

# BT Investment Funds

Annual Report

BT Tax Effective Income Fund

ARSN 106 554 376

for the year ended 30 June 2019

The Responsible Entity of the Fund is BT Funds Management No. 2 Limited  
ABN 22 000 727 659, AFSL No. 233720.

The repayment of capital and the performance of the Fund is not guaranteed  
by either the Responsible Entity, Westpac Banking Corporation or member  
companies of the Westpac Group.

# **BT Tax Effective Income Fund**

ARSN 106 554 376

**Annual report - for the period 1 July 2018 to  
19 June 2019**

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## Annual report - for the period 1 July 2018 to 19 June 2019

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These financial statements cover BT Tax Effective Income Fund as an individual entity.

The Responsible Entity of BT Tax Effective Income Fund is BT Funds Management No. 2 Limited (ABN 22 000 727 659). The Responsible Entity's registered office is Level 18, 275 Kent Street, Sydney, NSW 2000.

## Directors' report

The directors of BT Funds Management No. 2 Limited, the Responsible Entity of the BT Tax Effective Income Fund ("the Fund"), present their report together with the Fund's financial statements for the period 1 July 2018 to 19 June 2019.

### Principal activities

On 18 March 2019 the Responsible Entity resolved to terminate the Fund. Final redemption proceeds were paid effective 8 May 2019 with final balances settled on 19 June 2019 completing the termination of the Fund. As such, the financial statements have not been prepared on a going concern basis. There is no impact on the financial position of the Fund.

During the period, the Fund invested into the BT Tax Effective Income Fund - NEF in accordance with the provisions of the governing documents. Through this investment, the Fund was exposed to a diversified portfolio of investments.

The Fund did not have any employees during the period.

Other than as noted in this report, there were no significant changes in the nature of the Fund's activities during the period.

### Directors

The following persons held office as directors of BT Funds Management No. 2 Limited during the period or since the end of the period and up to the date of this report:

Lorraine Berends (resigned 10 July 2019)  
 Robin Burns (appointed 1 July 2019)  
 Michael Cottier  
 Melinda Howes  
 Jane Perry  
 David Plumb  
 John Shuttleworth (resigned 1 August 2018)  
 Katherine Vincent (appointed 1 August 2018)

### Review and results of operations

On 18 March 2019 the Responsible Entity resolved to terminate the Fund and the Fund was closed to applications and redemptions. The last unitholders' units were redeemed effective 8 May 2019 with final balances settled on 19 June 2019 completing the termination of the Fund.

During the period, until the Fund's investments were liquidated, the Fund continued to invest in accordance with target asset allocations as set out in the governing documents of the Fund.

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

	<b>Period 1 July 2018 to 19 June 2019</b>	Year ended 30 June 2018
Operating profit/(loss) before finance costs attributable to unitholders (\$)	<u>159,432</u>	261,445
<i>Distributions</i>		
Distributions paid and payable (\$)	<u>59,391</u>	80,944
Distributions (cents per unit)	<u>1.588</u>	2.050

## Directors' report (continued)

### Fund performance

The table below presents the performance of the Fund represented by the total annual return, which is calculated as the aggregation of the percentage capital growth and percentage distribution of income. The total annual return is shown for the period from 1 July 2018 to 19 June 2019 and for each of the past four years to 30 June 2018 and assumes that all distributions were re-invested during that period.

	<b>Period 1 July 2018 to 19 June 2019</b>	Year ended 30 June 2018	Year ended 30 June 2017	Year ended 30 June 2016	Year ended 30 June 2015
	%	%	%	%	%
Capital growth	2.99	5.25	0.12	(1.04)	2.73
Distribution of income	1.82	2.45	3.87	4.76	4.34
Total return	<u>4.81</u>	<u>7.70</u>	<u>3.99</u>	<u>3.72</u>	<u>7.07</u>

The key differences, if any, between net assets for unit pricing purposes and net assets as reported in the financial statements prepared under Australian Accounting Standards have been outlined below:

	<b>As at</b>	
	<b>19 June 2019</b>	30 June 2018
	\$	\$
Redemption value of outstanding units	-	3,513,040
Adjustment for differences in valuation inputs	-	-
Net assets attributable to unitholders	<u>-</u>	<u>3,513,040</u>

### Significant changes in the state of affairs

The last unitholders' units were redeemed effective 8 May 2019 with final balances settled on 19 June 2019 completing the termination of the Fund.

