

Alceon Australian Property Fund

ARSN 169 952 738

**Annual Report
For the year ended 30 June 2023**

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These financial statements cover the Alceon Australian Property Fund as an individual entity.

The Responsible Entity of the Alceon Australian Property Fund is Melbourne Securities Corporation Limited (ABN 57 160 326 545). The Responsible Entity's registered office is Level 2, 395 Collins Street, Melbourne, VIC 3000.

Directors' report

The directors of Melbourne Securities Corporation Limited, the Responsible Entity of Alceon Australian Property Fund, present their report together with the financial statements of Alceon Australian Property Fund (the "Fund") for the year ended 30 June 2023.

Principal activities

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

On 1 October 2021, the Fund name was changed to the Alceon Australian Property Fund and the Fund was registered with ASIC for retail distribution.

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.

Directors

The following persons held office as directors of Responsible Entity Partners Limited acting as the Responsible Entity for the Fund up to the 3rd of August 2022:

	Date Appointed
Michael Tarlet AO (Chairperson)	1 October 2017
Ronald Beard	23 October 2013
Fiona McNabb	28 September 2016
Darran Goodger	18 February 2021

The following persons held office as directors of Melbourne Securities Corporation Limited acting as the Responsible Entity for the Fund from the 4th August 2022 to the date of this report:

	Date Appointed
Matthew Fletcher	4 August 2022
Shelley Brown	4 August 2022
Michael Fleming	4 August 2022
Steven O'Connell	12 August 2022
Ruth McClelland	12 August 2022

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

Service Providers

Service	Provider
Investment manager	Alceon Real Asset Management Pty Ltd.
Unit registry service provider	Apex Fund Services Pty Ltd (an Apex Group Company)
Custodian	Apex Fund Services Pty Ltd (an Apex Group Company)

Review and results of operations

During the year, the Fund continued to invest its funds in accordance with the Information Memorandum and the provisions of the Constitution.

The performance of the Fund, as represented by the results of its operations, was as follows:

	Year ended 30 June 2023	Year ended 30 June 2022
	\$'000	\$'000
Operating profit/(loss) for the year	34,942	51,623
<u>Alceon Australian Property Fund</u>		
Distributions paid and payable	39,924	32,619
Distributions (cents per unit)	7.8862	6.2893

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.

On 4 August 2022, Melbourne Securities Corporation Limited was appointed as the Responsible Entity.

On 5 August 2022, the investment manager changed from AFIM Limited to Alceon Real Asset Management Pty Ltd.

Directors' report (continued)

Matters subsequent to the end of the financial year

No matters or circumstances have arisen since 30 June 2023 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.

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's 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.

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 dollars 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 4.

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



Shelley Brown
Director
Melbourne Securities Corporation Limited
28 September 2023



**Building a better
working world**

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Auditor's independence declaration to the Directors of Melbourne Securities Corporation Limited as Responsible Entity of Alceon Australian Property Fund

As lead auditor for the audit of the financial report of Alceon Australian Property Fund for the financial year ended 30 June 2023, I declare to the best of my knowledge and belief, there have been:

- a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;
- b. No contraventions of any applicable code of professional conduct in relation to the audit; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads "Ernst & Young".

Ernst & Young

A handwritten signature in black ink that reads "Rohit Khanna".

Rohit Khanna
Partner
28 September 2023

Alceon Australian Property Fund
Statement of comprehensive income
For the year ended 30 June 2023

Statement of comprehensive income

	Notes	Year ended 30 June 2023 \$'000	Year ended 30 June 2022 \$'000
Investment income			
Interest income		4,311	6,618
Dividend/distribution income		24,313	21,883
Net gains on financial instruments at fair value through profit or loss	5	11,652	28,517
Total net investment income		40,276	57,018
Expenses			
Management fees	15	3,574	3,493
Administration fees		419	488
Audit and accounting fees	14	52	34
Transaction costs		1,214	1,321
Other expenses	6	75	59
Total operating expenses		5,334	5,395
Operating profit		34,942	51,623
Finance costs attributable to unitholders			
Distributions to unitholders	9	(39,924)	(32,619)
(Increase)/decrease in net assets attributable to unitholders	8	4,982	(19,004)
Profit/(loss) for the year		-	-
Other comprehensive income		-	-
Total comprehensive income for the year		-	-

