Separately Managed Accounts

ARSN: 114 818 530

Annual Financial Report
30 June 2018

praemium

Praemium Australia Limited
ABN 92 117 611 784
Australian Financial Services Licence No 297956

Separately Managed Accounts
Annual Financial Report - 30 June 2018

Contents

Directors' Report

The directors of Praemium Australia Limited ("PAL"), the Responsible Entity of the Separately Managed Accounts (the "Scheme"), present their report together with the financial statements of the Scheme for the year ended 30 June 2018 and the auditor's report thereon.

Scheme Objectives

The primary aim of the Scheme is to provide investors with flexibility to build their personal portfolios using a range of investment strategies, referred to as Model Portfolios to suit the investors' needs and objectives.

Service Providers

The service providers during or since the end of the financial year are:

Responsible Entity of the Scheme: Praemium Australia Limited (ABN 92 117 611 784) (the "Responsible Entity"). The registered office and principal place of business of the Responsible Entity and the Scheme is Level 19, 367 Collins Street, Melbourne, VIC 3000, Australia.

Custodian: HSBC Bank Australia Limited (ABN 48 006 434 162), Level 32, 580 George Street, Sydney, NSW 2000.

Auditor: Deloitte Touche Tohmatsu (ABN 74 490 121 060), 550 Bourke Street, Melbourne, VIC 3000.

Principal Activities

The Scheme invested in accordance with the provisions of the Scheme's Constitution. 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. Throughout the year, Praemium Australia Limited was the Responsible Entity for the Scheme, and HSBC (Australia) Limited was the Custodian of the Scheme.

Directors

The following persons held office as directors of Praemium Australia Limited during the reporting period or up to the date of this report:

Director	Date Appointed	Date Resigned
C Silcox	19 December 2005	N/A
A Itsiopoulos	23 February 2016	N/A
M Morris	24 February 2017	N/A
M Ohanessian	29 November 2017	N/A

Review and Results of Operations

During the year, the Scheme continued to invest in accordance with investors' target asset allocations and Model Portfolios set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

Results

The returns of investors in the Scheme are based on the performance of investments in the investors' respective accounts. The Scheme invests in accordance with the investment strategies and Model Portfolios selected by investors.

Significant Changes in State of Affairs

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

Director’s Report (continued)

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 have a significant impact on:

(i) the operations of the Scheme in future financial years, or
(ii) the results of these operations in future financial years, or
(iii) the state of affairs of the Scheme in future financial years.

Likely Developments and Expected Results of Operations

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

The results of the Scheme's operations will be affected by a number of factors including the performance of investment markets in which the Scheme invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

Further information on likely developments in the operations of the Scheme and the expected results of those operations have not been included in this report because the Responsible Entity believes it would likely result in unreasonable prejudice to the Scheme.

Indemnification and Insurance of Officers and Auditor

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of Praemium Australia Limited or the auditor of the Scheme. So long as the officers of Praemium Australia 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.

Fees Paid and Interests Held in the Scheme by the Responsible Entity or its Associates

Fees paid to the Responsible Entity and its associates out of Scheme property during the year are disclosed in Note 12 of the financial statements.

No fees were paid out of Scheme property to the directors of the Responsible Entity during the year (2017: nil). Pursuant to Australian Securities and Investments Commission (ASIC) Class Order relief, the Responsible Entity may individually negotiate fees with certain sophisticated or professional investors.

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 12 of the financial statements.

Interests in the Scheme

The movement in investors' schemes during the year is disclosed in Note 7 of the financial statements.

Value of Assets

The value of the Scheme's assets and liabilities is disclosed in the Statement of Financial Position and derived using the basis set out in Note 2 of the financial statements.

Environmental Regulation

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

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 4.

Directors' Report (continued)

The financial statements were authorised for issue by the directors on 24 September 2018. This report is made in accordance with a resolution of the directors.

Director	Director
A Itsiopoulos	C Silcox

Melbourne
24 September 2018

Deloitte.

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The Board of Directors
Praemium Australia Limited
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Melbourne VIC 3000

Dear Board Members

INDEPENDENCE DECLARATION – SEPARATELY MANAGED ACCOUNTS

In accordance with the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Praemium Australia Limited, the Responsible Entity, regarding the financial report for the Separately Managed Accounts.

