

Freehold Australian Property Fund

ARSN 169 952 738

Financial Report For the year ended 30 June 2021

Responsible Entity:

Responsible Entity Partners Limited

ABN 11 119 757 596

Level 9 Podium,

530 Collins Street

Melbourne Victoria 3000

Freehold Australian Property Fund

ARSN 169 952 738

Financial Report

For the year ended 30 June 2021

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Directors' report

The directors of Responsible Entity Partners Limited, the Responsible Entity of Freehold Australia Property Fund, present their report together with the financial statements of Freehold Australia Property Fund ('the Fund') for the year ended 30 June 2021.

Principal activities

The Fund is a registered managed investment scheme constituted on 05 June 2014 and is domiciled in Australia.

The Fund is an actively managed portfolio constructed of a concentrated mix of listed A-REIT and infrastructure securities together with unlisted Property Securities where the majority of assets derive a high proportion of earnings from rental, recurring sources or mature/contracted income and have capital growth potential with a medium level of liquidity. The Fund is designed to outperform the Australian Property Customised Index over rolling 3 year periods.

The Fund did not have any employees during the year.

The Ruizean Australian Property Fund class wound up, and units were fully redeemed on 7 June 2021. There were no other significant changes in the Fund's activities during the year.

Directors

The following persons held office as directors of Responsible Entity Partners Limited during the year or since the end of the year and up to the date of this report:

	Date Appointed	Date Resigned
Mr Michael Terlet AO (Chairperson)	1 October 2017	-
Mr Ronald Beard	23 October 2013	-
Ms Fiona McNabb	28 September 2016	-
Mr Andrew Peterson	20 March 2018	18 February 2021
Mr Darran Goodger	18 February 2021	-

No units of the Freehold Australian Property Fund are held by the directors or any director related entities.

Service Providers

Service	Provider
Investment manager	Freehold Investment Management Limited
Unit registry service provider	Mainstream Fund Services Pty Ltd
Custodian	Mainstream Fund Services Pty Ltd

Operating results and review of operations

	Year ended	
	30 June 2021	30 June 2020
	\$'000	\$'000
Net operating profit/(loss) for the year	54,469	(9,207)
<u>Freehold Australian Property Fund</u>		
Distributions paid and payable (\$'000)	13,170	21,059
Distributions (cents per unit)	2.8631	8.2110
<u>Ruizean Australian Property Fund</u>		
Distributions paid and payable (\$'000)	-	2
Distributions (cents per unit)	-	13.1079

The value of the Fund's total assets was as follows:

	As at	
	30 June 2021	30 June 2020
	\$'000	\$'000
Total assets	597,990	279,489

Directors' report (continued)

Significant changes in state of affairs

Other than matters raised elsewhere in the Directors' report, in the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of the financial year

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

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

Likely developments and expected results of operations

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund 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 Fund and the expected results of those operations have not been included in this report because the Responsible Entity believes it would be likely to result in unreasonable prejudice to the Fund.

Indemnity and insurance of officers

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of the Responsible Entity or the auditors of the Fund. So long as the officers of Responsible Entity act in accordance with the Fund constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

Additional disclosures

The Fund has applied the relief available in Class Order 98/2395 issued by the Australian Securities and Investments Commission in the preparation of this report. Accordingly, the additional information otherwise required to be included in the directors' report has been disclosed in Note 7, 8 and 14 of the financial statements.

Fees paid to and interests held in the Fund by the Responsible Entity and its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in Note 15 to the financial statements.

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

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 15 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 8 to the financial statements.

The value of the Fund's assets and liabilities is disclosed in the statement of financial position and derived using the basis set out in Note 2 to the financial statements.

Environmental regulation

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

Directors' report (continued)

Rounding of amounts

The Fund 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 Directors' report. Amounts in the Directors' report have been rounded to the nearest thousand dollar in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

Lead Auditor's independence declaration under section 307C of the Corporations Act 2001.

A copy of the Lead Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

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



Fiona Margaret McNabb
Director
28 September 2021



Darran Jodey Goodger
Director
28 September 2021

DECLARATION OF INDEPENDENCE BY JAMES DIXON TO THE DIRECTORS OF RESPONSIBLE ENTITY PARTNERS LIMITED AS RESPONSIBLE ENTITY FOR FREEHOLD AUSTRALIAN PROPERTY FUND

As lead auditor of Freehold Australian Property Fund for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.



