

Alceon Debt Income Fund

ARSN 650 960 820

Annual Report For the year ended 30 June 2023

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These financial statements cover the Alceon Debt Income Fund as an individual entity.

The Responsible Entity of the Alceon Debt Income 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 Debt Income Fund, present their report together with the financial statements of Alceon Debt Income Fund (the "Fund") for the year ended 30 June 2023.

Principal activities

The Fund was constituted on 9 August 2018. It commenced operations as an unregistered scheme under the name Freehold Debt Income Fund.

On June 2021, the Fund name was changed to the Alceon Debt Income Fund and the Fund was registered with ASIC for retail distribution.

The Fund seeks to generate attractive risk-adjusted returns by lending primarily to the special purpose vehicles of Australian mid-market real estate companies to finance real estate assets in Australian gateway cities (primarily Sydney and Melbourne).

The Fund may also finance office, industrial and retail real estate assets. It is intended that the Fund will lend to fund construction of such real estate assets, as well as to fund developed real estate assets.

The Fund did not have any employees during the year.

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

Directors

The following persons held office as directors of the Responsible Entity Partners Limited acting as the Responsible Entity of the Fund up to the 3rd 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 of 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 Debt Income Fund are held by 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 Product Disclosure Statements (PDS) 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	30 June
	2023	2022
	\$'000	\$'000
Operating profit/(loss) for the year	6,347	3,700
Distributions paid and payable	6,290	2,946
Distributions (cents per unit)	8.0547	6.1594

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.

Directors' report (continued)

Significant changes in state of affairs (continued)

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

Matters subsequent to the end of the financial year

In July 2023, all of the Fund's loan assets were transferred to a newly formed intermediary entity, Alceon Real Estate Senior Credit Fund Ltd ("ARESCF"), which issued loan notes to the Fund in exchange for the loan assets. ARESCF has been set up as a holding entity for the Fund's investments and the investment risks and rewards pass through to the Fund. As such, the Fund's exposure to the investments it held as at 30 June 2023 did not change as a result of this restructure. There are no additional fees charged by ARESCF. The shares of ARESCF are 100% owned by Alceon Capital Investment Trust, an entity related to the Investment Manager of the Fund.

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.

Indemnification and insurance of officers

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to the officers of Melbourne Securities Corporation Limited. So long as the officers of Melbourne Securities Corporation Limited 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.

Indemnification of auditors

The auditors of the Fund are in no way indemnified out of the assets of the Fund.

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

Fees paid to the Trustee and the Responsible Entity and their associates out of Fund property during the year are disclosed in Note 13 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 13 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 7 to the financial statements.

The value of the Fund's assets and liabilities is disclosed on 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 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

Melbourne
28 September 2023



**Building a better
working world**

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

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

As lead auditor for the audit of the financial report of Alceon Debt Income 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.

Ernst & Young
Ernst & Young

A handwritten signature in black ink, appearing to read 'Rohit Khanna', with a horizontal line underneath.

Rohit Khanna
Partner
28 September 2023

Statement of comprehensive income

		Year ended	
	Notes	30 June 2023 \$'000	30 June 2022 \$'000
Investment income			
Interest income		8,043	4,688
Other income		-	199
Total net investment income		8,043	4,887
Expenses			
Management fees	13	1,213	778
Performance fees	13	319	220
Administration fees		62	44
Responsible entity fees	13	53	24
Other expenses		49	121
Total operating expenses		1,696	1,187
Operating profit for the year		6,347	3,700
Finance costs attributable to unitholders			
Distributions to unitholders	7	(6,290)	(2,946)
(Increase)/decrease in net assets attributable to unitholders	6	(57)	(754)
Profit/(loss) for the year		-	-
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		-	-

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

Statement of financial position

	Notes	As at	
		30 June 2023 \$'000	30 June 2022 \$'000
Assets			
Cash and cash equivalents	8	-	2,206
Receivables	10	52	325
Financial assets at fair value through profit or loss	4, 5	<u>106,843</u>	<u>57,873</u>
Total assets		<u>106,895</u>	<u>60,404</u>
Liabilities			
Borrowings	8	6,826	-
Distributions payable		1,361	26
Payables	11	<u>492</u>	<u>378</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>8,679</u>	<u>404</u>
Net assets attributable to unitholders - liability	6	<u>98,216</u>	<u>60,000</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 start or end of the financial year.

