SandhurstTrustees

Sandhurst Select Mortgage Fund

ARSN 090 909 069

Annual Report 2021

The responsible entity and issuer of this product is Sandhurst Trustees Limited ABN 16 004 030 737 AFSL 237906 a subsidiary of Bendigo and Adelaide Bank Limited ABN 11 068 049 178 AFSL 237879

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Sandhurst Select Mortgage Fund

Financial Report

(ARSN 090 909 069)

For the year ended 30 September 2021

Contents

Responsible Entity
Sandhurst Trustees Limited
AFSL 237906
ABN 16 004 030 737

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Level 5, 120 Harbour Esplanade
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Directors' Report

The directors of Sandhurst Trustees Limited (the Responsible Entity), present this report together with the financial statements of the Sandhurst Select Mortgage Fund (the Fund) for the year ended 30 September 2021.

Directors

The name of each person who has been a director of Sandhurst Trustees Limited, during the financial year and to the date of this report are:

Jennifer Lynn Dawson	Chair
Paul Gerard Rohan	
Richard John Baker	
Deborah Lorraine Radford	(resigned 1 January 2021)
Anthony Peter Hodges	(appointed 2 January 2021) (resigned 24 March 2021)
Alexandra Maris Tullio	(appointed 9 March 2021)

Principal activity

The principal activity of the Fund during the year was to invest in a diversified portfolio of income generating assets with a focus on capital stability and liquidity. The Fund achieves this through its investments in:

· high quality mortgages;
· mortgaged backed securities; and
· liquid and income producing assets.

No significant change in the nature of this activity occurred during the year.

Managed investment scheme

The Fund is a managed investment scheme registered by the Australian Securities and Investments Commission in accordance with the *Corporations Act 2001*. The Fund was established on 16 September 1996 and issued its first offer document on 1 October 1996.

Review of Results and Operations

Operating results	**2021** **$'000**	2020 $'000
Net profit attributable to investors for the year ended 30 September	**10,578**	11,194
Distributions to investors are paid quarterly		
Distributed to investors	**7,043**	13,894

Performance

The performance of the Fund during the periods are summarised in the following table.

	Compound Returns for period ended			
	1 year	**3 year**	**5 year**	**10 year**
	%	**%**	**%**	**%**
Return (p.a.)	**0.46**	**1.15**	**1.59**	**2.59**

The Fund's returns fell throughout the reporting period from 0.48%p.a. in the December 2020 Quarter to 0.37%p.a. in the September quarter, the December 2021 indicative rate is 0.32%p.a. The disruption caused by the outbreak of COVID-19 continues to impact economies around the world. The Reserve Bank lowered the official cash rates in November 2020 to an unprecedented 0.10%p.a. The RBA continues to provide liquidity to the financial system through policy measures intended to keep interest rates low out to 2023 which is expected to assist Australia's economic recovery. Mortgage rates are at record lows and there is strong competition for high credit quality borrowers. All these factors contribute to lower income from the assets of the Fund. Despite the low return environment, the fund was able to deliver stable returns to investors during the reporting period meeting or exceeding the indicative rate in all quarters.

The Manager continues to focus on high quality mortgage assets and mortgage-backed securities. Whilst there has been minimal impact on mortgage asset quality during the reporting period, the ongoing effect of COVID-19 and its economic impacts continue to be monitored.

During December 2020 Sandhurst ceased paying grandfathered commissions to financial advisers as required by legislation. The ceasing of these payments resulted in a further reduction in the management fee of 0.01%.

	2021	2020
Total assets	**$**	$
Value of total Fund assets	**1,672,807,436**	1,444,206,411

Environmental, social and governance (ESG)

ESG issues are considered as part of the credit review process. Independent ESG ratings are considered as part of each credit review. Any areas of weakness are considered in the assessment of expected returns from the investment that is used in deciding whether an investment is appropriate for the fund. Sandhurst has not excluded any particular investments as a result of ESG considerations.

Significant changes in state of affairs

No significant changes in the Fund's state of affairs occurred during the year.

Significant events after the reporting date

There has been no matter or circumstance that has arisen since the end of the financial year that significantly affected, or may affect, the Fund's operation in future financial years, the results of those operations or the Fund's state of affairs in future financial years.

COVID-19 Pandemic

In March 2020 the World Health Organisation (WHO) declared COVID-19 a global pandemic, and the impact of this resulted in unprecedented circumstances that affected the financial markets and economy more widely. The financial markets and economy has largely recovered, however there continues to be uncertainty, domestically this includes the timing and impact of lockdowns, government support packages, vaccine rollouts and closed international borders. The Responsible Entity will continue to monitor this event and any impacts on Fund performance.

Directors' Report (continued)

Likely developments and expected results
The Fund intends to continue to invest in accordance with its investment strategy.

Options
No options over interests in the Fund were granted during or since the end of the year and there were no options outstanding at the date of this report.

Indemnities and insurance premiums for officers or auditors
Under the Fund's constitution, the Responsible Entity, including its officers and employees, is indemnified out of the Fund's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Fund.

The Fund has not indemnified any auditor of the Fund.

During the financial year each director and officer of the Responsible Entity was insured against liability and legal expenses incurred in their respective capacities. This insures against certain liability (subject to specified exclusions) for persons who are or have been directors of the Responsible Entity or executive officers of the Responsible Entity.

The Responsible Entity has not provided any insurance to a related body corporate or to an auditor of the Responsible Entity.

Proceedings on behalf of the fund
No person has applied for leave of court to bring proceedings on behalf of the Fund or intervene in any proceedings to which the Fund is a party for the purpose of taking responsibility on behalf of the Fund for all or any part of those proceedings.

The Fund was not a party to any such proceedings during the year.

Environmental regulation and expected results
The operations of the Fund are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Fund.

Rounding
The amounts contained in the financial report and the Directors' Report have been rounded off under ASIC Class Order 2016/191. The Fund is an entity to which the Class Order applies, and in accordance with that Class Order, amounts in the Directors' Report and the financial report have been rounded to the nearest thousand dollars (where rounding is appropriate).