As lead audit partner for the audit of the financial statements of the Separately Managed Accounts for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

James Oliver

James Oliver
Partner
Chartered Accountants
Melbourne, 24 September 2018

Liability limited by a scheme approved under Professional Standards Legislation.
Member of Deloitte Touche Tohmatsu Limited

Statement of Profit and Loss and Other Comprehensive Income

	Notes	Year ended 30 June 2018 $'000	30 June 2017 $'000
Investment Income			
Net gains on financial instruments held at fair value through profit or loss	6	103,394	180,870
Dividend income		74,645	70,450
Interest income		5,838	2,796
Distributions		87,381	45,527
Other operating income		193	134
Total investment income		271,451	299,777
Expenses			
Responsible Entity's fees	12	13,043	9,135
Adviser and model portfolio fees		33,777	26,756
Transaction costs		1,305	791
Total operating expenses		48,125	36,682
Operating profit		223,326	263,095
Finance costs attributable to investors			
Increase in net assets attributable to investors	7	223,326	263,095
Profit for the year		-	-
Other comprehensive income		-	-
Total comprehensive income		-	-

The above Statement of Profit and Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

	Notes	As at 30 June 2018 $'000	30 June 2017 $'000
Assets			
Cash and cash equivalents	13(b)	318,229	257,415
Receivables	8	101,189	43,890
Financial assets held at fair value through profit or loss	9	4,644,916	3,232,941
Total Assets		5,064,334	3,534,246
Liabilities			
Payables	11	39,272	15,621
Total liabilities (excluding net assets attributable to investors)		39,272	15,621
Net assets attributable to investors (liability)	7	5,025,062	3,518,625
Net assets		-	-

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

	Year ended	
	30 June 2018 $'000	30 June 2017 $'000
Total equity at the beginning of the financial year	-	-
Profit/(loss) for the year	-	-
Other comprehensive income for the year	-	-
Total comprehensive income for the year	-	-
Transactions with owners in their capacity as owners	-	-
Total equity at the end of the financial year	-	-

Under Australian Accounting Standards, net assets attributable to investors are classified as a liability rather than equity. As a result, there was no equity at the start or end of the year.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

	Notes	Year ended 30 June 2018 $'000	Year ended 30 June 2017 $'000
Cash flows from operating activities			
Proceeds from sale of financial instruments held at fair value through profit or loss		1,635,379	962,077
Purchase of financial instruments held at fair value through profit or loss		(2,950,786)	(1,271,501)
Transaction costs		(1,305)	(791)
Interest received		5,838	2,796
Dividends received		73,848	72,173
Distributions received		62,400	29,718
Other income received Responsible Entity's fees paid		193	134
Responsible Entity's fees paid		(12,688)	(9,042)
Adviser and model portfolio fees paid		(32,932)	(26,268)
Net cash outflow from operating activities	13(a)	(1,220,053)	(240,704)
Cash flows from financing activities			
Proceeds from applications by investors		1,832,229	926,496
Payments for redemptions by investors		(551,362)	(556,389)
Net cash inflow from financing activities		1,280,867	370,107
Net increase in cash and cash equivalents		60,814	129,403
Cash and cash equivalents at beginning of the financial year		257,415	128,012
Cash and cash equivalents at the end of the financial year	13(b)	318,229	257,415
Non-cash financing activities	13(c)	2,244	10,130

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

1 General Information

These financial statements cover the Separately Managed Accounts (the “Scheme") as an individual entity. The Scheme was constituted on 16 June 2005.

The primary aim of the Scheme is to provide investors with flexibility to build their personal portfolios using a range of investment strategies, referred to as Model Portfolios to suit the investors' needs and objectives.

The financial statements were authorised for issue by the directors on 24 September 2018. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The Scheme is a for-profit unit trust for the purpose of preparing the financial statements. The financial statements are presented in Australian Dollars unless otherwise stated. The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within 12 months, except for investments in financial assets and liabilities and net assets attributable to unit holders. The amount expected to be recovered or settled within 12 months after the end of each reporting period cannot be reliably determined.

(i) Compliance with International Financial Reporting Standards

The financial statements of the Scheme also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the Fund

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.

(iii) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Scheme. The directors' assessment of the impact of these new standards (to the extent relevant to the Scheme) and interpretations is set out below:

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

AASB 9 addresses the classification, measurement and de-recognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The standard is not applicable until 1 January 2018 but is available for early adoption. The directors do not expect this to have a significant impact on the recognition and measurement of the Scheme’s financial instruments as they are carried at fair value through profit or loss. The de-recognition rules have not 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.

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

AASB 15 will replace AASB 118 Revenue which covers contracts for goods and services and AASB 111 Construction Contracts which covers construction contracts. AASB 15 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.

2 Summary of Significant Accounting Policies (continued)

The Scheme's main sources of income are interest, dividends and distributions and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the directors do not expect the adoption of AASB 15 to have a significant impact on the Scheme's accounting policies or the amounts recognised in the financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the Scheme in the current or future reporting periods and on foreseeable future transactions.