Statement of cash flows

	Notes	Year ended	
		30 June 2023 \$'000	30 June 2022 \$'000
Cash flows from operating activities			
Proceeds from sale of investments		68,851	25,615
Payments for purchase of investments		(114,971)	(49,715)
Interest income received		5,192	4,010
Other Income received		286	199
Management fees paid		(1,163)	(754)
Administration fees paid		(62)	(44)
Performance fees paid		(220)	(243)
Responsible entity fees paid		(53)	(24)
Other expenses paid		(96)	(17)
Net cash (outflow) from operating activities	9(a)	(42,236)	(20,973)
Cash flows from financing activities			
Proceeds from applications by unitholders	6	64,963	30,540
Payments for redemptions by unitholders	6	(27,201)	(5,653)
Distributions paid		(4,558)	(3,302)
Net cash inflow from financing activities		33,204	21,585
Net increase/(decrease) in cash and cash equivalents		(9,032)	612
Cash and cash equivalents at the beginning of the year		2,206	1,594
Cash and cash equivalents at the end of the year	8	(6,826)	2,206
Non-cash financing activities	9(b)	397	84

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

1 General information

These financial statements cover Alceon Debt Income Fund (the "Fund") as an individual entity. The Fund was constituted on 9 August 2018 and commenced operations on 1 October 2019.

The Fund was registered with Australian Securities and Investments Commission on 22 June 2021.

Melbourne Securities Corporation Limited (the "Responsible Entity") was appointed as responsible entity of the fund on 4 August 2022. The Responsible Entity's registered office is L2, 395 Collins Street, Melbourne VIC 3000. The financial statements are presented in the Australian Dollars.

The Fund seeks to generate attractive risk-adjusted returns by lending primarily to the special purpose vehicles of Australian mid-market real estate companies to finance real estate assets in Australian gateway cities (primarily Sydney and Melbourne).

The Fund may also finance office, industrial and retail real estate assets. It is intended that the Fund will lend to fund construction of such real estate assets, as well as to fund developed real estate assets.

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 accruals basis and are based on historical costs, 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 12 months, except for investments in financial assets and liabilities and net assets attributable to unitholders.

i. Compliance with International Financial Reporting Standards (IFRS)

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

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 standards 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 and have not been early adopted in preparing these financial statements.

None of these are expected to have a material effect on the financial statements of the Fund.

(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.

The Fund's portfolio of 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 Investment Manager to evaluate the information about these financial assets 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, due from brokers and receivables, these assets are held in order to collect the contractual cash flows and the contractual terms of these assets give rise, on specified dates, to cash flow that are solely payments of principal and interest on the principal amount outstanding. Consequently, these are measured at amortised cost.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(i) Classification (continued)

- 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.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all the risks and rewards of ownership.

(iii) Measurement

(a) 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 and exclude interest and dividends which are presented separately in the statement of comprehensive income.

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 the asset is credit impaired. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the net 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.

(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 may be redeemable at the unitholders option; however redemptions are subject to the Fund's redemption policy.

The units are classified as financial liabilities.

The units can be put back to the Fund at any time for cash based on the redemption price, which is equal to a proportionate share of the Fund's net asset value attributable to the unitholders.

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, if any, 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.

2 Summary of significant accounting policies (continued)

(e) Investment income

Investment income consists of loan interest, line fees and bank interest received. Loan interest and line fees also include those amounts capitalised in the year.

Income is measured at the fair value of the consideration received or receivable. Interest income is calculated using the effective interest rate method.

(f) Expenses

All 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 as unitholders are presently entitled to the income of the Fund.

(h) Distributions

The Fund fully distributes its distributable income in accordance with the Fund's Constitution, which at the option of the unit holders may be reinvested into the Fund or received in cash. Such distributions are determined by reference to the taxable income of the Fund. Distributable income includes capital gains arising from the disposal of investments. Unrealised gains and losses on investments that are recognised as income are transferred to net assets attributable to unit holders and are not assessable and distributable until realised. Capital losses are not distributed to unitholders but are retained to be offset against any future realised capital gains.

The distributions are recognised in the statement of comprehensive income as finance costs attributable to unitholders.

(i) 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 attributable to unitholders.

(j) 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.

(k) 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.

(l) Payables

Payables include liabilities and accrued expenses owed by the Fund 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.

(m) 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.

(n) 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 at least 55% hence investment management fees, custodial fees and other expenses have been recognised in the statement of comprehensive income 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 under operating cash flows on a gross basis.

(o) Use of estimates and judgements

In accordance with AASB9, the Fund applies an expected credit loss (ECL) impairment model, which has not materially impacted the Fund. Please see Note 3 for more information on credit risk.

For certain other financial instruments, including amounts receivables and payables, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

2 Summary of significant accounting policies (continued)

(p) Rounding of amounts

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

(q) Prior period disclosure

The prior year's financial report classified the Fund's investments as financial assets at amortised cost. The classification has been corrected to financial assets at fair value through profit or loss in the current year. Due to their classification as financial assets at fair value through profit or loss, and their classification as Level 3 within the fair value hierarchy, several additional disclosures are made in the financial report this year. See note 4 for current year and prior year comparative disclosures.