Interests of the Responsible Entity
The interests in the Fund held by the Responsible Entity as the end of the year are disclosed in Note 10 to the financial statements.

The following fees were payable to Sandhurst Trustees Limited and its associates out of the Fund during the financial year:

	2021 $	2020 $
Management fees paid/payable to the Responsible Entity	15,638,694	15,015,757

Auditor's Independence Declaration
A copy of the auditor's independence declaration is set out on the following page.

Signed in accordance with a resolution of the board of directors.

JLDawson

Jennifer L Dawson
Chair
14 December 2021

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Auditor's Independence Declaration to the Directors of Sandhurst Trustees Limited, as Responsible Entity for the Sandhurst Select Mortgage Fund

As lead auditor for the audit of the financial report of Sandhurst Select Mortgage Fund for the financial year ended 30 September 2021, 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; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

Ernst & Young

Hayley Watson
Partner
Melbourne
14 December 2021

Statement of Comprehensive Income

For the year ended 30 September 2021

	Note	2021 $'000	2020 $'000
Income			
Interest income			
Mortgage loans		13,606	16,830
Negotiable certificates of deposit		547	3,199
Term deposits		207	298
Residential mortgage backed securities		8,039	10,289
Other interest bearing deposits		64	61
Net gains/(losses) on financial instruments at fair value through profit or loss		5,399	414
Other income		37	13
		27,899	31,104
Expenses			
Management fee	10(c)	(15,639)	(15,016)
Loan originator management fees		(1,815)	(2,125)
Audit fees	11	(19)	(31)
Loan loss expense		(198)	(1,855)
Collective provision (charge)/reversal		400	(851)
Other expenses		(50)	(32)
		(17,321)	(19,910)
Net profit/(loss) attributable to Investors (before finance costs)		10,578	11,194
Finance Costs			
Distributions to Investors paid/payable		(7,043)	(13,894)
Change in net assets attributable to Investors		3,535	(2,700)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes to the financial statements.

Statement of Financial Position

As at 30 September 2021

	Note	2021 $'000	2020 $'000
Assets			
Cash and cash equivalents	3	44,291	17,964
Other receivables	4	3,529	4,525
Financial assets at amortised cost	5	1,624,919	1,421,718
Derivatives	5	69	-
Total Assets		1,672,808	1,444,207
Liabilities			
Other payables	6	181	237
Distribution payable	6	1,524	2,311
Derivatives	5	9,232	14,562
Total Liabilities (excluding Net Assets Attributable to Investors)		10,937	17,110
Net Assets Attributable to Investors (Liability)		1,661,871	1,427,097
Represented by:			
Investors funds		1,663,380	1,430,870
Cash flow hedge reserve	12(b)	(1,509)	(3,773)
Net Assets attributable to Investors (Liability)		1,661,871	1,427,097

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

Statement of Changes in Net Assets Attributable to Investors

For the year ended 30 September 2021

	Note	2021 $'000	2020 $'000
Investors funds			
Opening balance		1,430,870	1,516,810
Net profit attributable to Investors (before finance costs)		10,578	11,194
Applications		801,643	589,682
Redemptions		(572,668)	(672,922)
Distributions to Investors paid/payable		(7,043)	(13,894)
Closing Balance		1,663,380	1,430,870
Cash flow hedge reserve	12(b)	(1,509)	(3,773)
Net Assets Attributable to Investors		1,661,871	1,427,097

The above Statement of Changes in Net Assets Attributable to Investors should be read in conjunction with the accompanying notes to the financial statements.

Statement of Cash Flows

For the year ended 30 September 2021

	Note	2021 $'000	2020 $'000
Cash flows from operating activities			
Interest received		24,753	32,989
Management fee paid		(15,639)	(15,016)
Loan origination fees paid		(1,831)	(2,120)
Other income received		37	13
Other expenses paid		(299)	(1,888)
Sales/(purchases) of investment securities net of maturities		(219,964)	70,810
Mortgage loans (funded)/repaid		17,162	23,030
Net cash provided by operating activities	7(c)	(195,781)	107,818
Cash flows from financing activities			
Proceeds from applications by investors		802,606	588,719
Payments for redemptions by investors		(572,667)	(672,922)
Distributions paid to investors		(7,831)	(17,873)
Net cash provided by/(used in) financing activities		222,108	(102,076)
Net increase/(decrease) in cash and cash equivalents		26,327	5,742
Cash at the beginning of the financial year		17,964	12,222
Cash at the end of the financial year	7(a)	44,291	17,964

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

Notes to the Financial Statements

1. Corporate information

The financial report of the Fund for the year ended 30 September 2021 was authorised for issue in accordance with a resolution of the directors of the Responsible Entity on 14 December 2021.

The Fund is constituted by deed (the Constitution) dated 16 September 1996, as amended. Sandhurst Trustees Limited, the Responsible Entity of the Fund, is incorporated and domiciled in Australia. The nature of operations and principal activities of the Fund are described in the Directors' Report.

2. Summary of significant accounting policies

(a) Basis of preparation of the financial report
The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The financial report has been prepared on the basis of historical costs, except for the valuation of financial instruments, with details of measurement provided below.

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. Additional information regarding this is included in the relevant notes.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated under the option available to the Fund under ASIC Class Order 2016/191. The Fund is an entity to which the Class Order applies (where rounding is appropriate).

The Fund is a for-profit entity for the purpose of preparing financial statements.

(b) Statement of compliance
The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.

(c) Changes in Accounting Policy

New and amended standards and interpretations
The Fund applied for the first-time certain standards and amendments, which are effective for the year ended 30 September 2021. The Fund has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

Amendments to AASB 101 and AASB 108: Definition of Material
In October 2018, the AASB issued amendments to AASB 101 Presentation of Financial Statements and AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.' The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

This amendment had no impact on the financial statements nor is there expected to be any future impact to the Fund.