(b) Financial Instruments

(i) Classification

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

- Financial instruments held for trading

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

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

  These include financial assets that are not held for trading purposes and which may be sold. These are investments in listed equity, listed unit trusts, unlisted unit trusts and interest bearing securities.

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

(ii) Recognition / De-recognition

The Scheme recognises financial assets and liabilities on the date they become party to the contractual agreement (trade date) and recognise changes in fair value of the financial assets or liabilities from this date. Investments are derecognised when the rights to receive cash flows from the investments have expired or the Scheme has transferred substantially all risks and rewards of ownership.

(iii) Measurement

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

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. Transaction costs on financial assets and liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Profit and Loss and Other Comprehensive Income.

- Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the balance sheet date without any deduction for estimated future selling costs. Financial assets are priced at current bid price while financial liabilities are priced at current asking prices.

- Fair value in an inactive market or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. Accordingly, there may be differences between the fair value at initial recognition and amounts determined using a valuation technique. If such differences exist, the Scheme recognises the difference in the Statement of Profit and Loss and Other Comprehensive Income to reflect a change in factors, including time, that market participants would consider in setting a price.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the investment manager of such trusts. For further information on how the fair value of financial statements is determined, refer to Note 4 of the financial statements.

2 Summary of Significant Accounting Policies (continued)

(iv) Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the Statement of Financial Position 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. As at the end of the reporting period, there are no financial assets and liabilities offset or with a right to offset in the Statement of Financial Position.

(c) Net Assets Attributable to Investors

In accordance with AASB 132 *"Financial Instruments: Presentation",* investors' funds are classified as a financial liability and disclosed as such in the Statement of Financial Position, being referred to as "Net assets attributable to investors". Changes in the value of this financial liability are recognised in the Statement of Profit and Loss and Other Comprehensive Income as they arise.

(d) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value, and bank overdrafts. Bank overdrafts are shown as borrowings on the Statement of Financial Position. Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Scheme's main income generating activity.

Cash held on collateral includes restricted margin accounts where the derivative transactions' original maturities are not within three months as well as restricted cash for short sales. Short positions are taken on securities which have relatively poor return expectations. To facilitate settlement, securities are borrowed with collateral requirements. These requirements are satisfied with cash and/or other securities. Cash used to satisfy collateral requirements are disclosed in cash held on collateral.

(e) Margin Accounts

Margin accounts comprise cash held for derivative transactions and short sales. The cash is held by the broker and is only available to meet margin calls. Unrestricted margin account balances and restricted margin accounts balances, where the derivative transactions' original maturities are within three months, are classified as cash and cash equivalents. Restricted margin accounts where the derivative transactions' original maturities are not within three months are classified as cash held on collateral.

(f) Investment Income and Expenses

Dividend and distribution income
Dividend income is recognised on the ex-dividend date. The Scheme may incur withholding tax imposed by certain countries on investment income. Such income is recorded net of withholding tax on the Statement of Profit and Loss and Other Comprehensive Income. If a portion of the foreign withholding taxes is reclaimable, it is recorded as an asset. Dividends declared on securities sold short are recorded as a dividend expense on the ex-dividend date. Trust distributions are recognised on an entitlements basis.

Interest Income
Interest income and expenses are recognised in the Statement of Profit and Loss and Other Comprehensive Income for all interest bearing securities using the effective interest method. Interest income on assets held at fair value through profit or loss is included in the net gains / (losses) on financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2(b).

The effective interest method is a method of calculating the amortised cost of a financial asset or financial 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 asset or liability. 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 and points paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2 Summary of Significant Accounting Policies (continued)

(g) Expenses

All expenses, including Responsible Entity's fees are recognised in the Statement of Profit and Loss and Other Comprehensive Income on an accruals basis.

(h) Income Tax

The Scheme is not subject to income tax since all investments are beneficially held by investors directly in their separate Personal Portfolios. All income and gains on the securities and other assets in the Personal Portfolios accrue directly to investors. Financial instruments held at fair value may include unrealised capital gains. Should such a gain or loss be realised, the capital gains or loss accrues to the investors and is subject to capital gains tax. The Scheme is not subject to capital gains tax. The benefit of imputation credits and foreign tax paid are passed on to investors. The Scheme currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded net of withholding tax in the Statement of Profit and Loss and Other Comprehensive Income.

(i) Increase/Decrease in Net Assets Attributable to Investors

The Scheme does not distribute its net operating profit/loss, therefore net operating profit/loss is included in full in Net Assets Attributable to Investors. Movements in net assets attributable to investors are recognised in the Statement of Profit and Loss and Other Comprehensive Income as financing costs.