(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: 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 seeks to generate attractive risk-adjusted returns by lending to Australian mid-market real estate companies to finance residential real estate assets primarily in Sydney and Melbourne. The Fund will not lend directly to the real estate companies, but through Special Purpose Vehicles (SPVs) and funds established by Alceon (Investment Entities). Alceon is a leading Australian non-bank corporate lender and investment firm. All loans made by the Investment Entities will be originated and managed by Alceon. The Fund may also finance office, industrial and retail real estate assets. It is intended that the Fund will invest to fund construction of real estate assets, as well as to fund developed real estate assets. The Fund may also retain any amounts in cash or cash equivalents pending investment if the Trustee (on recommendation from the SubInvestment Manager) considers it to be consistent with the investment objective of the Fund.

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

(i) 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 Fund 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.

(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.

The Fund is also exposed to credit risk on receivables for investments sold, 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 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 liquidity risk is managed in accordance with the Fund's investment strategy and through the continuous monitoring of the 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	Not stated maturity \$'000	Total \$'000
As at 30 June 2023						
Distributions payable	1,361	-	-	-	-	1,361
Payables	492	-	-	-	-	492
Borrowings	6,826	-	-	-	-	6,826
Net assets attributable to unitholders	98,216	-	-	-	-	98,216
Total	106,895	-	-	-	-	106,895
As at 30 June 2022						
Distributions payable	26	-	-	-	-	26
Payables	378	-	-	-	-	378
Net assets attributable to unitholders	60,000	-	-	-	-	60,000
Total	60,404	-	-	-	-	60,404

In the case of net assets attributable to unitholders, the units may be redeemed subject to the Fund's redemption policy. Redemptions of units in the Fund require a minimum notice period of one full calendar month and will be processed during the following month. 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.

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.

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.

4 Fair value measurement (continued)

(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				
Unlisted unit trust loan notes	-	-	106,843	106,843
Total	-	-	106,843	106,843
As at 30 June 2022				
Financial assets at fair value through profit or loss				
Unlisted unit trust loan notes	-	-	57,873	57,873
Total	-	-	57,873	57,873

(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 for the year ended 30 June 2023.

(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 instrument.

	Unlisted unit trust loan notes \$'000
Opening balance - 1 July 2022	57,873
Purchases	114,971
Sales	(68,851)
Transfers into/(out of) level 3	-
Gains/(losses) recognised in the statement of comprehensive income	2,850
Closing balance - 30 June 2023	106,843
Opening balance - 1 July 2021	32,817
Purchases	49,715
Sales	(25,723)
Transfers into/(out of) level 3	-
Gains/(losses) recognised in the statement of comprehensive income	1,064
Closing balance - 30 June 2022	57,873

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	Valuation methodology	Fair value \$	Unobservable inputs	Range of inputs (probability-weighted average)	Relationship of unobservable inputs to fair value
As at 30 June 2023					
Unlisted unit trusts	Discounted cash flows	106,843	Discount rate	10%/(10%)	10,684/(10,684)
As at 30 June 2022					
Unlisted unit trusts	Discounted cash flows	57,873	Discount rate	10%/(10%)	5,787/(5,787)

ii. Valuation processes

Portfolio reviews are undertaken regularly by management to identify securities that potentially may not be actively traded or have stale security pricing. This process identifies securities which possibly could be regarded as being level 3 securities. Further analysis, should it be required, is undertaken to determine the accounting significance of the identification. For certain security types, in selecting the most appropriate valuation model, management performs back testing and considers actual market transactions. Changes in allocation to or from level 3 are analysed at the end of each reporting period.

5 Financial assets at fair value through profit or loss

	As at 30 June 2023 \$'000	As at 30 June 2022 \$'000
Unlisted unit trust loan notes	106,843	57,873
Total financial assets at fair value through profit or loss	106,843	57,873

6 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 30 June 2023		Year ended 30 June 2022	
	Units	\$'000	Units	\$'000
Opening balance	58,784	60,000	34,102	34,359
Applications	63,317	64,963	30,149	30,455
Redemptions	(26,310)	(27,201)	(5,550)	(5,653)
Reinvestment of distributions	386	397	83	85
Increase/(decrease) in net assets attributable to unitholders	-	57	-	754
Closing balance	96,177	98,216	58,784	60,000

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 in the underlying assets of the Fund.

There are no separate classes of units and each unit has the same rights attached to it as all other units of the Fund.

Units are redeemed on demand at the unitholders option, subject to the Fund's redemption policy. 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 net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

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.