Standards issued or amended but not yet effective
Certain Australian Accounting Standards have been recently issued or amended but are not effective and have not been adopted by the Fund for the annual reporting period ended 30 September 2021. These new standards and interpretations do not have an impact on the financial statements.

(d) 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 instruments at amortised cost
A financial asset is measured at amortised cost only if both of the following conditions are met:
> the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
> the contractual terms of the financial asset give rise on specified days to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For cash and cash equivalents, other receivables, mortgage loans, negotiable certificates of deposits, term deposits and residental mortgage backed securities, 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
For financial liabilities that are not classified and measured at fair value through profit or loss, these are classified as financial liabilities at amortised cost (distributions payable and management fees payable).

Recognition and 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 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. Financial liabilities are derecognised when the obligation under the liabilities are discharged.

(ii) Measurement
Financial instruments at fair value through profit or loss
At initial recognition, the Fund measures financial assets and financial liabilities at its fair value. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets and liabilities 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 or liabilities at fair value through profit or loss' category are presented in the statement of comprehensive income in the period in which they arise.

Notes to the Financial Statements (continued)

2 Summary of significant accounting policies (continued)

Financial instruments at amortised cost
For financial assets and financial liabilities at amortised cost, they are initially measured at fair value including directly attributable costs and are subsequently measured according to their classification using the effective interest method. Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised, as well as through the amortisation process. This includes Residential Mortgage Backed Securities ("RMBS's), Negotiable Certificates of Deposits ('NCD's), Term Deposits and Mortgage loans.

The effective interest method (EIR) is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising the interest income or interest expense in the statement of comprehensive income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instruments, but does not consider expected credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Derecognition occurs when the Fund transfers a financial asset and is no longer exposed to substantially all of the risks and rewards of the asset. Where the Fund neither retains nor transfers substantially all of the risks and rewards of the financial asset, derecognition occurs when the Fund no longer controls the asset.

(iii) Impairment
At each reporting date, the Fund shall measure the loss allowance on financial assets at amortised cost (cash and cash equivalents, other receivables, mortgage loans, negotiable certificates of deposits, term deposits and residential mortgage backed securities) 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 credit risk may have significantly increased. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. 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.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when the Fund has 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.

(e) Derivative financial instruments
The Fund uses derivative financial instruments, such as interest rate swap contracts, to hedge its interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value, with fair value movements being recorded through profit and loss. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

An election was made on adoption of AASB 9: Financial Instruments to cease the application of hedge accounting within this Fund. The result of this election has seen the cashflow hedge reserves being unwound through profit and loss over the remaining life of the swaps on a straight-line basis.

(f) Cash and cash equivalents
For the purpose of the Statement of Cash Flows, cash and cash equivalents, in the Statement of Financial Position comprise cash on hand, demand deposits, short term deposits in banks and short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, net of outstanding bank overdrafts when applicable.

(g) Income
Income is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognised:

Interest income
Interest income on financial assets at amortised cost is recognised on an accrual basis, using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset.

(h) Expenses
All expenses are recognised in the Statement of Comprehensive Income on an accruals basis.

(i) Other Receivables
Receivables are recognised and carried at the nominal amount, less a provision for any uncollectible debts. All receivables are non-interest bearing and are generally received within 30 or 90 days of being recorded as receivables.

(j) Other payables
Payables are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Fund. Payables are non-interest bearing and include outstanding settlements on the purchase of investments and the distribution payable. The carrying period is dictated by market conditions and is generally less than 30 days.

(k) Distributions paid /payable
In accordance with the Fund's Constitution, the Fund fully distributes its distributable income to investors. Distributions are payable at the end of each quarter. Such distributions are determined by reference to the taxable income of the Fund. Distributions to investors are recognised in the Statement of Comprehensive Income as finance costs.

Notes to the Financial Statements (continued)

2 Summary of significant accounting policies (continued)

(l) Income tax
Under current legislation, the Fund is not subject to income tax provided the investors are presently entitled to the income of the Fund and the Fund fully distributes its net taxable income.

(m) Goods and services tax (GST)
Income, expenses and assets, with the exception of receivables and payables, are recognised net of the amount of GST to the extent that the GST is recoverable from the taxation authority. Where GST is not recoverable, it is recognised as part of the cost of acquisition of the asset or part of the expense item as applicable.

Expenses incurred by the Fund are recognised net of the amount of GST which is able to be recovered from the Australian Taxation Office (ATO). Reduced input tax credits (RITC) recoverable by the Fund from the ATO are recognised as receivables in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(n) Significant accounting judgments and estimates

The preparation of the Fund's financial statements does not require management to make any significant judgments, estimates and assumptions, except for the following, that affect the amounts recognised in the financial statements. The significant accounting policies have been consistently applied in the current financial year and the comparative period, unless otherwise stated. Where necessary, comparative information has been re-presented to be consistent with current period disclosures.

(i) Measurement of expected credit losses

The Fund has continued to use the same model applied in the 2020 Annual Financial Report for its base Expected Credit Loss (ECL) calculation with the addition of updates to the macroeconomic and loss given default (LGD) models implemented in June 2021. The uncertainty surrounding the impact of the COVID-19 pandemic has been considered by management and incorporated through changes in the macroeconomic forecasts. The judgements, estimates and assumptions have been made by management with reference to various sources of internal and external information, as well as consideration to specific industry exposures. The accounting policy for the calculation of loan impairment losses is disclosed in Note 5.

ii) Fair value measurement of financial instruments

The fair value of financial assets and financial liabilities recorded in the Statement of Financial Position is derived from both active markets and valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Economic and market disruptions that have occurred as a result of the COVID-19 pandemic mean that some valuations are subject to significant measurement uncertainty and there is a wider range of possible estimates, resulting in the need to apply judgement.