(j) Foreign Currency Translation

(i) *Functional and presentation currency*

Items included in the Scheme's financial statements are measured using the currency of the primary economic environment in which it operates (the 'functional currency'). This is the Australian dollar, which reflects the currency of the economy in which the Scheme competes for funds and is regulated. The Australian dollar is also the Scheme's presentation currency.

(ii) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates 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 the Statement of Profit and Loss and Other Comprehensive Income.

The Scheme does not isolate that portion of gains or losses on securities and derivative financial instruments which is due to changes in foreign exchange rates from that which is due to changes in the market price of securities. Such fluctuations are included in the net gains or losses on financial instruments at fair value through profit or loss.

(k) Receivables

Receivables may include amounts of dividends, interest, trust distributions and amounts due from brokers. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the balance sheet date from the time of the last payment using the effective interest rate method. Amounts due from brokers represent receivables for securities that have been contracted for but not yet delivered at balance sheet date.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Scheme will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter into bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

The amount of the impairment loss is recognised in the Statement of Profit and Loss and Other Comprehensive Income within other 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 expenses in the Statement of Profit and Loss and Other Comprehensive Income.

2 Summary of Significant Accounting Policies (continued)

(l) Payables

Payables include liabilities and accrued expenses owing by the Scheme which are unpaid as at the end of the reporting period. Trades are recorded on trade date, and normally settled within three business days. Purchases of financial instruments that are unsettled at reporting date are included in payables.

(m) Applications and Redemptions

Application and redemption terms (including fees payable, minimum amounts, minimum balance requirements and timing) vary and the detailed terms are set out in the relevant Product Disclosure Statements. Applications received from investors into the Scheme are recorded gross of any entry fees payable. Entry fees, if applicable, are deducted from an investor's account and expensed through the Statement of Profit and Loss and Other Comprehensive Income. Redemptions from the Scheme can be made in cash to the investor's nominated bank account or via a transfer of securities, or a combination of cash and securities. Securities sold are net of all fees, charges and expenses including transaction costs.

(n) Transfers of Securities

Investors may transfer eligible securities into and out from their personal portfolio accounts in the Scheme. Securities are transferred-in at quoted “ask” prices and transferred-out at quoted “bid” prices on the market day immediately prior to date of transfer.

(o) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Scheme including administration fees, transaction and trading fees and brokerage have been passed on to the Responsible Entity. All other GST incurred on costs has been passed on to the investors of the Scheme. Responsible Entity fees and other expenses have been recognised in the Statement of Profit and Loss and Other Comprehensive Income gross of the amounts of GST recoverable from the Australian Tax Office ("ATO"). Accounts payable and accrued expenses are stated inclusive of GST. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the ATO is classified within operating cash flows.

(q) Use of Estimates

The Scheme makes estimates and assumptions that affect the reported amounts of assets and liabilities within the current and next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Scheme’s financial instruments, quoted market prices are readily available. However, certain financial instruments, for example over-the-counter derivatives or unquoted securities are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them. Models are calibrated by back-testing to actual transactions to ensure that outputs are reliable.

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 assumptions about these factors could affect the reported fair value of financial instruments. For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

(r) Rounding of Amounts

The Scheme is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors’ Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC) relating to the “rounding off” of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

3 Financial Risk Management

Separately Managed Accounts (previously known as the "Customised Portfolio Service") is a registered managed investment scheme in which each investor has a separate account to which their investments are allocated. Praemium Australia Limited's (PAL) responsibilities and obligations as the Responsible Entity are governed by the Constitution for the Separately Managed Accounts, as well as the *Corporations Act 2001* and general trust law.

(a) Strategy in using financial instruments

The primary aim of the Scheme is to provide investors with flexibility to build their own personal portfolio using a range of investment strategies, referred to as "Model Portfolios" to suit the investor's needs and objectives.

The Model Portfolios are managed by third parties (Model Managers). Where Models are managed by third parties, the risk is also managed externally to PAL. Model Managers report to PAL on a quarterly basis. As at 30 June 2018 there were 336 models in the Scheme (30 June 2017: 348).

Once an investor has decided which Model Portfolio best suits his investment needs and objectives, PAL will purchase securities to be included in the investor's Personal Portfolio so that it reflects the Model Portfolio or combination of Model Portfolios. Securities can be transferred directly into a Personal Portfolio and it can include securities not in the Model portfolio. The investor is the beneficial owner of the securities in their Personal Portfolio.

The Model Portfolio Managers will manage the Model Portfolios on an ongoing basis, and PAL will buy and sell securities to be included in, or removed from, the investors' Personal Portfolios as the Model Portfolios change.

