 6 months \$'000	6 - 12 months \$'000	more than 12 months \$'000
Non-derivative financial liabilities					
Distributions payable	45,338	-	45,338	-	-
Payables for securities purchased	1,243	-	1,243	-	-
Payables	1,799	-	1,799	-	-
Total	48,380	-	48,380	-	-
Derivative financial liabilities					
Futures	845	-	845	-	-
Options	412	-	3	409	-
Swaps	7,356	-	-	-	-
Outflow	-	-	1,971	1,971	398,132
Foreign exchange forward contracts	152	-	-	-	-
Outflow	-	-	17,727	-	-
Inflow	-	-	(17,575)	-	-
Total	8,765	-	2,971	2,380	398,132

(d) Fair value measurement

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

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

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

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

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

Listed securities and exchange traded derivatives are valued at the last traded price. For the majority of these financial instruments, information provided by the independent pricing services is relied upon for valuation.

15 Financial risk management (continued)

(d) Fair value measurement (continued)

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

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

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

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

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

Debt securities are generally valued using broker quotes. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. Management monitored credit spreads closely and conducted regular review to ensure any estimates and assumptions used in the valuation model remained appropriate.

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

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

The Scheme's level 3 assets included units held in an unlisted property fund and a close ended unlisted unit trust that has exposure to hedge fund assets. These assets were valued at the price provided by that the investment managers without any adjustments. The Scheme did not hold any other financial instruments with fair value measurements using significant unobservable inputs at reporting date.

15 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 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Derivatives				
Futures	264	-	-	264
Options	-	884	-	884
Foreign exchange forward contracts	-	9	-	9
Equities	64,710	-	-	64,710
Debt securities	-	11,901	-	11,901
Unlisted unit trusts	488,479	205,764	-	694,243
Total	553,453	218,558	-	772,011
Financial liabilities at fair value through profit or loss				
Derivatives				
Futures	320	-	-	320
Swaps	-	3,504	-	3,504
Foreign exchange forward contracts	-	1,013	-	1,013
Total	320	4,517	-	4,837

15 Financial risk management (continued)

(d) Fair value measurement (continued)

30 June 2020	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Derivatives				
Futures	704	-	-	704
Options	-	1,920	-	1,920
Foreign exchange forward contracts	-	7,042	-	7,042
Equities	71,113	-	-	71,113
Debt securities	-	11,421	-	11,421
Unlisted unit trusts	538,104	255,902	58,132	852,138
Total	<u>609,921</u>	<u>276,285</u>	<u>58,132</u>	<u>944,338</u>
Financial liabilities at fair value through profit or loss				
Derivatives				
Futures	845	-	-	845
Options	-	412	-	412
Swaps	-	7,356	-	7,356
Foreign exchange forward contracts	-	152	-	152
Total	<u>845</u>	<u>7,920</u>	<u>-</u>	<u>8,765</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 2021 and 30 June 2020.

15 Financial risk management (continued)

(d) Fair value measurement (continued)

Fair value measurements using significant unobservable inputs (level 3)

The following tables present the movement in level 3 instruments, by class of financial instruments, for the years ended 30 June 2021 and 30 June 2020:

30 June 2021	Unlisted unit trusts \$'000	Total \$'000
Opening balance	58,132	58,132
Sales	(62,926)	(62,926)
Gains/(losses) recognised in profit or loss	<u>4,794</u>	<u>4,794</u>
Closing balance	<u>-</u>	<u>-</u>
30 June 2020	Unlisted unit trusts \$'000	Total \$'000
Opening balance	54,868	54,868
Gains/(losses) recognised in profit or loss	<u>3,264</u>	<u>3,264</u>
Closing balance	<u>58,132</u>	<u>58,132</u>
Total unrealised gains/(losses) for the year included in the statement of comprehensive income for financial assets and liabilities held at the end of the year	<u>3,264</u>	<u>3,264</u>