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

Alceon Australian Property Fund
Statement of financial position
As at 30 June 2023

Statement of financial position

	Notes	As at 30 June 2023 \$'000	As at 30 June 2022 \$'000
Assets			
Cash and cash equivalents	10	19,067	22,133
Receivables	12	7,389	6,045
Due from brokers - receivable for securities sold		4,502	2,527
Financial assets at fair value through profit or loss	7	584,402	567,142
Total assets		<u>615,360</u>	<u>597,847</u>
Liabilities			
Payables	13	441	319
Distribution payable	9	17,037	10,000
Due to brokers - payable for securities purchased		1,439	7,652
Total liabilities (excluding net assets attributable to unitholders)		<u>18,917</u>	<u>17,971</u>
Net assets attributable to unitholders – liability	8	<u>596,443</u>	<u>579,876</u>

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

Statement of changes in equity

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

Alceon Australian Property Fund
Statement of cash flows
For the year ended 30 June 2023

Statement of cash flows

		Year ended 30 June 2023 \$'000	Year ended 30 June 2022 \$'000
Cash flows from operating activities	Notes		
Proceeds from sale of investments		410,805	450,724
Payment for purchase of investments		(424,601)	(423,735)
Dividends/distributions received		22,973	24,282
Interest received		4,311	3,926
Management fees paid		(3,493)	(3,569)
Administration fees paid		(378)	(501)
Audit fee paid		(52)	(39)
Other expenses paid		(1,293)	(1,403)
Net cash inflow from operating activities	11(a)	<u>8,272</u>	<u>49,685</u>
Cash flows from financing activities			
Proceeds from applications by unitholders		110,078	99,895
Payments for redemptions by unitholders		(88,558)	(128,609)
Distributions paid		(32,858)	(30,610)
Net cash outflow from financing activities		<u>(11,338)</u>	<u>(59,324)</u>
Net decrease in cash and cash equivalents		(3,066)	(9,639)
Cash and cash equivalents at the beginning of the year		22,133	31,772
Cash and cash equivalents at the end of the year		<u>19,067</u>	<u>22,133</u>
Non-cash financing activities	11(b)	<u>29</u>	<u>20</u>

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

1 General information

These financial statements cover Alceon 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 Melbourne Securities Corporation Limited (the "Responsible Entity"). The Responsible Entity's registered office is Level 2, 395 Collins Street, Melbourne, VIC 3000. The financial statements are presented in Australian dollars 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 Responsible Entity intends for the Fund to be suited to investors with an investment horizon of five years or more. The directors believe that the Fund is suited for 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.

The financial statements were authorised for issue by the directors of the Responsible Entity on 28 September 2023. 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 an historical cost basis except for certain financial assets which are measured at fair value.

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 profit or loss 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 2023.

In the case of net assets attributable to unitholders, the units may be redeemed subject to the Fund's redemption policy. Any redemptions will be completed at the unit Price last calculated immediately before the redemptions. Unitholders may request to withdraw some or all of their investment, subject to a limit of Net Withdrawals from all Investors collectively to 5% of the Fund's Net Asset Value per quarter.

(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 2022 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

(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 2023. Management has made an assessment and concluded that none of these are expected to have a material impact on the financial statements.

2 Summary of significant accounting policies (continued)

(b) Financial instruments

(i) Classification

- 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.

Listed securities, investments in unlisted trusts and loan notes 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 units 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 calculated using the effective interest rate method.

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 unitholders by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as Distributions to unitholders.