James Dixon
Director

BDO Audit Pty Ltd

Melbourne, 28 September 2021

Freehold Australian Property Fund
Statement of comprehensive income
For the year ended 30 June 2021

Statement of comprehensive income

		Year ended	
		30 June	30 June
		2021	2020
	Notes	\$'000	\$'000
Investment Income			
Interest income		228	668
Dividend/distribution income		16,685	14,136
Net gains/(losses) on financial instruments at fair value through profit or loss	5	<u>40,901</u>	<u>(21,820)</u>
Total net investment income		<u>57,814</u>	<u>(7,016)</u>
Expenses			
Management fees	15	2,225	1,437
Administration fees		307	279
Audit and accounting fees	14	15	17
Transaction costs		749	331
Other expenses	6	<u>49</u>	<u>127</u>
Total operating expenses		<u>3,345</u>	<u>2,191</u>
Operating profit/(loss)		<u>54,469</u>	<u>(9,207)</u>
Finance costs attributable to unitholders			
Distributions to unit holders	9	(13,170)	(21,061)
(Increase)/decrease in net assets attributable to unitholders	8	<u>(41,299)</u>	<u>30,268</u>
Profit/(loss) for the year		<u>-</u>	<u>-</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>-</u>	<u>-</u>

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

Freehold Australian Property Fund
Statement of financial position
As at 30 June 2021

Statement of financial position

	Notes	As at 30 June 2021 \$'000	30 June 2020 \$'000
Assets			
Cash and cash equivalents	10	31,772	16,381
Receivables	12	5,729	2,666
Due from brokers - receivable for securities sold		758	-
Financial assets at fair value through profit or loss	7	<u>559,731</u>	<u>260,442</u>
Total assets		<u>597,990</u>	<u>279,489</u>
Liabilities			
Payables	13	413	214
Distribution payable	9	<u>8,011</u>	<u>15,120</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>8,424</u>	<u>15,334</u>
Net assets attributable to unitholders – liability	8	<u>589,566</u>	<u>264,155</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

Freehold Australian Property Fund
Statement of changes in equity
For the year ended 30 June 2021

Statement of changes in equity

	Notes	Year ended 30 June 2021 \$'000	30 June 2020 \$'000
Total equity at the beginning of the financial year		-	-
Reclassification due to the issuance of second class of units*		-	-
Comprehensive income for the year			
Profit for the year		-	-
Other comprehensive income		-	-
Total comprehensive income		<u>-</u>	<u>-</u>
Transactions with unitholders			
Applications	8	-	-
Redemptions	8	-	-
Units issued on reinvestment of distributions	8	-	-
Distributions to unitholders	8,9	-	-
Total Transactions with unitholders		<u>-</u>	<u>-</u>
Total equity at the end of the financial year	8	<u>-</u>	<u>-</u>

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

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

Freehold Australian Property Fund
Statement of cash flows
For the year ended 30 June 2021

Statement of cash flows

	Notes	Year ended 30 June 2021 \$'000	30 June 2020 \$'000
Cash flows from operating activities			
Proceeds from sale of investments		122,718	123,739
Payment for purchase of investments		(381,864)	(113,925)
Dividends/distributions received		13,657	15,473
Interest received		228	668
Management fees paid		(2,058)	(1,452)
Administration fees paid		(265)	(250)
Audit fee paid		(11)	(17)
Other expenses paid		(833)	(455)
Net cash inflow/(outflow) from operating activities	11(a)	<u>(248,428)</u>	<u>23,781</u>
Cash flows from financing activities			
Proceeds from applications by unitholders		324,730	43,692
Payments for redemptions by unitholders		(40,645)	(42,004)
Distributions paid		(20,266)	(17,334)
Net cash (outflow)/inflow from financing activities		<u>263,819</u>	<u>(15,646)</u>
Net increase in cash and cash equivalents		15,391	8,135
Cash and cash equivalents at the beginning of the year		16,381	8,246
Cash and cash equivalents at the end of the year		<u>31,772</u>	<u>16,381</u>
Non cash financing activities	11(b)	<u>13</u>	<u>9</u>

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

1 General information

These financial statements cover Freehold Australian Property Fund ('the Fund') as an individual entity. The Fund is a registered managed investment scheme pursuant to the *Corporations Act 2001* and domiciled in Australia. The Fund was constituted on 5 June 2014 and was registered with the Australian Securities and Investments Commission on 19 June 2014.