7 Distribution to unitholders

The distributions for the year were as follows:

	Year ended 30 June 2023		Year ended 30 June 2022	
	\$'000	CPU	\$'000	CPU
Distributions				
July	300	0.5000	225	0.6500
August	305	0.5141	229	0.6500
September	355	0.6178	248	0.6500
October	390	0.6178	291	0.6000
November	398	0.6100	251	0.5000
December	417	0.6100	313	0.6094
January	433	0.6000	266	0.5000
February	467	0.6100	270	0.5000
March	542	0.6100	272	0.5000
April	656	0.6700	285	0.5000
May	666	0.6800	296	0.5000
June (payable)	1,361	1.4150	-	-
Total distributions	6,290	8.0547	2,946	6.1594

8 Cash and cash equivalents

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Cash at bank	-	2,206
Borrowings*	(6,826)	-
Total cash and cash equivalents	(6,826)	2,206

*Borrowings consist of bank overdrafts.

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

	Year ended	
	30 June 2023	30 June 2022
	\$'000	\$'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Net (gains)/losses on financial instruments at fair value through profit or loss	(2,850)	(1,064)
Increase/(decrease) in net assets attributable to unitholders	57	754
Distributions to unitholders	6,290	2,946
Proceeds from sale of financial instruments at fair value through profit or loss	68,851	25,615
Purchase of financial instruments at fair value through profit or loss	(114,971)	(49,715)
Net change in receivables	273	410
Net change in payables	114	81
Net cash inflow/(outflow) from operating activities	(42,236)	(20,973)

(b) Non-cash financing activities

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

	397	84
Total non-cash financing activities	397	84

As described in Note 2(i), income not distributed is included in net assets attributable to unitholders. The change in this amount for the year, as reported above, represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

10 Receivables

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Other receivable	52	19
Total receivables	52	19

11 Payables

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Management fees payable	126	76
Performance fees payable	319	220
Other payables	47	82
Total payables	492	378

12 Auditor's remuneration

	Year ended	
	30 June 2023	30 June 2022
	\$	\$
Ernst & Young		
Audit and other assurance services		
Audit of financial statements	42,000	-
Total remuneration of Ernst & Young	42,000	-
Moore Australia		
Audit and other assurance services		
Audit of compliance plan	5,000	-
Total remuneration of Moore Australia	5,000	-
ShineWing Australia		
Audit and other assurance services		
Audit of financial statements	-	18,000
Total remuneration of ShineWing Australia	-	18,000

The auditor's remuneration is borne by the Fund. Fees are stated exclusive of GST.

13 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 up to the 3rd 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 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) Key management personnel compensation

The Directors of the Responsible Entity were paid by Responsible Entity Partners Limited up to 3 August 2022.

Following the change in Responsible Entity, from 4 August the Directors of Melbourne Securities Corporation Limited were paid by Melbourne Securities Corporation Limited.

(e) Related party unitholdings

Key management personnel at Alceon Real Asset Management Pty Ltd hold 246,828 units at 30 June 2023, which has a value of \$255,516.

(f) Other entities with significant influence over the Fund

AFIM Limited was replaced by Alceon Real Asset Management Pty Ltd. as the Investment Manager of the Fund from 5th August 2022. The investment managers were paid a total of \$1,213,248 in management fees (2022: \$777,739), and \$319,050 performance fees (2022: \$219,580) during the year.

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

13 Related party transactions (continued)

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

Under the terms of the Fund's Constitution and Product Disclosure Statements (PDS) 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 end between the Fund, the Responsible Entity and the Investment Manager were as follows:

	Year ended	
	30 June 2023 \$	30 June 2022 \$
Management fees for the year	1,213,248	777,739
Performance fees for the year	319,050	219,580
Responsible Entity fees for the year	52,932	24,723
Management fees payable at year end	126,398	76,247
Performance fees payable at year end	319,050	219,580

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

14 Events occurring after the reporting period

In July 2023, all of the Fund's loan assets were transferred to a newly formed intermediary entity, Alceon Real Estate Senior Credit Fund Ltd ("ARESCF"), which issued loan notes to the Fund in exchange for the loan assets. ARESCF has been set up as a holding entity for the Fund's investments and the investment risks and rewards pass through to the Fund. As such, the Fund's exposure to the investments it held as at 30 June 2023 did not change as a result of this restructure. There are no additional fees charged by ARESCF. The shares of ARESCF are 100% owned by Alceon Capital Investment Trust, an entity related to the Investment Manager of the Fund.

15 Contingent assets and liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 30 June 2023 and 30 June 2022.

Directors' declaration

In the opinion of the Directors of Melbourne Securities Corporation Limited, the Responsible Entity of Alceon Debt Income Fund (the "Fund"), declares that:

- (a) the financial statements and notes set out on pages 5 to 18 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 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

Melbourne
28 September 2023



**Building a better
working world**

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

Independent Auditor's Report to the unitholders of Alceon Debt Income 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