(i) 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.

2 Summary of significant accounting policies (continued)

(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 from the Fund are declared quarterly. Distributions which were declared effective the quarter ended 30 June in relation to unitholder who have previously elected to reinvest distributions are recognised as reinvested effective 1 July of the following 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.

(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.

All Listed shares have quoted market prices readily available. 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 Investment Manager.

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.

(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 thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

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. Where there are material movements in valuations the valuation is reviewed by the Responsible Entity and confirmed in accordance with the valuation policy.

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 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") and unlisted Australian securities. The Fund does not trade on international stock exchanges nor does it invest in derivative instruments such as futures and options.

The Fund Manager is responsible for maintaining its policies and compliance with those policies.

The Fund Manager provides attestation to the Responsible Entity each quarter.

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 Responsible Entity has delegated management of these risks to the Investment Manager. The Investment Manager manages the financial risks relating to the operations of the Fund in accordance with an investment mandate set out in 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 and unlisted Australian securities. 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.

(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 investments are carried at fair value with changes in fair value recognised in the statement of comprehensive income, 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 unitholders 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 2023		As at 30 June 2022	
	% Change in +/-	Impact on \$'000	% Change in +/-	Impact on \$'000
Equity price risk	10	58,457/(58,457)	10	56,714/(56,714)

(iii) Interest rate risk

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

The Fund's interest bearing financial assets expose them to risks associated with the effects of fluctuation in the prevailing levels of market interest rates on their financial positions and cash flows.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund is exposed to interest rate risks via the Fund's investments which are managed through the investment process.

3 Financial risk management (continued)

(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 is exposed to credit risk on debt investments. These classes of financial assets are not subject to AASB 9's impairment requirements as they are measured at fair value through profit or loss. The carrying value of these assets represents the Fund's maximum exposure to credit risk on financial instruments not subject to the AASB 9 impairment requirements on the respective reporting dates. Hence, no separate maximum exposure to credit risk disclosure is provided for these instruments.

(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 is currently liquid, however due to the Fund's investments in Unlisted assets means it may not always be liquid. When the Fund is liquid, unitholders may request to redeem their units with a minimum of \$1,000 per request. Withdrawal requests may be rejected if the Fund Net Withdrawals over a quarter exceed 5% of the Fund's Net Asset Value.

The Fund's listed securities and listed managed investments schemes are considered to be readily realisable. As a result, the risk of the Fund 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, continuous monitoring of forecasts and actual cash flows.

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	Not stated maturity \$'000	Total \$'000
As at 30 June 2023						
Payables	441	-	-	-	-	441
Distribution payable	17,037	-	-	-	-	17,037
Due to brokers - payable for securities purchased	1,439	-	-	-	-	1,439
Net assets attributable to unitholders	596,443	-	-	-	-	596,443
	615,360	-	-	-	-	615,360
As at 30 June 2022						
Payables	319	-	-	-	-	319
Distribution payable	10,000	-	-	-	-	10,000
Due to brokers - payable for securities purchased	7,652	-	-	-	-	7,652
Net assets attributable to unitholders	579,876	-	-	-	-	579,876
	597,847	-	-	-	-	597,847

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).

4 Fair value measurement (continued)

(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.

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 2023 and 30 June 2022.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
As at 30 June 2023				
Financial assets at fair value through profit or loss				
Domestic equities (listed)	304,154	-	-	304,154
Domestic equities (unlisted)	-	136,866	35,630	172,496
Unlisted debt securities	-	-	107,752	107,752
Total	304,154	136,866	143,382	584,402
As at 30 June 2022				
Financial assets at fair value through profit or loss				
Domestic equities (listed)	226,519	-	-	226,519
Domestic equities (unlisted)	-	239,374	37,593	276,967
Unlisted debt securities	-	-	63,656	63,656
Total	226,519	239,374	101,249	567,142

(d) Transfer between levels

Management's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels in the fair value hierarchy for the year ended 30 June 2023.