The Responsible Entity of the Fund is Responsible Entity Partners Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 9 Podium, 530 Collins Street, Melbourne, VIC 3000. The financial statements are presented in Australian currency unless otherwise noted.

The objective of the Fund is to outperform the Australian Property Customised Index over rolling 3 year periods via an actively managed portfolio constructed of a concentrated mix of listed A-REIT and infrastructure securities together with unlisted Property Securities that have a high proportion of rental or mature/contracted income.

The Fund is suited to Investors with an investment horizon of five years or more. It will suit Investors that want exposure to 'pure' property and infrastructure listed/unlisted securities that derive a high proportion of earnings from rental, recurring sources and mature/contracted income.

A second class of units, named the Ruizean Australian Property Fund, has been issued in July 2019 under a separate Information Memorandum. As the Ruizean Australian Property Fund does not have identical class features to that of the Australian Property Fund, the Fund no longer satisfies the criteria under AASB 132 *Financial Instruments: Presentation* that would allow it to classify net assets attributable to unit holders as equity. As at 30 June 2019, net assets attributable to unit holders were classified as equity. Effective from 1 July 2019, the Fund's net assets attributable to unit holders have been reclassified from equity to liability.

The financial statements were authorised for issue by the directors of the Responsible Entity on 28 September 2021. 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 Accounting Standards Board and the *Corporations Act 2001* in Australia. The Fund is a for-profit unit trust for the purpose of preparing the financial statements.

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 do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for financial assets at fair value through Statement of Comprehensive Income and net assets attributable to unitholders.

The Fund manages financial assets at fair value through Statement of Comprehensive Income based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within 12 months, however, an estimate of that amount cannot be determined as at 30 June 2021.

In the case of net assets attributable to unitholders, the units are redeemed on demand at the unitholder's option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within 12 months cannot be reliably determined.

(i) Compliance with International Financial Reporting Standards

The financial statements of the Fund also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(ii) New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2020 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) New standard and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2020. Management has made an assessment and concluded that none of these are expected to have a material impact on the financial statements.

(b) Financial instruments

(i) Classification

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

- Financial assets

The Fund classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss; and
- those to be measured at amortised cost.

The Fund classifies its assets based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets.

Financial assets 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 Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

For equity securities and derivatives, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments are measured at fair value through profit or loss.

For cash and cash equivalents and receivables, these assets are held in order to collect the contractual cash flows. The contractual terms of these assets give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. Consequently, these are measured at amortised cost.

- Financial liabilities

Financial liabilities are classified at amortised cost (due to brokers, distributions payable, management fees payable, applications received in advance, audit and tax fees payable, administration fees payables and custodian fees payable).

(ii) Recognition/derecognition

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

Investments are derecognised when the right to receive cash flows from the investments have expired or have been transferred and the Fund has transferred substantially all of the risks and rewards of ownership.

(iii) Measurement

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

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the statement of comprehensive income within net gains/(losses) on financial instruments at fair value through profit or loss in the period in which they arise.

For further details on how the fair values of financial instruments are determined please see Note 4 to the financial statements.

(iv) Impairment

At each reporting date, the Fund shall measure the loss allowance on financial assets at amortised cost (cash, due from broker and 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 Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counter party, probability that the counter party 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. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

The amount of the impairment loss is recognised in statement of 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 statement of comprehensive income.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(v) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount 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 or liabilities offset or with the right to offset in the statement of financial position.

(c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders. The units are classified as financial liabilities. The units can be redeemed to the Fund at any time for cash based on the redemption price. The units are carried at the redemption amount that is payable at the reporting date if the holder exercises the right to put the unit back to the Fund.

(d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in 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 Fund's main income generating activity.

(e) Investment income

Income is measured at the fair value of the consideration received or receivable.

Interest income is recognised on the accrual basis in the statement of comprehensive income. Interest income is measured using the applicable interest rates.

Dividend income from investments is recognised on ex dividend date.

Distribution income is recognised on present entitlements basis.

(f) Expenses

Expenses are recognised in the statement of comprehensive income on an accruals basis.