In the opinion of the directors, there were no other significant changes in the state of affairs of the Fund that occurred during the financial period.

### Matters subsequent to the end of the financial period

As the Fund has terminated, there have been no matters subsequent to the end of the financial period that significantly affected, or may significantly affect, the Fund.

### Likely developments and expected results of operations

On 18 March 2019 the Responsible Entity resolved to terminate the Fund. The last unitholders' units were redeemed effective 8 May 2019 with final balances settled on 19 June 2019 completing the termination of the Fund.

### Indemnity and insurance of officers

No insurance premiums were paid for out of the assets of the Fund for insurance cover provided to the officers of the Responsible Entity.

**Directors' report (continued)**

**Indemnity of auditors**

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

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

Fees paid to the Responsible Entity and its associates out of Fund property during the period are disclosed in note 12 to the financial statements.

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

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial period are disclosed in note 12 to the financial statements.

**Interests in the Fund**

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

The value of the Fund's assets and liabilities is disclosed in the balance sheet and derived using the basis set out in note 2 to the financial statements.

**Environmental regulation**

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


**Rounding of amounts to the nearest dollar**

Amounts in the Directors' report have been rounded to the nearest dollar in accordance with *Australian Securities & Investments Commission ("ASIC") Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise indicated.

**Auditor's independence declaration**

A copy of the auditor's independence declaration, as required under section 307C of the *Corporations Act 2001*, is set out on page 5.

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

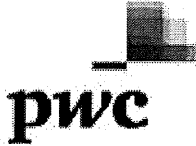


Director



Director

Sydney  
4 September 2019



## *Auditor's Independence Declaration*

As lead auditor for the audit of BT Tax Effective Income Fund for the period 1 July 2018 to 19 June 2019, I declare that 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.

A handwritten signature in black ink, appearing to read 'Darren Ross', is written over a large, thin-lined triangular shape.

Darren Ross  
Partner  
PricewaterhouseCoopers

Sydney  
4 September 2019

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**BT Tax Effective Income Fund**  
**Statement of comprehensive income**  
**For the period ended 19 June 2019**

**Statement of comprehensive income**

	Notes	Period 1 July 2018 to 19 June 2019 \$	Year ended 30 June 2018 \$
<b>Income</b>			
Interest income		1,378	188
Distribution income		39,758	70,782
Net gains/(losses) on financial instruments held at fair value through profit or loss		99,828	180,502
Net Responsible Entity's fees	12(d)	18,519	9,976
Other income		228	-
<b>Total income/(loss)</b>		<b>159,711</b>	<b>261,448</b>
<b>Expenses</b>			
Other operating expenses	6	279	3
<b>Total operating expenses</b>		<b>279</b>	<b>3</b>
<b>Operating profit/(loss)</b>		<b>159,432</b>	<b>261,445</b>
<b>Profit/(loss) for the period/year</b>	8	<b>159,432</b>	<b>261,445</b>
Other comprehensive income		-	-
<b>Total comprehensive income for the period/year</b>		<b>159,432</b>	<b>261,445</b>

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



**BT Tax Effective Income Fund**  
**Balance sheet**  
**As at 19 June 2019**

**Balance sheet**

	Notes	As at	
		19 June 2019 \$	30 June 2018 \$
<b>Assets</b>			
Cash and cash equivalents	10	-	18,855
Accrued income		-	24,339
Receivables		-	820
Financial assets held at fair value through profit or loss	11	-	3,506,087
<b>Total assets</b>		-	<u>3,550,101</u>
<b>Liabilities</b>			
Distribution payable	9	-	36,968
Payables		-	93
<b>Total liabilities</b>		-	<u>37,061</u>
<b>Net assets attributable to unitholders - equity</b>	8	-	<u>3,513,040</u>

*The above balance sheet should be read in conjunction with the accompanying notes.*