The following table presents the transfers between levels for the year ended 30 June 2022.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000
As at 30 June 2022			
Unlisted equity securities	-	(17,593)	17,593

At the end of the current reporting period, management have transferred the Fund's investments in equity securities from level 2 to 3 on the fair value hierarchy on the basis that equity securities were unlisted. There were no other transfers between levels in the fair value hierarchy at the end of the reporting period.

4 Fair value measurement (continued)

(e) Fair value measurements using significant unobservable inputs

The following table presents the movement in level 3 instruments for the period ended 30 June 2023 and 30 June 2022 by class of financial

	Unlisted equity securities \$'000	Unlisted debt securities \$'000	Total \$'000
Opening balance - 1 July 2022	37,593	63,656	101,249
Purchases	-	80,343	80,343
Sales	-	(28,258)	(28,258)
Transfers into/(out of) level 3	-	-	-
Gains/(losses) recognised in the statement of comprehensive income	(1,963)	(7,989)	(9,952)
Closing balance - 30 June 2023	35,630	107,752	143,382
Opening balance - 1 July 2021	-	10,965	10,965
Purchases	20,000	60,556	80,556
Sales	-	-	-
Transfers into/(out of) level 3	17,593	-	17,593
Gains/(losses) recognised in the statement of comprehensive income	-	(7,865)	(7,865)
Closing balance - 30 June 2022	37,593	63,656	101,249

i. Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in the level 3 fair value measurements. See Note 4(b) for the valuation techniques adopted.

Description	Fair value \$	Unobservable inputs	Range of inputs (probability- weighted average)	Relationship of unobservable inputs to fair value
As at 30 June 2023				
Domestic equities (unlisted)	35,630	Discount rate	10%/(10%)	3,579/(3,579)
Unlisted debt securities	107,752	Amortised costs plus accrued interest	10%/(10%)	10,775/(10,775)
As at 30 June 2022				
Domestic equities (unlisted)	37,593	Discount rate	10%/(10%)	6,212/(6,212)
Unlisted debt securities	63,656	Amortised costs plus accrued interest	10%/(10%)	6,366/(6,366)

ii. Valuation processes

Portfolio reviews are undertaken regularly by management. The unlisted securities which the Fund manage include core, value add and development assets in both equity and debt parts of capital stock.

Management will ascertain the current market value of property investments as close as possible to 30 June each year, and as considered necessary throughout the year.

(f) Financial instruments not carried at fair value

The carrying values of cash and cash equivalents, receivables and payables approximate their fair values due to their short-term nature.

Net assets attributable to unitholders are valued at the redemption amount. Units are classified as financial liabilities as they do not meet the conditions to be classified as equity.

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

	Year ended	Year ended
	30 June	30 June
	2023	2022
	\$'000	\$'000
Net realised gain on financial assets at fair value through profit or loss	18,320	41,249
Net unrealised loss on financial assets at fair value through profit or loss	(6,668)	(12,732)
Total net gains on financial instruments at fair value through profit or loss	11,652	28,517

6 Other expenses

	Year ended	Year ended
	30 June	30 June
	2023	2022
	\$'000	\$'000
Compliance fees	6	27
Legal and professional fees	59	30
Other general expenses	10	2
	75	59

7 Financial assets at fair value through profit or loss

	As at	As at
	30 June	30 June
	2023	2022
	\$'000	\$'000
Domestic equities (listed)	304,154	226,520
Domestic equities (unlisted)	172,496	276,967
Unlisted debt securities	107,752	63,655
Total financial assets at fair value through profit or loss	584,402	567,142

8 Net assets attributable to unitholders

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

	Year ended		Year ended	
	30 June	30 June	30 June	30 June
	2023	2023	2022	2022
	Units	\$'000	Units	\$'000
Alceon Australian Property Fund				
Opening balance	491,157	579,876	514,447	589,566
Applications	91,488	110,078	82,675	99,895
Redemptions	(73,206)	(88,558)	(105,982)	(128,609)
Units issued upon reinvestment of distributions	24	29	17	20
Increase/(decrease) in net assets attributable to unitholders	-	(4,982)	-	19,004
Closing balance	509,463	596,443	491,157	579,876

As stipulated within the Fund's 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 unitholders as capital, notwithstanding that net assets attributable to unitholders are classified as a liability at 30 June 2023.