(g) Income tax

Under current legislation, the Fund is not subject to income tax provided it attributes the entirety of its taxable income to its unitholders. The benefits of any imputation credits and foreign tax are passed on to unitholders.

(h) Distributions

The fund distributes its distributable income, in accordance with the Fund's Constitution, to unit holders by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as Distributions to unit holders.

2 Summary of significant accounting policies (continued)

(l) Finance Costs

Distributions paid on units are recognised in the statement of comprehensive income as finance costs and as a liability until paid.

Distributions paid are included in cash flows from financing activities in the statement of cash flows.

(j) Increase/decrease in net assets attributable to unitholders

Income not distributed is included in net assets attributable to unitholders. Where the Fund's units are classified as financial liabilities, movements in net assets attributable to unitholders are recognised in the statement of comprehensive income as finance costs.

(k) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and for equities normally settled within two business days. For more information on impairment refer to Note 2(b) to the financial statements.

(l) Receivables

Receivables may include amounts for interest, dividends and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Where applicable, interest is accrued on a daily basis. Amounts are generally received within 30 days of being recorded as receivables. For more information on impairment refer to Note 2(b) to the financial statements.

(m) Payables

Payables include liabilities, accrued expenses owed by the Fund and any distributions declared which are unpaid as at the end of the reporting period.

A separate distribution payable is recognised in the statement of financial position.

Distributions declared effective 30 June in relation to unitholders who have previously elected to reinvest distributions are recognised as reinvested effective 1 July of the following financial year.

(n) Applications and redemptions

Applications received for units in the Fund are recorded net of any entry fees payable prior to the issue of units in the Fund. Redemptions from the Fund are recorded gross of any exit fees payable after the cancellation of units redeemed.

(o) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services and investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of 55% or 75%; hence investment management fees, custodial fees and other expenses have been recognised in profit or loss net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST.

The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

2 Summary of significant accounting policies (continued)

(p) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the 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 Fund'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 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 more information on how fair value is calculated please see Note 4 to the financial statements.

The adoption of AASB 9 introduced a new expected credit loss (ECL) impairment model, which has not materially impacted the Fund. Please see Note 3 for more information on credit risk.

(q) Rounding of amounts

The Fund 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 Directors' report. Amounts in the Directors' report have been rounded to the nearest dollar in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

(r) Comparative Revisions

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Financial risk management

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

The Fund's risk management policies are approved by the Responsible Entity and seek to minimise the potential adverse effects of the risks on the Fund's financial performance. The risk management system is an ongoing process of identification, measurement, monitoring and controlling risk.

The Fund outsources the investment management to a specialist investment manager who provides service to the Fund, co-ordinates access to domestic financial markets, and manage the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in accordance with the Fund's constitution and product disclosure statement. The Fund's investment mandate is to invest in a diversified portfolio of stocks listed on the Australian Securities Exchange ("ASX"). The Fund does not trade on international stock exchanges nor does it invest in derivative instruments such as futures and options.

Compliance with policies and exposure limits are reviewed by the Responsible Entity on a continual basis.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods are explained below.

(a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: foreign exchange (currency risk), market interest rates (interest rate risk) and market prices (price risk). The Fund manages this risk via outsourcing its investment management; the Investment Manager manages the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in accordance with the Fund's constitution and product disclosure statement. The Fund's investment mandate is to invest in a diversified portfolio of stocks listed on the ASX. There has been no change to the Fund's exposure to market risks or in the manner in which it manages and measures the risk.

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Foreign exchange risk

The Fund does not undertake transactions denominated in foreign currencies; consequently, no exposure to exchange rate fluctuations arise.

(ii) Price risk

Other market risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market. The Fund has investments in equity instruments which exposes the Fund to price risk. The Investment Manager manages the Fund's market risk on a daily basis in accordance with the Fund's investment objectives and policies, as detailed in the product disclosure statement.

As the Fund's financial instruments are carried at fair value with changes in fair value recognised in the profit or loss, all changes in market conditions will directly affect investment income.

The following table illustrates the effect on profit or loss and net assets attributable to unit holders from possible changes in other market risk that were reasonably possible based on the risk the Fund was exposed to at reporting date:

	As at 30 June 2021		As at 30 June 2020	
	% Change in variable +/-	Impact on operating profit/net assets attributable to unitholders \$'000	% Change in variable +/-	Impact on operating profit/net assets attributable to unitholders \$'000
Equity price risk	10	55,973	10	26,044

(b) Credit risk

Credit risk refers to the risk that the counterparty will default on its obligations resulting in financial loss to the Fund.