**BT Tax Effective Income Fund**  
**Statement of changes in equity**  
**For the period ended 19 June 2019**

**Statement of changes in equity**

	<b>Period 1 July 2018 to 19 June 2019</b>	<b>Year ended 30 June 2018</b>
Notes	\$	\$
<b>Total equity at the beginning of the financial period/year</b>	<b>3,513,040</b>	-
Reclassification due to Attribution Managed Investment Trust ("AMIT") tax regime implementation*	-	3,474,608
<b>Comprehensive income for the period/year</b>		
Profit/(loss) for the period/year	159,432	261,445
Other comprehensive income	-	-
<b>Total comprehensive income for the period/year</b>	<b>159,432</b>	<b>261,445</b>
<b>Transactions with unitholders</b>		
Applications	8      9,549	21,732
Redemptions	8      (3,667,967)	(246,730)
Units issued upon reinvestment of distributions	8      45,337	82,929
Distributions paid and payable	9      (59,391)	(80,944)
<b>Total transactions with unitholders</b>	<b>(3,672,472)</b>	<b>(223,013)</b>
<b>Total equity at the end of the financial period/year</b>	<b>-</b>	<b>3,513,040</b>

\* Effective from 1 July 2017, the Fund's units were reclassified from financial liability to equity.

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

**BT Tax Effective Income Fund**  
**Statement of cash flows**  
**For the period ended 19 June 2019**

**Statement of cash flows**

	<b>Period 1 July 2018 to 19 June 2019</b>	<b>Year ended 30 June 2018</b>
Notes	\$	\$
<b>Cash flows from operating activities</b>		
Proceeds from sale of financial instruments held at fair value through profit or loss	3,690,888	285,176
Purchase of financial instruments held at fair value through profit or loss	(20,881)	(17,431)
Interest received	1,383	187
Other income received	228	-
Responsible Entity's fees received/(paid)	19,339	10,002
Payment of other expenses	(372)	(9)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>3,690,585</b>	<b>277,925</b>
14(a)		
<b>Cash flows from financing activities</b>		
Proceeds from applications by unitholders	9,549	21,732
Payments for redemptions by unitholders	(3,667,967)	(246,730)
Distributions paid	(51,022)	(44,072)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(3,709,440)</b>	<b>(269,070)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(18,855)</b>	<b>8,855</b>
Cash and cash equivalents at the beginning of the period/year	18,855	10,000
<b>Cash and cash equivalents at the end of the period/year</b>	<b>-</b>	<b>18,855</b>
10		
Non-cash transactions		
14(b)		

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

## **1 General information**

These financial statements cover the BT Tax Effective Income Fund ("the Fund") as an individual entity. The Fund was constituted on 8 October 2003.

The Responsible Entity of the Fund is BT Funds Management No. 2 Limited ("the Responsible Entity"). The Responsible Entity's registered office is Level 18, 275 Kent Street, Sydney, NSW 2000. The financial statements are presented in Australian currency.

During the period, until the Fund's investments were liquidated, the Fund invested into the BT Tax Effective Income Fund - NEF in accordance with the provisions of the governing documents. Through this investment, the Fund was exposed to a diversified portfolio of investments.

The financial statements were authorised for issue by the directors of the Responsible Entity on 4 September 2019. 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 periods presented, unless otherwise stated.

### **(a) Basis of preparation**

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Accounting Standards Board and the *Corporations Act 2001* in Australia. The Fund is a for-profit unit trust for the purpose of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated. On 18 March 2019, the Responsible Entity resolved to terminate the Fund. The last unitholders' units were redeemed effective 8 May 2019 with final balances settled on 19 June 2019 completing the termination of the Fund. The directors have therefore determined that the going concern basis of preparation is no longer appropriate. As such the financial statements have been prepared on a liquidation basis whereby the Fund's assets have been measured at their net realisable values and the liabilities have been recognised at their contractual settlement amounts. Adoption of the liquidation basis of preparation has no impact on the carrying amount of assets and liabilities of the Fund.

The comparative figures are not entirely comparable due to different financial periods.

#### *(i) Compliance with International Financial Reporting Standards*

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

#### *(ii) Comparatives*

Certain comparative figures have been restated to conform with the financial statement presentation adopted for the current period.