For financial instruments quoted in an active market (level 1 in the fair value hierarchy), the market price at measurement date provides the most reliable evidence of fair value. When fair value is based on an observable inputs other than quoted prices included in Level 1, that are observable for the asset or liability (level 2 in the fair value hierarchy), the quoted price at the measurement date provides the most reliable input. When there is limited market data that is observable (level 3 in the fair value hierarchy), interest rate yields which are developed from publicly quoted rates provides the most reliable input. While the COVID-19 pandemic has resulted in a decrease in the frequency and volume of certain transactions, it is not appropriate for management to disregard market prices at the measurement date, unless those prices are from transactions that are not between knowledgeable and willing market participants.

(o) Functional and presentation currency
The Fund's functional and presentation currency is the Australian Dollar, which is the currency of the primary economic environment in which it operates. The Fund's performance is evaluated and its liquidity is managed in Australian Dollars. Therefore, the Australian Dollar is considered as the currency that most faithfully represents the economic effects of the underlying transactions, events and conditions.

(p) Capital Management
The Responsible Entity manages its net assets attributable to investors as capital; not withstanding net asset attributable to investors is classified as a liability. The amount of net asset attributable to investors can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of investors.

The Responsible Entity monitors the level of daily applications and redemptions relative to the liquid assets in the Fund.

(q) Net asset attributable to investors
Non-distributable income is retained in net assets attributable to investors and may consist of unrealised changes in the net fair value of derivatives, accrued income not yet assessable, expenses provided or accrued for which are not yet deductible. Accrued income not yet assessable will be included in the determination of distributable income in the same year as it becomes assessable for tax. Movements in net assets attributable to investors are recognised in the Statement of Comprehensive Income as finance cost.

(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. Cash and cash equivalents

	2021	2020
	$'000	$'000
Cash at bank	29,959	5,131
11AM call deposits	14,332	12,833
	44,291	17,964

4. Other receivables

	2021	2020
	$'000	$'000
Sundry debtors	112	101
Accrued interest	3,417	3,462
Cash Receivable	-	962
	3,529	4,525

All receivables are not past due 30 days and are not impaired.

Notes to the Financial Statements (continued)

5. Financial instruments at amortised cost

	2021 $'000	2020 $'000
Financial assets at amortised cost		
RMBS	814,087	532,611
Negotiable certificates of deposits	291,908	344,803
Term deposits	30,440	39,057
Mortgage loans	488,484	505,247
	1,624,919	1,421,718

All investments above are reported net of provisions and prepaid interest

	2021	2020
Loss provision reconciliation		
Opening balance	1,064	213
Collective provision charge/(reversal)	(400)	851
Closing balance	664	1,064

	2021	2020
Maturity analysis - RMBS's, NCD's and Term Deposits		
At call	-	-
Not longer than 3 months	326,305	395,251
Longer than 3 months and not longer than 12 months	247,873	232,078
Longer than 1 year and not longer than 5 years	557,050	281,589
Longer than 5 years	5,207	7,553
	1,136,435	916,471

	2021	2020
Maturity analysis - mortgage loans		
At call	-	-
Not longer than 3 months	67,809	96,623
Longer than 3 months and not longer than 12 months	112,355	67,737
Longer than 1 year and not longer than 5 years	230,926	124,847
Longer than 5 years	77,394	216,040
	488,484	505,247

Maturity analysis is based on contracted maturity date of each investment security or mortgage loan.

	2021	2020
Loans in arrears analysis		
1 to 3 months	3,615	507
4 to 12 months	9,169	3,220
1 to 5 years	-	6,860
Over 5 years	-	-
	12,784	10,587
% of loans	2.62%	2.10%

Fair values
Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 30 September 2021.

	Carrying amount $'000	Fair value $'000
Financial assets:		
RMBS	814,087	817,057
Negotiable certificates of deposits	291,908	291,987
Term deposits	30,440	30,440
Mortgage loans	488,484	498,684
Derivatives	69	69
Total	1,624,988	1,638,237
Financial liabilities:		
Derivatives	9,232	9,232
Total	9,232	9,232

Set out below is a comparison of the carrying amounts and fair values of financial instruments as at 30 September 2020.

	Carrying amount $'000	Fair value $'000
Financial assets:		
RMBS	532,611	533,071
Negotiable certificates of deposits	344,803	344,905
Term deposits	39,057	39,056
Mortgage loans	505,247	512,859
Total	1,421,718	1,429,891
Financial liabilities:		
Derivatives	14,562	14,562
Total	14,562	14,562

Notes to the Financial Statements (continued)

5. Financial instruments at amortised cost (continued)

Fair Value Financial Instruments
The Fund uses various methods in estimating the fair value of financial instrument. The methods comprise of:

· Level 1 - The fair value is calculated using quoted prices in active markets.
· Level 2 - The fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly (derived from prices).
· Level 3 - The fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair value of the financial instruments as well as the methods used to estimate the fair value are summarised in the table below.

As at 30 September 2021	Quoted market price Level 1 $'000	Valuation technique -market observable inputs Level 2 $'000	Valuation technique - non market observable inputs Level 3 $'000	Total $'000
Financial assets				
RMBS	-	-	817,057	817,057
Negotiable certificates of deposits	-	291,987	-	291,987
Term deposits	-	30,440	-	30,440
Mortgage loans	-	-	498,684	498,684
Derivatives	-	69	-	69
	-	322,496	1,315,741	1,638,237
Financial liabilities				
Derivatives	-	9,232	-	9,232
	-	9,232	-	9,232
As at 30 September 2020				
Financial assets				
RMBS	-	-	533,071	533,071
Negotiable certificates of deposits	-	344,905	-	344,905
Term deposits	-	39,056	-	39,056
Mortgage loans	-	-	512,859	512,859
	-	383,961	1,045,930	1,429,891
Financial liabilities				
Derivatives	-	14,562	-	14,562
	-	14,562	-	14,562

Valuation technique
Residential Mortgage-Backed Securities (RMBS), Negotiable Certificate of Deposits (NCD), Term Deposits & Derivatives
Each month, independent valuations are determined by the managements' Financial Risk & Modelling function. This involves an analysis of independently sourced data that is deemed most representative of the market. From this independent data which is made available by other financial institutions, market average valuations are calculated, and the value of debt securities are updated.