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

The Scheme uses different methods to measure different types of risks to which it is exposed. These methods include Sensitivity Analysis as disclosed in Note 3(c).

(b) Market Risk

(i) Price Risk

The Scheme is exposed to price risk. This arises from investments held by the Scheme for which prices in the future are uncertain. They are classified on the Statement of Financial Position as at fair value through profit or loss. Where non-monetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates. Note 3(b)(ii) below sets out how this component of price and risk is managed and measured. All securities investments present a risk of loss of capital.

The capital structure of the Scheme consists of cash and cash equivalents and the proceeds from the issuance of the separately managed accounts of the Scheme. The investment manager aims to ensure that there is sufficient liquidity for possible redemptions by investors.

Note 3(c) explains how the risk is measured and summarises the potential exposure of the Scheme's net assets attributable to investors.

(ii) Foreign Exchange Risk

The Scheme's investments are all denominated in Australian dollars. As such the Scheme has no exposure to foreign exchange risk.

The Scheme does not have any direct exposure to foreign exchange risk based on the Scheme's direct investments. This disclosure has not been made on a look through basis for investments held indirectly. The disclosure of foreign exchange risk may not present the true foreign exchange risk profile of the Scheme where an underlying investment has significant exposure to foreign exchange risk.

3 Financial Risk Management (continued)

(b) Market Risk (continued)

(iii) Interest Rate Risk

The Scheme's interest bearing financial assets and liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Scheme is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Scheme to fair value interest rate risk.

The exposure to interest rate risk for the Scheme is limited to cash deposits with rates based on normal commercial terms, which totalled $318,228,769 at 30 June 2018 (2017: $257,414,542).

An analysis of financial liabilities by maturities is provided in Section 3(e) below.

(c) Summarised Sensitivity Analysis

The following table summarises the sensitivity of the Scheme's operating profit and net assets attributable to investors to interest rate risk and other 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 levels of changes in interest rates and foreign exchange rates, historical correlation of the Scheme's investments with relevant benchmark and market volatility. However, actual movements in the risk variables maybe greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Scheme invests. As a result, historic variations are not a definitive indicator of future variations in risk variables.

To determine what a reasonably possible movement is, PAL has applied historical data of base indices for the past three years and applied two standard deviations to the outcome.

	Price Risk		Interest Rate Risk	
30 June 2018	+13.47%	-13.47%	+0.2%	-0.2%
	$625,902,218	($625,902,218)	$761,703	($761,703)
30 June 2017	+6.04%	-6.04%	+0.4%	-0.4%
	$195,209,552	($195,209,552)	$1,099,050	($1,099,050)

(d) Credit Risk

Credit risk is the risk that a counterparty will fail to perform its contractual obligations, either in whole or in part, when they fall due.

Credit risk primarily arises from investments in debt instruments and trading derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired nor past due but not impaired.

Market prices generally incorporate credit risk assessments into valuations and risk of loss is implicitly provided for in the carrying value of financial assets and liabilities as they are marked to market.

(i) Settlement of Securities Transactions

All transactions are settled / paid for upon delivery using approved brokers. The risk of default is considered minimal as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligation.

(ii) Other Credit Risk

Exposure to credit risk on cash and cash equivalents, margin accounts and amounts due from brokers (receivables) is considered to be minimal due to the high credit ratings of the relevant financial institutions and the short time to settlement, in the case of brokers.

3 Financial Risk Management (continued)

(e) Liquidity and Cash Flow Risk

Liquidity risk is the risk that the Scheme may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Scheme is exposed to daily investor requests for redemptions and daily margin calls on derivatives. The liquidity risks associated with the need to satisfy investors' requests for redemptions and other obligations (such as fees) are mitigated by having a minimum cash holding of 2% in each investor's Personal Portfolio account. If at any point in time there is insufficient cash to fund a redemption payment, securities in the investor's Personal Portfolios would be sold to meet the required redemption and the redemption would be paid post settlement of the sale of these securities (normally T+3).

The following table analyses the Scheme's financial liabilities (excluding derivatives) into relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date as at balance date. The amounts in the table are the contractual undiscounted cash flows. Balances that are due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	On Call $'000	Less than 12 months $'000	1 - 3 years $'000	3 - 5 years $'000	> 5 years $'000
As at 30 June 2018					
Payables	-	(39,272)	-	-	-
Net assets attributable to investors	(5,025,062)	-	-	-	-
Total	(5,025,062)	(39,272)	-	-	-
As at 30 June 2017					
Payables	-	(15,621)	-	-	-
Net assets attributable to investors	(3,518,625)	-	-	-	-
Total	(3,518,625)	(15,621)	-	-	-

4 Fair Value Measurement

(a) Fair Value of Financial Assets and Liabilities

The carrying amounts of the Scheme's assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value. Transaction costs on financial assets and financial liabilities at fair value through the profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Profit and Loss and Other Comprehensive Income.