#### *(iii) New and amended standards adopted by the Fund*

Other than as noted below, there are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial period beginning 1 July 2018 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

## **2 Summary of significant accounting policies (continued)**

### **(a) Basis of preparation (continued)**

#### *(iii) New and amended standards adopted by the Fund (continued)*

##### *Adoption of AASB 9 Financial Instruments (and applicable amendments) ("AASB 9")*

The Fund adopted AASB 9 for the reporting period commencing 1 July 2018. AASB 9 replaces the classification and measurement model in AASB 139 *Financial Instruments: Recognition and Measurement* with a new model that classifies financial instruments based on the business model within which the financial instruments are managed, and whether the contractual cash flows under the instrument solely represent the payment of principal and interest. Under the new standard, financial instruments are classified as:

- amortised cost, if the objective of the business model was to hold the financial instruments to collect contractual cash flows and those cash flows represented solely payments of principal and interest; or
- fair value through other comprehensive income, if the objective of the business model was to hold the financial instruments to collect contractual cash flows from solely payments of principal and interest and to sell the financial instruments; or
- fair value through profit or loss for all other financial instruments. An entity could, at initial recognition, also irrevocably designate a financial instrument as measured at fair value through profit or loss if it eliminated or significantly reduced a measurement or recognition inconsistency. Derivative and equity instruments were measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option was taken to measure at fair value through other comprehensive income.

AASB 9 has been applied retrospectively by the Fund without the use of hindsight and it has been determined that adoption did not result in a change to the classification or measurement of financial instruments in either the current or prior periods. The Fund's investment portfolio continues to be classified as fair value through profit or loss and other financial assets which are held for collection continue to be measured at amortised cost.

##### *Adoption of AASB 15 Revenue from Contracts with Customers ("AASB 15")*

AASB 15 became effective for annual periods beginning on or after 1 January 2018. The adoption of this standard did not have a material impact on the Fund's accounting policies nor the amounts recognised in the financial statements.

### **(b) Financial instruments**

#### *(i) Classification*

The Fund classified its financial instruments based on its business model for managing its investments and their contractual cash flow characteristics. The Fund's investments were managed and performance was evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy was for the Responsible Entity to evaluate the information about the investments on a fair value basis together with other related financial information.

For unlisted unit trusts, the contractual cash flows held by the Fund were not solely principal and interest. Consequently, these investments were measured at fair value through profit or loss.

#### *(ii) Recognition/derecognition*

The Fund recognised financial instruments on the date it became party to the contractual agreement and recognised changes in the fair value of the financial instruments from this date.

Financial assets were derecognised when the contractual right to cash flows from the investments had expired or had been transferred, and the Fund had transferred substantially all of the risks and rewards of ownership.

## **2 Summary of significant accounting policies (continued)**

### **(b) Financial instruments (continued)**

#### *(iii) Measurement*

At initial recognition, a financial asset was measured at fair value. Transaction costs associated with financial assets carried at fair value through profit or loss were expensed in the statement of comprehensive income.

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

Refer to note 5 for further details on how the fair values of financial instruments were determined.

### **(c) Net assets attributable to unitholders**

As this Fund is closed to unitholder redemptions, units are not able to be put back to the Fund for cash.

### **(d) Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash at bank, deposits held at call with financial institutions and investments in cash management trusts.

Payments and receipts relating to the purchase and sale of financial assets are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

### **(e) Accrued income**

Accrued income may include amounts for trust distributions and interest. Trust distributions are accrued when the right to receive payment is established. Interest is accrued from the time of last payment. Amounts are generally received within 45 days of being recorded as receivables.

### **(f) Unsettled sales/purchases**

Unsettled sales/purchases represent receivables for securities sold and/or payables for securities purchased that have been contracted for but not yet delivered by the end of the reporting period.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on unsettled sales/purchases 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. The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses.

### **(g) Receivables**

Receivables include such items as Reduced Input Tax Credits ("RITC") and application monies receivable from unitholders.

### **(h) Payables**

Payables include liabilities, accrued expenses and redemption monies owing by the Fund which are unpaid as at the end of the reporting period.

As the Responsible Entity has attributed income, a separate distribution payable is recognised in the balance sheet as at the end of each reporting period where this amount remains unpaid as at the end of the reporting period.

## **2 Summary of significant accounting policies (continued)**

### **(i) Investment income**

Interest income is recognised in the statement of comprehensive income for all financial instruments that are not held at fair value through profit or loss as it accrues.