The Fund categorises RMBS investments as level 3 in the fair value hierarchy as there is currently limited market data that is observable.

Mortgage loans
The carrying value of Mortgage loans is net of ECL's. These investments are initially recorded at fair value on recognition and are then measured at amortised cost using the effective interest method, with interest and impairment costs being recognised in the Statement of Comprehensive Income. The fair value of loans are calculated by utilising discounted cash flow models based on the maturity of the loans held by the Fund. The Fund categorises these investments as level 3 as there are no observable inputs.

Movements in Level 3 portfolio
The following table shows a reconciliation of all movements in the fair value of items categorised within level 3 between the beginning and the end of the year:

	2021 $'000	2020 $'000
Starting balance	1,045,930	541,209
Transfers into Level 3	-	553,227
Drawdowns	914,349	357,913
Repayments	(650,049)	(401,553)
Prepaid interest	15	224
Collective Provision	398	(853)
Fair Value (Losses)/Gains	5,098	(4,237)
Ending Balance	1,315,741	1,045,930

RMBS, Mortgage loans and Derivatives
Where the Fund's RMBS, Mortgage loans and Derivatives are not traded on an exchange, they are valued using valuation techniques disclosed above. The most significant inputs into the valuations are interest rate yields which are developed from publicly quoted rates. Refer to Note 8 for sensitivity analysis.

The Fund recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between levels during the year ended 30 September 2021.

Notes to the Financial Statements (continued)

5. Financial instruments at amortised cost (continued)

Impairment

Financial assets at amortised cost

(a) Residential Mortgage-Backed Securities (RMBS), Negotiable Certificate of Deposits (NCD) & Term Deposits
The approach taken to determine a Collective Provision for the financial assets at amortised cost are based on standard credit risk modelling. The probability of default (PD) is derived by mapping each facility's rating to Standard and Poors (S&P) data and using the long-term or 12 month Probability of Default (PD) provided by S&P. Appropriate assumptions are made to estimate Loss Given Default (LGD) for each facility. The Collective Provision for a facility is then determined as the PD multiplied by LGD multiplied by the financial assets value.

Details of these statistical parameters/inputs are as follows:
PD - The probability of default is an estimate of the likelihood of default over a given time horizon.

EAD - the exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, and accrued interest from missed payments.

LGD - The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive.

(b) Mortgage Loans
This impairment model measures credit loss allowances using a three-stage approach based on the extent of credit deterioration since origination and aligned with AASB 9 Financial Instruments.

Expected credit loss model
The Fund's allowance for credit losses is outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The expected credit loss model reflects the present value of all cash shortfalls related to default events either (i) over the following twelve months or (ii) over the expected life of a financial asset depending on credit deterioration from inception. The allowance for credit losses reflects an unbiased, probability-weighted outcome which considers multiple scenarios based on reasonable and supportable forecasts.

In assessing the forward-looking information the Fund has considered the potential impacts of the Covid-19 pandemic and the mitigation measurements put in place by governments, regulators and the Reserve Bank of Australia. The funds expectations of future events have been based on a range of plausible scenarios and are believed to be reasonable and supportable. Under the circumstances, however, it is recognised that uncertainty still exists and actual results may differ from these estimates.

The Fund incorporates past, current and forward looking economic conditions when estimating expected losses and applies a three stage approach to measuring ECLs. The three stages are as follows:

> Stage 1: 12 month ECL, if the credit risk of the asset at the reporting date has not increased significantly since initial recognition;
> Stage 2: lifetime ECL of assets which are considered to have experienced a significant increase in credit risk. Interest is accrued on the gross carrying value;
> Stage 3: lifetime ECL of assets which are considered impaired. Interest is calculated on the net carrying value which takes into account any impairment.

Provision for Credit Impairment on Financial assets at amortised cost

In its ECL model, the Fund relies on a broad range of forward-looking economic information as inputs, such as: GDP growth, unemployment rates, central-bank interest rates, and house-price indices. These macroeconomic factors have been updated to reflect the rapidly evolving situation with respect to the COVID-19 pandemic. The Fund's base case economic forecast scenario reflects a recovery in year 1 followed by stable GDP growth. Unemployment rates are expected to remain at current levels between 4.4% and 4.9%. Specific consideration has been given to the Fund's exposure to the commercial property market and the concentrated exposure to the Rental, Hiring and Real Estate Industry in the determination of overlays. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements.

The following table shows the Fund's provisioning of Financial assets at amortised cost as 30 September 2021:

As at 30 September 2021	Gross amount	Collective loan provision Stage 1	Stage 2	Stage 3	Total ECL provision	Amortised cost
Financial assets at amortised cost	$'000	$'000	$'000	$'000	$'000	$'000
RMBS	814,134	(47)	-	-	(47)	814,087
Negotiable certificates of deposits	291,927	(19)	-	-	(19)	291,908
Term deposits	30,448	(8)	-	-	(8)	30,440
Mortgage loans	489,074	(90)	(220)	(280)	(590)	488,484
	1,625,583	(164)	(220)	(280)	(664)	1,624,919

The following table shows the Fund's provisioning of Financial assets at amortised cost as 30 September 2020:

As at 30 September 2020	Gross amount	Collective loan provision Stage 1	Stage 2	Stage 3	Total ECL provision	Amortised cost
Financial assets at amortised cost	$'000	$'000	$'000	$'000	$'000	$'000
RMBS	532,643	(32)	-	-	(32)	532,611
Negotiable certificates of deposits	344,835	(32)	-	-	(32)	344,803
Term deposits	39,067	(10)	-	-	(10)	39,057
Mortgage loans	506,237	(127)	(224)	(639)	(990)	505,247
	1,422,782	(201)	(224)	(639)	(1,064)	1,421,718

At each reporting date, the Fund makes an assessment as to whether there has been a significant increase in credit risk for financial assets since initial recognition will be made by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition.