(i) *Fair value in an active market*

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

The Scheme values its investments in accordance with the accounting policies set out in Note 2(b). For the majority of its investments, the Scheme relies on information provided by independent pricing services for the valuation of investments.

The quoted market price used for financial assets held by the Scheme is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Scheme holds derivatives with offsetting market risks, mid-market prices are used as a basis for establishing fair values for the offsetting risk positions and bid or asking prices are applied to the net open positions, as appropriate.

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 regularly occurring market transactions on an arm's length basis.

4 Fair Value Measurement (continued)

(ii) Fair value in an inactive or unquoted market

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

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the balance sheet date. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange traded is estimated at the amount the Scheme would receive or pay to terminate the contract at the balance sheet date taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date.

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

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair value. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Schemes for similar financial instruments.

(b) Fair Value Hierarchy

The Scheme classifies fair value measurements using a fair value hierarchy 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).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

4 Fair Value Measurement (continued)

(b) Fair Value Hierarchy (continued)

The tables below set out the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2018 and 30 June 2017.

	Level 1	Level 2	Level 3	Total
30 June 2018	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets				
Financial assets designated at fair value through profit or loss				
- Equity securities	1,618,264	14,844	-	1,633,108
- Units in listed and unlisted trusts	1,035,767	1,976,042	-	3,011,808
Total	2,654,031	1,990,886	-	4,644,916

	Level 1	Level 2	Level 3	Total
30 June 2017	**$'000**	**$'000**	**$'000**	**$'000**
Financial assets				
Financial assets designated at fair value through profit or loss				
- Equity securities	1,230,959	168	-	1,231,127
- Units in listed and unlisted trusts	880,795	1,121,019	-	2,001,814
Total	2,111,754	1,121,187	-	3,232,941

There were no transfers into or out of Level 3 during the year (30 June 2017: $Nil)

5 Distributions

Income from investments held in the personal portfolios of investors is paid or accrued to the investors' accounts. The Scheme does not make distributions to investors.

6 Net Gains / (Losses) on Financial Instruments Held at Fair Value Through Profit or Loss

The net gains / (losses) recognised in relation to financial assets and financial liabilities held at fair value through profit or loss:

	Year ended	
	30 June 2018	**30 June 2017**
	$'000	**$'000**
Financial assets		
Net gains on financial assets designated at fair value through profit or loss	103,394	180,870
Net gains on financial instruments held at fair value through profit or loss	103,394	180,870

7 Net Assets Attributable to Investors

As stipulated within the Scheme's Constitution, investors are beneficial owners of investments in their personal portfolios in the Scheme and have the right to sell the investments at prevailing market prices less transaction costs.

Movements in net assets attributable to investors during the financial year ended 30 June 2018 were as follows:

	Year ended	
	30 June 2018	**30 June 2017**
	$'000	**$'000**
Opening net assets attributable to investors	3,518,625	2,875,293
Applications		
- Cash	1,832,229	926,496
- Securities transfer-in	2,257	10,130
Redemptions		
- Cash	(551,362)	(556,389)
- Securities transfer-out	(13)	-
Increase in net assets attributable to investors	223,326	263,095
Closing balance	5,025,062	3,518,625

8 Receivables

	As at	
	30 June 2018	**30 June 2017**
	$'000	**$'000**
Settlements receivable	34,532	3,011
Dividends receivable	9,868	9,071
Distributions receivable	56,789	31,808
Closing balance	101,189	43,890

9 Financial Assets at Fair Value Through Profit or Loss

	As at	
	30 June 2018	**30 June 2017**
	$'000	**$'000**
Designated at fair value through profit or loss		
Equity securities	1,633,108	1,231,127
Units in listed and unlisted trusts	3,011,808	2,001,814
Total designated at fair value through profit or loss	4,644,916	3,232,941
Total financial assets held at fair value through profit or loss	4,644,916	3,232,941

An overview of the risk exposures relating to financial assets at fair value through profit or loss is included in Note 3.

10 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 who controls the entity, and the relevant activities are directed by means of contractual arrangement. The Scheme considers all investments in listed and unlisted trusts to be structured entities. The Scheme invests in listed and unlisted trusts for the purpose of capital appreciation and / or earning investment income.