The Fund's exposure to credit risk is limited to receivables for investments sold, dividends, distributions and interest receivable. The credit risk associated with unsettled sales is considered minimal since these trades are settled on a T+2 basis and for which the counterparties are large financial institutions. The credit risk associated with dividend, distribution and interest receivable is considered to be minimal since none of these amounts are impaired nor past due but not impaired.

(c) Liquidity risk

Liquidity risk is the risk that the Fund 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 Fund's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities. Unitholders are able to withdraw their units at any time and the Fund is therefore exposed to the liquidity risk of meeting unitholders' withdrawals at any time.

The Fund's listed securities, listed managed investment schemes and unlisted managed investment schemes are considered to be readily realisable. As a result, the risk to the Fund of not being able to liquidate these investments at their fair value in order to meet its liquidity requirements is considered minimal.

The Fund's liquidity risk is managed in accordance with the Fund's investment strategy. The Fund has a high level of net inward cash flows (through new applications by unit holders) which provides capacity to manage liquidity risk. The Fund also manages liquidity risk through the continuous monitoring of forecast and actual cash flows.

3 Financial risk management (continued)

(c) Liquidity risk (continued)

The following table details the Fund's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The table has been drawn up based on the earliest date on which the Fund can be required to pay.

	1-3 months \$'000	3 months to 1 year \$'000	1-5 years \$'000	5+ years \$'000	No stated maturity \$'000	Total \$'000
As at 30 June 2021						
Payables	413	-	-	-	-	413
Distribution payable	8,011	-	-	-	-	8,011
Net assets attributable to unitholders	-	-	-	-	589,566	589,566
	8,424	-	-	-	589,566	597,990
As at 30 June 2020						
Payables	214	-	-	-	-	214
Distribution payable	15,120	-	-	-	-	15,120
Net assets attributable to unitholders	-	-	-	-	264,155	264,155
	15,334	-	-	-	264,155	279,489

4 Fair value measurement

Financial assets at fair value through profit or loss are measured on a recurring basis.

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 requires disclosure of fair value measurements by level of the following fair value hierarchy:

- 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 or indirectly (level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

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

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

The Fund values its investments in accordance with the accounting policies set out in Note 2 to the financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

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.

(b) 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 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.

4 Fair value measurement (continued)

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

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

(c) Recognised fair value measurements

The table below presents the Fund's financial assets and liabilities measured and recognised at fair value as at 30 June 2021 and 30 June 2020.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
As at 30 June 2021				
Financial assets at fair value through profit or loss				
Domestic equities (listed)	345,403	-	-	345,403
Domestic equities (unlisted)	-	214,328	-	214,328
Total	345,403	214,328	-	559,731

As at 30 June 2020

Financial assets at fair value through profit or loss				
Domestic equities (listed)	104,602	-	-	104,602
Domestic equities (unlisted)	-	155,840	-	155,840
Total	104,602	155,840	-	260,442

5 Net gain on financial instruments at fair value through profit or loss

	Year ended 30 June 2021 \$'000	30 June 2020 \$'000
Net realised gain on financial assets at fair value through profit or loss	3,470	909
Net unrealised gain on financial assets at fair value through profit or loss	37,431	(22,729)
Total net gain on financial instruments at fair value through profit or loss	40,901	(21,820)

6 Other Expenses

	Year ended 30 June 2021 \$'000	30 June 2020 \$'000
Compliance fees	33	44
Legal and professional fees	16	61
Other general expenses	-	22
	49	127

7 Financial assets at fair value through profit or loss

	As at 30 June 2021 \$'000	30 June 2020 \$'000
Domestic equities (listed)	345,403	104,602
Domestic equities (unlisted)	214,328	155,840
Total financial instruments at fair value through profit or loss	559,731	260,442

8 Net assets attributable to unitholders

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

The Ruizean Australian Property Fund class wound up and units were fully redeemed on 7 June 2021.