6. Other payables

	2021 $'000	2020 $'000
Distribution payable	1,524	2,311
Sundry creditors and accrued expenses	181	237
	1,705	2,548

Notes to the Financial Statements (continued)

7. Notes to the Statement of Cash Flows

	2021 $'000	2020 $'000
(a) Reconciliation of cash		
Cash at bank	29,959	5,131
11AM call deposits	14,332	12,833
	44,291	17,964

(b) Cash flows presented on a net basis
Cash flows arising from the following activities are presented on a net basis in the Statement of Cash Flows:
(i) sales and purchases of investments; and
(ii) mortgage loans advanced and repaid.

(c) Reconciliation of changes in net assets attributable to investors to net cash provided by/(used in) operating activities

	2021 $'000	2020 $'000
Changes in net assets attributable to investors	3,535	(2,700)
Distributions to investors paid/payable	7,043	13,894
Net gains/(losses) on financial instruments at fair value through profit or loss	(5,399)	(414)
Amortisation of cashflow hedge reserve	2,264	2,264
Collective provision charge/(reversal)	(400)	851
Purchases of investment securities net of maturities	(219,964)	70,810
Mortgage loans funded	17,162	23,030
(Increase)/decrease in receivables	34	129
Increase/(decrease) in sundry creditors and accrued expenses	(56)	(46)
Net cash provided by/(used in) operating activities	(195,781)	107,818

8. Financial risk management objectives and policies

Risks arising from holding financial instruments are inherent in the Fund's activities and are managed through a process of ongoing identification, measurement and monitoring. The Fund has exposure to credit risk, liquidity risk and market risk from its use of financial instruments.

This note presents information about the Fund's exposure to each of these risks, its objectives, policies and processes for measuring and managing risk.

Financial instruments of the Fund comprise investments in financial assets for the purpose of generating a return on the investment made by investors. The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments. This is done through a combination of techniques and controls, including the use of hedging and the development of strict lending criteria for mortgage loans.

The total of each category of financial instrument measured in accordance with AASB 9 as detailed in the accounting policies to the financial statements are as follows:

	2021 $'000	2020 $'000
Financial Assets		
Cash and cash equivalents	44,291	17,964
Other receivables	3,529	4,525
Financial assets at amortised cost	1,624,919	1,421,718
Derivatives	69	-
Total financial assets	1,672,808	1,444,207
Financial Liabilities		
Other payables	181	237
Distribution payable	1,524	2,311
Derivatives	9,232	14,562
Net Assets attributable to Investors	1,661,871	1,427,097
Total financial liabilities	1,672,808	1,444,207

(a) Credit risk
Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. In the case of mortgage loans, credit risk is the risk that the borrower is unable to pay all or some of the contracted loan and interest payments.

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts, as disclosed in the Statement of Financial Position and Notes to the Financial Statements. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values. The Fund minimises its exposure to credit risk on derivatives by only trading with credit graded financial institutions and has limits on the level of instruments that it holds with each counterparty.

The Fund's exposure to credit risk is limited to Australia by geographic area.

The Fund determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 30 September 2020 and 30 September 2019, cash and cash equivalents and other receivables are held with counterparties with a credit rating of BBB/BBB+ or higher and are either callable on demand or due to be settled within 1 week . Management consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

Concentration of credit risk is minimised by ensuring all counterparties are approved, credit limits are approved and adhered to, and ensuring that transactions are undertaken with a number of counterparties. As at 30 September 2021, the Fund had $95,486,494 (2020: $104,619,040) on deposit with Bendigo and Adelaide Bank on normal commercial terms and conditions, representing 7% (2020: 7%) of the Fund's net assets.

Notes to the Financial Statements (continued)

8. Financial risk management (continued)

All investments are investment grade credit rated securities other then originated loans which are ungraded. The Fund does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the Fund, except for the funds on deposit with the Bendigo and Adelaide Bank as disclosed in Note 12(c). The largest single borrower in the Fund represents 7% of total assets. (2020: 3%).

Credit risk is not considered to be significant to the Fund except in relation to investments in mortgage loans. Mortgage credit risk is managed by having in place strict lending criteria including ensuring appropriate security is in place to endeavour to cover potential mortgage defaults.

The credit quality of financial assets at amortised cost (aside from mortgage loans) is managed by the Fund using internal analysis and external credit ratings where over 60% of portfolio is categorised as high grade, with the remainder as investment grade, none are: sub-investment grade, unrated, past due or impaired. Mortgage loans, mostly commercial loans, are secured mortgage loans over property and are rated internally on an individual basis.

(i) Impairment

Past due not impaired mortgages

Mortgages where contractual interest or principal payments are past due but impairment is not deemed appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed.

Definition of default

The Fund considers a financial instrument to be in default as a result of one or more loss events that occurred after the date of initial recognition of the instrument and the loss event has a negative impact on the estimated future cash flows of the instrument that can be reliably estimated. This includes events that indicate:

> significant financial difficulty of the borrower;
> default or delinquency in interest or principal payments;
> high probability of the borrower entering a phase of bankruptcy or a financial reorganisation;
> measurable decrease in the estimated future cash flows from the loan or the underlying assets that back the loan.

The Fund considers that default has occurred and classifies the financial asset as impaired when it is more than 90 days past due, unless reasonable and supportable information demonstrates that a more lagging default criterion is appropriate.

Write-off policy

The Fund writes off an impaired financial asset (and the related impairment allowance), either partially or in full, when there is no realistic prospect of recovery. Where financial assets are secured, write-off is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. In subsequent periods, any recoveries of amounts previously written off are credited to the provision for credit losses in the Statement of Comprehensive Income.

Forward-looking information

In its ECL model, the Fund relies on a broad range of forward-looking economic information as inputs, such as: GDP growth, unemployment rates, central-bank interest rates, and house-price indices. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. Commercial property growth rates have specifically been used in the calculations to the overlay included in this model.