The exposure to investments in listed and unlisted entities at fair value is disclosed in the following table:

	As at	
	30 June 2018	**30 June 2017**
	$'000	**$'000**
Units in listed and unlisted trusts	3,011,808	2,001,814
	3,011,808	2,001,814

The fair value of listed and unlisted trusts is included in financial assets held at fair value through profit or loss in the statement of financial position. The Scheme's maximum exposure to loss from its interest in listed and unlisted trusts is equal to the fair value of its investments in the listed and unlisted trusts as there are no off-balance sheet exposures relating to any of the Investee funds. Once the Scheme has disposed of its units in listed and unlisted trusts, it ceases to be exposed to any risk from that listed and unlisted trusts.

During the year ended 30 June 2018, total returns generated on investments in listed and unlisted entities were $98,632,400 (30 June 2017: $126,508,827).

11 Payables

	As at	
	30 June 2018	**30 June 2017**
	$'000	**$'000**
Settlements payable	34,998	12,547
Responsible Entity's fees payable	1,131	776
Adviser and model portfolio fees payable	3,143	2,298
	39,272	15,621

12 Related Party Transactions

Responsible Entity

The Responsible Entity of the Scheme is Praemium Australia Limited (ABN 92 117 611 784), a wholly owned subsidiary of Praemium Limited which is listed on the Australian Stock Exchange (ASX). Both companies are incorporated in Australia. The registered office and principal place of business of the Responsible Entity and the Scheme is Level 19, 367 Collins Street, Melbourne, VIC 3000, Australia.

Directors

The following persons held office as directors of Praemium Australia Limited, the Responsible Entity of the Scheme during the reporting period or up to the date of this report:

Director	Date Appointed	Date Resigned
C Silcox	19 December 2005	N/A
A Itsiopoulos	23 February 2016	N/A
M Morris	24 February 2017	N/A
M Ohanessian	29 November 2017	N/A

12 Related Party Transactions (continued)

Other key management personnel

The following persons also had authority and responsibility for planning, directing and controlling the activities of the Scheme, directly or indirectly during the financial year:

Name	Position	Employer
P. Gutteridge	Chief Financial Officer & Company Secretary	Praemium Limited

Key management personnel holding

During or since the end of the financial year, the following key management personnel including directors or their personally related entities held investments in the Scheme, either directly, indirectly or beneficially:

KMP	Investments in the Scheme	Interest
A Itsiopoulos	$1,153,935	Directly held
M Morris	$19,296	Directly held
M Ohanessian	$380,168	Directly held

Key management personnel compensation

Key management personnel are paid by the Responsible Entity. Payments made from the Scheme to the Responsible Entity do not include any amounts attributable to the compensation of key management personnel.

Key management personnel loan disclosures

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.

Other transactions within the Scheme

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Scheme since the end of the previous financial year and there were no material contracts involving key management personnel's interests subsisting at year end.

Related party transactions and balances

All related party transactions are conducted on normal commercial terms and conditions. Transactions with related parties include the following:

(a) Responsible Entity's fees and other transactions

Responsible Entity fees are accrued daily at the rate specified by the Constitution based on the net asset value of the Scheme. Fees charged for the year are included in the Statement of Profit and Loss and Other Comprehensive Income.

From time to time the Responsible Entity may waive fees in accordance with the terms of the Constitution. Where Responsible Entity fees charged are less than the maximum permitted under the Constitution, any amount forgone cannot be claimed in future years.

(b) Expense reimbursement

Operating expenses include administration expenses incurred by the Responsible Entity and reimbursed by the Scheme in accordance with the provisions of the Constitution. Total operating expenses incurred for the year are brought to account on an accruals basis and are included in the Statement of Profit and Loss and Other Comprehensive Income.

Transactions and balances with related parties are summarised in the schedules on the following pages.

12 Related Party Transactions (continued)

Administration fees

Under the terms of the Separately Managed Accounts Constitution, the Responsible Entity is entitled to receive an Administration Fee calculated by reference to the total account balance of the Investor as follows:

Administration fee	30 June 2018 % per annum
0 - $250,000	0.48
$250,001 - $500,000	0.40
$500,001 - $1,000,000	0.30
$1,000,001 - $2,000,000	0.20
$2,000,001 - $3,000,000	0.09
More than $3,000,000	0.00

Administration fee	30 June 2017 % per annum
0 - $500,000	0.48
$500,001 - $1,000,000	0.44
$1,000,001- $2,000,000	0.33
More than $2,000,000	0.09

Investment and performance fees

In addition to the administration fees charged by the Responsible Entity, investment fees and performance fees may be charged by Model Portfolio advisers depending on the Model Portfolios selected by the investors. The investment fee is calculated monthly in arrears based on the value of investor's account and deducted directly from the investor's account. Performance fees represent a premium paid to the Model Portfolio advisers for exceeding the model portfolio's performance benchmark. Performance fees, if applicable, are calculated monthly in arrears and deducted from the investor's account.