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:

Alceon Australian Property Fund

	Year ended		Year ended	
	30 June 2023 \$'000	30 June 2023 CPU	30 June 2022 \$'000	30 June 2022 CPU
Distribution paid	22,887	4,5419	22,619	4,2532
Distribution payable	17,037	3,3443	10,000	2,0361
Total distributions	39,924	7,8862	32,619	6,2893

10 Cash and cash equivalents

	As at 30 June 2023 \$'000	As at 30 June 2022 \$'000
Cash at bank	19,067	22,133
Total cash and cash equivalents	19,067	22,133

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

	Year ended 30 June 2023 \$'000	Year ended 30 June 2022 \$'000
(a) Reconciliation of profit to net cash inflow/(outflow) from operating activities		
Profit for the year	34,942	51,623
Proceeds from sale of financial instruments at fair value through profit or loss	410,805	450,724
Purchase of financial instruments at fair value through profit or loss	(424,601)	(423,735)
Net (gains)/losses on financial instruments at fair value through profit or loss	(11,652)	(28,517)
Net change in receivables and other assets	(1,344)	(316)
Net change in payables and other liabilities	122	(94)
Net cash inflow/(outflow) from operating activities	8,272	49,685
(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	29	20
	29	20

12 Receivables

	As at 30 June 2023 \$'000	As at 30 June 2022 \$'000
Dividends/distribution receivable	7,292	5,952
Goods and services tax recoverable	97	93
	7,389	6,045

13 Payables

	As at 30 June 2023 \$'000	As at 30 June 2022 \$'000
Management fee payable	276	195
Fund and admin fee payable	165	124
	441	319

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 2023 \$	30 June 2022 \$
Ernst & Young		
Audit and other assurance services		
Audit and review of financial statements	50,000	-
Total remuneration of Ernst & Young	50,000	-
Moore Australia		
Audit and other assurance services		
Audit of compliance plan	5,000	-
Total remuneration of Moore Australia	5,000	-
BDO		
Audit and other assurance services		
Audit and review of financial statements	-	15,000
Audit of compliance plan	-	4,500
Total remuneration of BDO	-	19,500

15 Related party transactions

(a) Responsible Entity

The Responsible Entity of the Fund is Melbourne Securities Corporation Limited (ABN 57 160 326 545).

(b) Directors

Key management personnel includes persons who were directors of Responsible Entity Partners Limited acting as the Responsible Entity for the Fund up to the 3rd of August 2022 as follows:

	Date Appointed
Michael Tarlet AO (Chairperson)	1 October 2017
Ronald Beard	23 October 2013
Fiona McNabb	28 September 2016
Darran Goodger	18 February 2021

Key management personnel includes persons who were directors of Melbourne Securities Corporation Limited acting as the Responsible Entity for the Fund from the 4th August 2022 to the date of this report as follows:

	Date Appointed
Matthew Fletcher	4 August 2022
Shelley Brown	4 August 2022
Michael Fleming	4 August 2022
Steven O'Connell	12 August 2022
Ruth McClelland	12 August 2022

(c) Other key management personnel

Alceon Real Asset Management Pty Ltd is the investment manager and is a related party.

(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 Melbourne Securities Corporation Limited. Payments made from the Fund to Melbourne Securities Corporation Limited do not include any amounts directly attributable to compensation of key management personnel.