(b) Liquidity risk

Liquidity risk is the risk that the Fund will not be able to meet its short-term payment commitments as they fall due.

Mortgage loans are relatively illiquid compared to some other assets classes and delays may occur in converting these investments into cash. This may affect distributions and/or redemptions to investors. The Responsible Entity minimises liquidity risk by holding a percentage of the total assets of the Fund in liquid investments, such as cash and readily negotiated assets including Negotiable Certificates of Deposit. The Funds policy is to hold a minimum of 10% of assets in liquid investments. Quarterly and annual cashflow forecasting is also used to help monitor future cash flow requirements. Short-term borrowings may also be used by the Fund to meet short-term cash flow commitments.

(i) Maturity analysis for financial liabilities

Financial liabilities of the Fund comprise of sundry creditors and accrued expenses and net assets attributable to investors.

All sundry creditors and accrued expenses have no contractual maturities but are normally settled on commercial 30 day terms.

Initial and subsequent investor funds are fixed for a minimum of 90 days then have same day access. As such, the large majority of net assets attributable to investors are payable on demand whilst the Fund is liquid.
There is a risk that redemption proceeds will not be paid within a reasonable period after the initial investment term. The Responsible Entity shall satisfy redemption requests as soon as practicable (generally within 48 hours, but not more than 12 months under the constitution). However, redemption requests may be delayed or refused if in the Responsible Entity's reasonable opinion it is in the best interests of investors as a whole to do so. Investors will only have limited rights to redeem if the Fund does not satisfy the liquidity test in the Corporations Act 2001.

	Less than 1 month $'000	1 to 3 months $'000	4 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Overdue $'000	Total $'000
As at 30 September 2021							
Financial Liabilities							
Other payables	181	-	-	-	-	-	181
Derivatives*	-	10	58	9,164	-	-	9,232
Distribution payable	1,524	-	-	-	-	-	1,524
Net Assets attributable to Investors	1,477,941	183,930	-	-	-	-	1,661,871
Total financial liabilities	1,479,646	183,940	58	9,164	-	-	1,672,808
*Notional amount of derivatives	-	8,000	13,000	94,000	-	-	115,000
As at 30 September 2020							
Financial Liabilities							
Other payables	237	-	-	-	-	-	237
Derivatives*	-	43	297	1,522	12,700	-	14,562
Distribution payable	2,311	-	-	-	-	-	2,311
Net Assets attributable to Investors	1,259,050	168,047	-	-	-	-	1,427,097
Total financial liabilities	1,261,598	168,090	297	1,522	12,700	-	1,444,207
*Notional amount of derivatives	-	11,600	22,018	51,000	50,000	-	134,618

Notes to the Financial Statements (continued)

8. Financial risk management (continued)

(c) Market risk
Market risk is the risk that market prices, such as interest rates and property prices, will affect the Fund's income or its holdings of financial instruments or underlying securities over mortgage loans. Market risk relates to the performance of the market as a whole impacting on the Fund's investment returns. Factors that can influence the market include economic, technological, political, taxation and legal conditions and even market sentiment. Changes in such conditions can affect the ability of a borrower to repay a loan, the value of property held as security or the value of fixed interest securities, which in turn may impact the value and return of the Fund.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters. The Responsible Entity attempts to minimise market risk by ensuring the investment portfolio is well diversified and managed within designated parameters and policies.

(i) Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows, the Fund's income or the values of financial instruments. The Responsible Entity attempts to minimise interest rate risk by using economic hedging to offset the variability that is inherent in its book.

The table below summarises the Fund's exposure to interest rate risks at the reporting date before hedging. It includes the Fund's assets and liabilities categorised by the repricing periods. The mismatch in the period of pricing assets and liabilities is managed as part of the overall asset and liability management process.

As at 30 September 2021	Floating interest rate	Fixed interest rate Less than 1 month	1 to 3 months	4 to 12 months	Over 12 months	Non-interest bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Cash and cash equivalents	44,291	-	-	-	-	-	44,291
Other receivables	-	-	-	-	-	3,529	3,529
Financial assets at amortised cost	814,087	58,992	161,003	102,353	-	-	1,136,435
Mortgage loans	110,334	101,980	18,060	98,895	159,215	-	488,484
Derivatives	69	-	-	-	-	-	69
Total Financial Assets	968,781	160,972	179,063	201,248	159,215	3,529	1,672,808
Financial Liabilities							
Other payables	-	-	-	-	-	181	181
Derivatives	-	-	-	-	-	9,232	9,232
Distribution payable	-	-	-	-	-	1,524	1,524
Net assets attributable to Investors	-	-	-	-	-	1,661,871	1,661,871
Total Financial Liabilities	-	-	-	-	-	1,672,808	1,672,808

As at 30 September 2020	Floating interest rate	Fixed interest rate Less than 1 month	1 to 3 months	4 to 12 months	Over 12 months	Non-interest bearing	Total
	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Financial Assets							
Cash and cash equivalents	17,964	-	-	-	-	-	17,964
Other receivables	-	-	-	-	-	4,525	4,525
Financial assets at amortised cost	532,611	77,981	192,447	113,432	-	-	916,471
Mortgage loans	287,251	8,937	8,714	33,376	166,969	-	505,247
Derivatives	-	-	-	-	-	-	-
Total Financial Assets	837,826	86,918	201,161	146,808	166,969	4,525	1,444,207
Financial Liabilities							
Other payables	-	-	-	-	-	237	237
Derivatives	-	-	-	-	-	14,562	14,562
Distribution payable	-	-	-	-	-	2,311	2,311
Net assets attributable to Investors	-	-	-	-	-	1,427,097	1,427,097
Total Financial Liabilities	-	-	-	-	-	1,444,207	1,444,207

As at 30 September 2021 the open interest rate swaps' cash flows are expected to occur and affect the Income Statement as follows:

	Within 1 year $'000	1 to 3 years $'000	3 to 8 years $'000	Over 8 years $'000	Total $'000
2021					
Cash inflows (Assets)	633	1,267	1,261	-	3,161
Cash outflows (Liabilities)	(4,177)	(7,675)	(3,588)	-	(15,440)
Net cash outflow	(3,544)	(6,408)	(2,327)	-	(12,279)
Income Statement	(3,245)	(6,407)	(2,327)	-	(11,979)
2020					
Cash inflows (Assets)	686	1,349	2,014	-	4,049
Cash outflows (Liabilities)	(4,683)	(8,129)	(7,222)	-	(20,034)
Net cash inflow	(3,997)	(6,780)	(5,208)	-	(15,985)
Income Statement	(3,649)	(6,680)	(5,204)		(15,533)

Notes to the Financial Statements (continued)

8. Financial risk management (continued)

(ii) Interest rate sensitivity analysis - RMBS's, NCD's and Term Deposits
A reasonably possible change (capped at 0% with no reflection of a negative interest rate) in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis takes into account the periodic repricing of the investments (projected forward one year) once they mature and assumes that all other variables remain constant as at 30 September 2021. The analysis is performed on the same basis for 2020.

	Profit or loss $'000	Equity $'000
30 September 2021		
10 basis points increase	1,081	1,081
10 basis points decrease	(1,034)	(1,034)
30 September 2020		
50 basis points increase	4,101	4,101
50 basis points decrease	(3,015)	(3,015)

(iii) Interest rate sensitivity analysis - Mortgage loans
A reasonably possible change in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis takes into account the periodic repricing of the loan terms (projected forward one year) based on the yield curve as at 30 September 2021, and assumes that all other variables remain constant. The analysis is performed on the same basis for 2020.

In practice, the actual results may differ from the above sensitivity analysis and the difference could be significant.

	Profit or loss $'000	Equity $'000
30 September 2021		
25 basis points increase	779	779
25 basis points decrease	(396)	(396)
30 September 2020		
100 basis points increase	2,960	2,960
100 basis points decrease	(300)	(300)

9. Segment information

The Fund invests in a range of Australian first registered mortgages, negotiable certificates of deposit, term deposits, residential mortgage backed securities and cash. All investments are domiciled in Australia.

10. Related party disclosures

(a) Responsible Entity
The Responsible Entity of the Fund is Sandhurst Trustees Limited (Sandhurst).

The controlling entity of Sandhurst is Bendigo and Adelaide Bank Limited (ABN 11 068 049 178).

(b) Details of Key Management Personnel
Sandhurst Trustees Limited, the Responsible Entity of the Fund, is considered to be Key Management Personnel with the authority for the strategic direction and management of the Fund.

(c) Related party disclosures

(i) Fees	2021 $	2020 $
Trustee management/administration fees paid/payable to Sandhurst Trustees Limited as the Responsible Entity in accordance with the provisions of the Fund's Constitution	15,638,694	15,015,757
As part of its asset acquisition strategy, the Fund may purchase pools of mortgages via equitable assignment mortgage loans from time to time from Bendigo and Adelaide Bank Limited and/or its subsidiary Rural Bank Limited. Service fees paid/payable to Bendigo and Adelaide Bank Limited for loan management services for the year ended 30 September	681,440	839,876
Loan origination management fees paid/payable to National Mortgage Market Corporation Limited (ABN 52 006 325 640), a wholly owned subsidiary of Bendigo and Adelaide Bank Limited, for the year ended 30 September	496,650	545,325
As at reporting date, the amount owing to Sandhurst Trustees Limited for fees by the Fund	Nil	Nil

(ii) Other related party disclosures

As at reporting date, the Responsible Entity held these investments in the Fund	7,135,222	6,806,216
Loans, shares, options and other equity holdings to directors of the Responsible Entity	Nil	Nil
Deposits with the Bendigo and Adelaide Bank on normal commercial terms and conditions	95,486,494	104,619,040

All related party transactions are made in arms length transactions on normal commercial terms and conditions.

Notes to the Financial Statements (continued)

11. Auditors' remuneration

Amounts received, or due and receivable by the auditors for:

	2021 $	2020 $
Audit and review services	19,172	30,679

12. Cash flow hedge reserve

(a) Nature and purpose
The Fund uses interest rate swap contracts to hedge changes in cash flows associated with interest rates on mortgage loans. The cash flow hedge reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge. The balance as at 30 September 2021 relates to discontinued hedges.

	2021 $'000	2020 $'000
(b) Movements		
Opening balance	(3,773)	(6,037)
Interest income	2,264	2,264
Closing balance	(1,509)	(3,773)

13. Contingent assets and liabilities and commitments

There are no contingent assets and liabilities or commitments as at 30 September 2021 and 30 September 2020.

14. Significant events after balance date

There have been no significant events that have occurred since balance date which would impact on the financial position of the Fund as disclosed in the Statement of Financial Position as at 30 September 2021, the results of the Statement of Comprehensive Income and Statement of Cash Flows of the Fund for the year ended on that date.

Directors' declaration

The directors of the Responsible Entity declare that:

(a) the financial statements and notes of the Fund are in accordance with the *Corporations Act 2001* (Cth), including:

(i) giving a true and fair view of the financial position of the Fund as at 30 September 2021 and its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001 *(Cth);*

(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) the financial statements are in accordance with the provisions of the Fund's Constitution; and

(d) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

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

Jennifer L Dawson
Chair
14 December 2021

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Independent Auditor's Report to the Unitholders of Sandhurst Select Mortgage Fund

Opinion

We have audited the financial report of Sandhurst Select Mortgage Fund (the Fund), which comprises the statement of financial position as at 30 September 2021, the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the declaration to unitholders.

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 September 2021 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 Sandhurst Trustees Limited, as 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.

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Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Fund’s ability to continue as a going concern, disclosing, as applicable, matters 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.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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.

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

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

Ernst & Young

Ernst & Young

Hayley Watson
Partner
Melbourne
14 December 2021

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(09/21)