Trust distributions (including distributions from cash management trusts) are recognised on an entitlements basis.

### **(j) Expenses**

All expenses, including Responsible Entity's fees, are recognised in the statement of comprehensive income on an accruals basis.

### **(k) Regulatory change expense recovery**

Regulatory reforms have required the Responsible Entity to undertake a significant program of work in order to implement the reforms. The Responsible Entity is entitled to be reimbursed out of the Fund for the costs incurred in connection with implementing these regulatory reforms. Such costs are recognised in the statement of comprehensive income on an accruals basis.

### **(l) Income tax**

Under current legislation, the Fund is not subject to income tax provided it attributes or distributes (as appropriate) the entirety of its taxable income to its unitholders.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be included in the Fund's taxable income for distribution/attribution, so that the Fund is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed or attributed to unitholders.

To the extent allowable by taxation legislation, the benefits of imputation credits and foreign tax paid are passed on to unitholders.

### **(m) Distributions**

In accordance with the Fund's Constitution, the Responsible Entity is entitled to determine the amounts to be distributed to unitholders. The distributions are recognised in the statement of changes in equity.

### **(n) Goods and Services Tax ("GST")**

The GST incurred on the costs of various services provided to the Fund, such as management fees, has been passed onto the Fund. The Fund qualifies for RITC, hence 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 balance sheet. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

### **(o) Use of estimates**

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

For the majority of the financial instruments held, quoted market prices are readily available.

For certain other financial instruments, including unsettled sales and purchases 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)**

### **(o) Use of estimates (continued)**

The Fund did not have any assets or liabilities as at 19 June 2019 as the Fund completed its termination effective 19 June 2019.

For more information on how fair value is calculated refer to note 5.

### **(p) New accounting standards and interpretations**

Certain new accounting standards and interpretations have been published that are not mandatory for the 19 June 2019 reporting period and have not been early adopted by the Fund.

These new accounting standards and interpretations will have no future impact as the Fund terminated effective 19 June 2019.

### **(q) Rounding of amounts**

The Fund is an entity of the kind referred to in *Australian Securities & Investments Commission ("ASIC") Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, relating to the 'rounding off' amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest dollar, unless otherwise indicated.

## **3 Termination of the Fund**

On 18 March 2019, the Responsible Entity resolved to terminate the Fund. The last unitholders' units were redeemed effective 8 May 2019 with final balances settled on 19 June 2019 completing the termination of the Fund.

This report contains the final set of financial statements for BT Tax Effective Income Fund.

## **4 Financial risk management**

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

The Fund's overall risk management program focused on ensuring compliance with its governing documents and sought to maximise the returns derived for the level of risk to which the Fund was exposed. Financial risk management was carried out by the investment manager in accordance with board approved policies.

The Fund used different methods to measure different types of risk to which it was exposed. These methods included sensitivity analysis in the case of interest rate, foreign exchange and price risks and ratings analysis for credit risk.

The investment manager mitigated these financial risks through diversification and a careful selection of securities and other financial instruments within specified limits.

The Fund's performance exceptions to its benchmark were reported to the board/board delegated committee on a regular basis.

The Fund did not have any assets or liabilities as at 19 June 2019.

### **(a) Market risk**

#### **(i) Price risk**

Price risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market prices.

Price risk arose on investments held for which prices in the future were uncertain. These were classified in the balance sheet as at fair value through profit or loss. All security investments present a risk of loss of capital.

The Fund did not have any assets or liabilities as at 19 June 2019.

Any exceptions to compliance were reported to the board/board delegated committee on a regular basis.



## 4 Financial risk management (continued)

### (a) Market risk (continued)

#### (i) Price risk (continued)

The table presented in note 4(b) summarises sensitivity analysis to price risk.

#### (ii) Foreign exchange risk

Foreign exchange risk arises as the value of monetary securities denominated in other currencies fluctuates due to changes in exchange rates. The foreign exchange risk relating to non-monetary assets and liabilities was a component of price risk and not foreign exchange risk.

The Fund did not hold any monetary assets denominated in currencies other than the Australian dollar as at 19 June 2019 and 30 June 2018.

Any exceptions to compliance were reported to the board/board delegated committee on a regular basis.