15 Related party transactions (continued)

(f) Related party unitholdings

Key management personnel at Alceon Real Asset Management Pty Ltd held a total of 182,007 units at 30 June 2023, which has a value of \$215,842.

(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.

Entities related to the Investment Manager may earn origination fees from the ultimate borrowers of the loans if they are originated by Alceon.

(h) Investments

The Fund held units in the following related parties (including Melbourne Securities Corporation Limited, its related parties and other schemes issued by Melbourne Securities Corporation Limited):

30 June 2023

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	36,125	-	(3,880)	32,245	2,785
Alceon Pacific Suites Trust	14,760	-	-	14,760	-
Alceon RE Opportunity Fund	4,000	-	-	4,000	-
Total	54,885	-	(3,880)	51,005	2,785

30 June 2022

Alceon Debt Income Fund	27,265	12,395	(3,535)	36,125	2,458
Alceon Pacific Suites Trust	-	14,760	-	14,760	-
Alceon RE Opportunity Fund	-	4,000	-	4,000	-
Total	27,265	31,155	(3,535)	54,885	2,458

(i) Other entities with significant influence over the Fund

Alceon Real Asset Management Pty Ltd. acts as the Investment Manager of the Fund and investment management fees of \$3,219,486 for the year were paid to the Manager (2022: \$3,141,847).

(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 trustee/Responsible Entity and management fees, respectively. Trustee and Responsible Entity fee during the period were paid to Responsible Entity Partners Limited (until August 2022) and Melbourne Securities Corporation Limited. Amounts are disclosed in the table below in the financials.

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 2023 \$	Year ended 30 June 2022 \$
Investment management fees for the year	3,219,486	3,141,847
Trustee and Responsible Entity fees for the year	354,173	351,611
Total fees payable to the Investment Manager at year end	276,394	194,712

The Investment Manager charges ongoing management fees of 0.56% per annum (inclusive of GST) of the Fund's Net Asset Value.

Performance-related fees are calculated and accrued daily by the Trustee. The Trustee has the discretion to pay any accrued performance-related fees to the Fund Manager at any time but anticipate the payments to be made once every six months on 30 June and 31 December.

The amount of performance fee payable is determined by multiplying the unit price at the commencement of the calculation period by the lower of the two excess amounts (i.e., the amount of performance more than the Performance Fee Benchmark or the high water mark) by the performance-related fee rate (16.5% inclusive of GST) multiplied by the number of Units on issue at the beginning of the period to provide the performance-related fee payable. The fee is payable 14 days after the final day in a performance-related fee calculation period.

The Fund did not recognise performance fees for the year ended 30 June 2023 and 30 June 2022, as the Fund did not meet the hurdle requirements.

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 2023 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 2023 (30 June 2022: nil).

Directors' declaration

In the opinion of the Directors of Melbourne Securities Corporation Limited, the Responsible Entity of Alceon Australian Property Fund, declares that:

- (a) The financial statements and Notes set out on pages 5 to 21 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 2023 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.



Shelley Brown
Director
Melbourne Securities Corporation Limited

28 September 2023



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working world**

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Independent Auditor's Report to the unitholders of Alceon Australian Property Fund

Opinion

We have audited the financial report of Alceon Debt Income Fund (the "Fund"), which comprises the statement of financial position as at 30 June 2023, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- a) Giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its financial performance for the year ended on that date; and
- b) 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 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 (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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the Financial Report and Auditor's Report thereon

The Directors of Melbourne Securities Corporation Limited, the Responsible Entity of the Fund, are responsible for the other information. The other information is the directors' report accompanying the financial report.

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, 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 of the Responsible Entity are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters relating 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 have 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.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment 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 Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors of the Responsible Entity.
- Conclude on the appropriateness of the Directors of the Responsible Entity of the Fund's 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 Fund'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 Fund 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 of the Responsible Entity 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

Ernst & Young
Ernst & Young

Rohit Khanna

Rohit Khanna
Partner
Sydney
28 September 2023