16 Offsetting financial assets and financial liabilities

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

	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts set off in the balance sheet	Net amounts presented in the balance sheet	Amounts subject to master netting arrangements	Net amounts	
30 June 2021	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets					
Margin accounts	7,498	-	7,498	(3,820)	3,678
Derivative financial instruments	1,157	-	1,157	(772)	385
Total	8,655	-	8,655	(4,592)	4,063
Financial liabilities					
Margin account	(830)	-	(830)	763	(67)
Derivative financial instruments	(4,837)	-	(4,837)	3,829	(1,008)
Total	(5,667)	-	(5,667)	4,592	(1,075)

16 Offsetting financial assets and financial liabilities (continued)

	Effects of offsetting on the balance sheet			Related amounts not offset	
	Gross amounts set off in the balance sheet \$'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 2020					
Financial assets					
Margin accounts	13,372	-	13,372	(6,590)	6,782
Derivative financial instruments	9,666	-	9,666	(564)	9,102
Total	<u>23,038</u>	<u>-</u>	<u>23,038</u>	<u>(7,154)</u>	<u>15,884</u>
Financial liabilities					
Derivative financial instruments	(8,765)	-	(8,765)	7,154	(1,611)
Total	<u>(8,765)</u>	<u>-</u>	<u>(8,765)</u>	<u>7,154</u>	<u>(1,611)</u>

Master netting arrangement - not currently enforceable

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

17 Derivative financial instruments

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

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

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

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

17 Derivative financial instruments (continued)

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

The Scheme held the following derivative instruments during the year:

(a) 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.

(b) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price risk. Options held by the Scheme are exchange traded. The Scheme is exposed to credit risks on purchased options to the extent of their carrying amounts which is their fair value. Options are settled on a gross basis.

(c) Foreign exchange forward contracts

Foreign exchange forward contracts are primarily used by the Scheme to hedge against currency risks on its non-Australian dollar denominated trading securities. The Scheme agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Foreign exchange forward contracts are valued at the prevailing bid price at the end of each reporting period. The Scheme recognises a gain or loss equals to the change in fair value at the end of each reporting period.

(d) Swaps

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

(e) Credit derivatives

Credit derivatives are valued at fair value which is based on the estimated amount the Scheme would pay or receive to terminate these derivatives at the balance sheet date, taking into account current interest rates, volatility and credit risk. The Scheme held credit derivatives for trading to make gains or losses and not for hedging purposes.

Risk exposures and fair value measurements

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

18 Events occurring after the reporting period

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

The Responsible Entity has appointed State Street Australia Limited, a subsidiary of State Street Corporation to provide the custodial and fund administration services to the Scheme. State Street Australia Limited will officially replace RBC Investor & Treasury Services effective from 27 September 2021.

No other significant events have occurred since the reporting date which would have an impact on the financial position of the Scheme disclosed in the balance sheet as at 30 June 2021 or on the results and cash flows of the Scheme for the year ended on that date.

19 Contingent assets, liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2021 and 30 June 2020.

Directors' declaration

In the opinion of the directors of Perpetual Investment Management Limited, the Responsible Entity of Perpetual Balanced Growth Fund No. 2:

- (a) the annual financial statements and notes, set out on pages 6 to 36, 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 2021 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
15 September 2021



Independent Auditor's Report

To the unitholders of Perpetual Balanced Growth Fund No.2

Opinion

We have audited the **Financial Report** of Perpetual Balanced Growth Fund No.2 (the Scheme).

In our opinion, the accompanying **Financial Report** of the Perpetual Balanced Growth Fund No.2 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 2021 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 2021
- Statement of comprehensive income for the year then ended
- Statement of changes in equity, and statement of cash flows for the year then ended
- Notes to the financial statements including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

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

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

We are independent of the Scheme in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (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 Balanced Growth Fund No.2's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Perpetual Investment Management Limited (the Responsible Entity) are responsible for the Other Information.

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

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



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

Responsibilities of the Directors for the Financial Report

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

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Scheme's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

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

KPMG

Jessica Davis

Partner

Sydney

15 September 2021

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