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

	Year ended		Year ended	
	30 June 2021 Units	30 June 2021 \$'000	30 June 2020 Units	30 June 2020 \$'000
Freehold Australian Property Fund				
Opening balance	255,739	264,139	254,428	292,726
Applications	296,089	324,730	37,634	43,672
Redemptions	(37,393)	(40,626)	(36,331)	(42,004)
Units issued upon reinvestment of distributions	12	13	8	9
Distributions paid and payable	-	(13,170)	-	(21,059)
Profit/(loss) for the year	-	54,480	-	(9,205)
Closing balance	<u>514,447</u>	<u>589,566</u>	<u>255,739</u>	<u>264,139</u>
	Year ended		Year ended	
	30 June 2021 Units	30 June 2021 \$'000	30 June 2020 Units	30 June 2020 \$'000
Ruizean Australian Property Fund				
Opening balance	20	16	-	-
Applications	-	-	20	20
Redemptions	(20)	(19)	-	-
Units issued upon reinvestment of distributions	-	-	-	-
Distributions paid and payable	-	-	-	(2)
Profit/(loss) for the year	-	3	-	(2)
Closing balance	<u>-</u>	<u>-</u>	<u>20</u>	<u>16</u>
Closing balance		<u>589,566</u>		<u>264,155</u>

As stipulated within the Fund Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are two separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

Units are redeemed on demand at the unitholder's option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within twelve months after the end of the reporting period cannot be reliably determined.

Capital risk management

The Fund considers its net assets attributable to unit holders as capital, notwithstanding that net assets attributable to unit holders are classified as a liability at 30 June 2021.

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

9 Distributions to unitholders

The distributions for the year were as follows:

Freehold Australian Property Fund

	Year ended		Year ended	
	30 June 2021 \$'000	30 June 2021 CPU	30 June 2020 \$'000	30 June 2020 CPU
Distribution paid	5,159	1,3059	5,940	2,2987
Distribution payable	8,011	1,5573	15,119	5,9123
Total Distributions	13,170	2,8631	21,059	8,2110

Ruizean Australian Property Fund

	Year ended		Year ended	
	30 June 2021 \$'000	30 June 2021 CPU	30 June 2020 \$'000	30 June 2020 CPU
Distribution paid	-	-	1	6,1897
Distribution payable	-	-	1	6,9182
Total Distributions	-	-	2	13,1079

10 Cash and cash equivalents

	As at	
	30 June 2021 \$'000	30 June 2020 \$'000
Cash at bank	31,772	16,381
Total cash and cash equivalents	31,772	16,381

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

	Year ended	
	30 June 2021 \$'000	30 June 2020 \$'000
(a) Reconciliation of profit to net cash inflow/(outflow) from operating activities		
Profit for the year	54,469	(9,207)
Proceeds from sale of financial instruments at fair value through profit or loss	122,718	123,739
Purchase of financial instruments at fair value through profit or loss	(381,864)	(113,925)
Net (gains)/losses on financial instruments at fair value through profit or loss	(40,901)	21,820
Net change in receivables and other assets	(3,049)	1,340
Net change in payables and other liabilities	199	14
Net cash inflow/(outflow) from operating activities	(248,428)	23,781

(b) Non cash financing activities

During the year the following distribution payments to unitholders were satisfied by the issue of units under the distribution reinvestment plan

13	9
<u>13</u>	<u>9</u>

12 Receivables

	As at	
	30 June 2021 \$'000	30 June 2020 \$'000
Dividends/distribution receivable	5,659	2,631
Goods and services tax recoverable	70	35
	<u>5,729</u>	<u>2,666</u>

13 Payables

	As at	
	30 June 2021 \$'000	30 June 2020 \$'000
Audit fee payable	5	15
Management fee payable	271	93
Responsible Entity fee payable	-	11
Fund and admin fee payable	137	95
	<u>413</u>	<u>214</u>

14 Remuneration of auditor

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

	Year ended 30 June 2021 \$
BDO	
Audit and other assurance services	11,300
Audit and review of financial statements	4,100
Audit of compliance plan	<u>15,400</u>
Total remuneration of BDO	<u>15,400</u>
	Year ended 30 June 2020 \$
BDO	
Audit and other assurance services	11,000
Audit and review of financial statements	4,000
Audit of compliance plan	<u>15,000</u>
Total remuneration of BDO	<u>15,000</u>

15 Related party transactions

(a) Responsible Entity

The Responsible Entity of the Fund is Responsible Entity Partners Limited (ABN 11 119 757 596).