A related party of Praemium Australia Limited, Smart Investment Management Limited, is a model portfolio adviser and charges investment and performance fees to the Scheme.

The amount of such fees charged during the year was $30,962 (30 June 2017: $27,616), out of which $2,667 (30 June 2017: $2,384) remain payable as at the year end.

	Year ended 30 June 2018 $'000	Year ended 30 June 2017 $'000
Responsible Entity's fees and other transactions fees for the year		
Administration fees	13,043	9,135
	13,043	9,135
Responsible Entity fees and expense reimbursement payable		
Administration fees	1,131	776
	1,131	776

Investments

Praemium Australia Limited, as Responsible Entity holds no investments in related schemes at 30 June 2018 (30 June 2017: Nil).

Related party schemes' unit holdings

Parties related to the Scheme including the Responsible Entity, its affiliates or other schemes managed by the Responsible Entity held investments in the Scheme as follows:

	Fair value of investments held at opening	Fair value of investments held at year end	Interest held	Applications	Redemptions
	$'000	$'000	%	$'000	$'000
Praemium Limited: 30 June 2018	210	1,301	0.03	1,100	(418)
Praemium Limited: 30 June 2017	228	210	0.01	208	(223)

13 Reconciliation of Operating Profit / (Loss) to Net Cash Outflow from Operating Activities

	Year ended	
	30 June 2018	30 June 2017
	$'000	$'000
(a) Reconciliation of operating profit / (loss) to net cash outflow from operating activities		
Operating profit for the year	223,326	263,095
Securities transfer-in	2,244	10,130
Net change in financial instruments held at fair value through profit or loss	(1,411,975)	(518,336)
Net change in receivables and other assets	(57,299)	9,948
Net change in accounts payable and accrued liabilities	23,651	(5,541)
Net cash outflow from operating activities	(1,220,053)	(240,704)

(b) Components of cash and cash equivalents

Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the Statement of Financial Position as follows:

Cash and cash equivalents	318,229	257,415
Total cash	318,229	257,415

(c) Non-cash financing activities		
Securities transfer-in	2,244	10,130

14 Remuneration of Auditor

	Year ended 30 June 2018	Year ended 30 June 2017
	$	$
Audit and review of the financial statements	42,920	42,000
Other services performed during the period	5,360	5,230
	48,280	47,230

Other services are made up of the audit of the Scheme's compliance plan. The audit fees paid or payable are paid by the Responsible Entity from the fees earned from the Scheme.

15 Events Occurring After the Reporting Period

The Directors have not become aware of any matter or circumstance not otherwise dealt within the financial statements that since 30 June 2018 has significantly affected or may have significant effect on the operations of the Scheme or the Responsible entity, the results of those operations or the state of affairs in subsequent financial years.

16 Contingent Assets and Liabilities and Commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2018 (30 June 2017: Nil).

Directors' Declaration

In the opinion of the directors of the Responsible Entity:

(a) The financial statements and notes set out on pages 5 to 24 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Scheme's financial position as at 30 June 2018 and of its performance, as represented by the results of its operations, changes in equity and its cash flows, for the financial year ended on that date.

(b) The financial statements also comply with International Financial Reporting Standards as disclosed in Note 2(a).

(c) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

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

Director
A Itsiopoulos

Director
C Silcox

Melbourne
24 September 2018

Deloitte.

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Independent Auditor's Report to the Investors of Separately Managed Accounts

Opinion

We have audited the financial report of Separately Managed Accounts (the "Scheme") which comprises the Statement of Financial Position as at 30 June 2018, the Statement of Profit and Loss and Other Comprehensive Income, the Statement of Changes in Equity and the Statement of Cash Flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion:

(a) the accompanying financial report of the Scheme is in accordance with the *Corporations Act 2001*, including:
   i. giving a true and fair view of the Scheme's financial position as at 30 June 2018 and of its financial performance for the year then ended; and
   ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) The financial report also comply with International Financial Reporting Standards as disclosed in Note 2 of the financial report.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. 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 auditor independence requirements of 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 also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Praemium Australia Limited, the Responsible Entity of the Scheme**,** would be in the same terms if given to the directors as at the time of this auditor's report.

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

Responsibilities of the Directors for the Financial Report

The directors of Praemium Australia Limited, as the Responsible Entity of the Scheme, are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Scheme to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Scheme or to cease operations, or has no realistic alternative but to do so. In Note 2 of the financial report, the

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directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements* that the financial report comply with International Financial Reporting Standards.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

James Oliver

James Oliver
Partner
Chartered Accountants
Melbourne, 24 September 2018