(b) Directors

Key management personnel includes persons who were directors of Responsible Entity Partners Limited at any time during the financial year as follows:

	Date Appointed	Date Resigned
Mr Michael Terlet AO (Chairperson)	1 October 2017	-
Mr Ronald Beard	23 October 2013	-
Ms Fiona McNabb	28 September 2016	-
Mr Andrew Peterson	20 March 2018	18 February 2021
Mr Darran Goodger	18 February 2021	-

(c) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

(d) Transactions with key management personnel

There were no transactions with key management personnel during the reporting period.

(e) Key management personnel compensation

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

(f) Related party unitholdings

Neither the Responsible Entity nor its parent company held units in the Fund at the end of the Financial year.

(g) Other transactions within the Fund

No key management personnel have entered into any transactions with the Fund during the financial year and there were no material balances involving key management personnel's interests outstanding at year end.

15 Related party transactions (continued)

(h) Investments

The Fund held units in the following related parties (including Responsible Entity Partners Ltd, its related parties and other schemes issued by Responsible Entity Partners Ltd) :

30 June 2021

Fund Name	No. of units held opening (Units) '000	No. of units acquired (Units) '000	No. of units disposed (Units) '000	No. of units held closing (Units) '000	Distributions received / receivable by the Fund \$'000
Alceon Debt Income Fund	18,941	10,979	(2,655)	27,265	1,824
Total	18,941	10,979	(2,655)	27,265	1,824

30 June 2020

Alceon Debt Income Fund	-	18,941	-	18,941	869
Total	-	18,941	-	18,941	869

(i) Other entities with significant influence over the Fund

Freehold Investment Management Limited acts as the Manager of the Fund and investment management fees of \$2,225,348 for the year were paid to the Manager (2020: \$1,437,247).

(j) Responsible Entity and Investment Manager's fees and other transactions

Under the terms of the Fund's Constitution and Product Disclosure Statement for the Fund, the Responsible Entity and the Investment Manager are entitled to receive management fees.

The transactions during the year and amounts payable as at year/period end between the Fund, the Responsible Entity and the Investment Manager were as follows:

	Year ended 30 June 2021 \$	Year ended 30 June 2020 \$
Investment management fees for the year	2,009,669	1,301,860
Trustee and Responsible Entity fees for the year	215,678	135,387
Total fees payable to the Investment Manager at year end	270,913	92,800
Total fees payable to the Responsible Entity at year end	-	11,627

For information on how management fees are calculated please refer to the Fund's Product Disclosure Statement.

16 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the statement of financial position as at 30 June 2021 or on the results and cash flows of the Fund for the year ended on that date.

17 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2021 (30 June 2020: nil).

Directors' declaration

In the opinion of the Directors of Responsible Entity Partners Limited, the Responsible Entity of Freehold Australian Property Fund, declares that:

- (a) The financial statements and Notes set out on pages 7 to 22 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund'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 Fund will be able to pay its debts as and when they become due and payable.
- (c) Note 2(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Fiona Margaret McNabb
Director
28 September 2021



Darran Jodey Goodger
Director
28 September 2021

INDEPENDENT AUDITOR'S REPORT

To the unitholders of Freehold Australian Property Fund

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Freehold Australian Property Fund (the Fund), which comprises the statement of financial position as at 30 June 2021, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial report, including a summary of significant accounting policies, and the directors' declaration.

In our opinion the accompanying financial report of Freehold Australian Property Fund, is in accordance with the *Corporations Act 2001*, including:

- (i) Giving a true and fair view of the Fund's financial position as at 30 June 2021 and of its financial performance for the year ended on that date; and
- (ii) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 Fund 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 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 the Fund, 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.

Other information

The directors of Responsible Entity Partners Limited (the Responsible Entity) are responsible for the other information. The other information obtained at the date of this auditor's report is information included in the Director's report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, 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.



If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors of the Responsible Entity for the Financial Report

The directors of the Responsible Entity are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that 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 Fund's ability 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 Fund or to cease operations, or has no realistic alternative but to do so.

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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website (<http://www.auasb.gov.au/Home.aspx>) at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf

This description forms part of our auditor's report.

BDO Audit Pty Ltd

BDO

A handwritten signature in black ink that reads 'James Dixon'. The signature is written in a cursive style.

James Dixon
Director

Melbourne, 28 September 2021