#### (iii) Interest rate risk

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. Changes in interest rates can have a direct or indirect impact on the investment value and/or returns of all types of assets.

The Fund did not have any significant direct exposure to interest rate risk. Any interest rate risk from investments held indirectly through underlying investments was reported as a component of price risk for the purposes of the sensitivity analysis.

Any exceptions to compliance were reported to the board/board delegated committee on a regular basis.

### (b) Summarised sensitivity analysis

The following table summarises the sensitivity of the operating profit and net assets attributable to unitholders to price risk. The analysis is based on reasonably possible movements in the risk variables applied to the Fund's net assets. The reasonably possible movements in the risk variables have been determined based on management estimates, having regard to a number of factors including historical levels of changes in market indices, security prices and/or benchmark returns, interest rates and foreign exchange rates. However actual movements in the risk variables may be greater or less than anticipated due to a number of factors. As a result historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

The sensitivity analysis is based on symmetrical reasonably possible movements, however the likelihood of symmetrical movements may vary over time due to factors such as economic conditions and investment strategies.

	Impact on operating profit/(loss)/Net assets attributable to unitholders	
	Price risk	
	-10%	+10%
	(30 June 2018: -10%)	(30 June 2018: +10%)
As at	\$	\$
<b>19 June 2019<sup>(1)</sup></b>	-	-
30 June 2018	(350,609)	350,609

In determining the impact of an increase/(decrease) in net assets attributable to unitholders arising from market risk, the Responsible Entity has considered prior period and expected future movements of the portfolio based on market information.

<sup>(1)</sup> The Fund did not have any assets or liabilities as at 19 June 2019.

## **4 Financial risk management (continued)**

### **(c) Credit risk**

Credit risk is the risk that a counterparty will be unable to pay amounts in full when they fall due, causing a financial loss to the Fund.

Credit risk primarily arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. The assets of the Fund were not impaired.

Investments in unlisted unit trusts were exposed to credit risk.

Concentrations of direct credit risk were minimised primarily by:

- ensuring counterparties, together with the respective credit limits, were approved,
- ensuring that transactions were undertaken with a number of counterparties, and
- ensuring that the majority of transactions were undertaken on recognised exchanges.

Any exceptions to compliance were reported to the board/board delegated committee on a regular basis.

There were no significant direct concentrations of credit risk to counterparties as at 19 June 2019 or 30 June 2018.

### **(d) Liquidity risk**

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

The Fund was exposed to daily cash redemptions of redeemable units. The liquidity risk associated with the need to meet redemption requests was mitigated by maintaining adequate liquidity to fulfil usual redemption volumes.

The risk management guidelines adopted were designed to minimise liquidity risk through:

- ensuring that there was no significant exposure to illiquid or thinly traded financial instruments, and
- applying limits to ensure there was no concentration of liquidity risk to a particular counterparty.

Any exceptions to the above were reported to the board/board delegated committee on a regular basis.

#### *(i) Maturities of non-derivative financial liabilities*

The non-derivative financial liabilities of the Fund comprised distribution payable, unsettled purchases and payables. These had no contractual maturities but were typically settled within 30 days.

The Fund did not have any financial liabilities as at 19 June 2019.

## **5 Fair value measurement**

AASB 13 *Fair Value Measurement* 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), or
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

## 5 Fair value measurement (continued)

### (a) Fair value in an inactive or unquoted market (level 2 and level 3)

The fair value of financial assets that were not traded in an active market was determined by using quoted market prices, dealer quotes and/or valuation techniques.

Unlisted unit trusts were valued at the redemption value per unit as reported by the managers of such funds.

#### (i) Recognised fair value measurements

The Fund did not have any assets or liabilities as at 19 June 2019.

The following table presents the financial assets measured and recognised at fair value by fair value hierarchy levels:

As at 30 June 2018	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>Financial assets</b>				
Financial assets held at fair value through profit or loss:				
Unlisted unit trusts	-	3,506,087	-	3,506,087
<b>Total</b>	-	3,506,087	-	3,506,087

There were no financial liabilities measured and recognised at fair value as at 30 June 2018.

Transfers into and transfers out of the fair value hierarchy levels were recognised at the end of the reporting period.

#### (ii) Transfers between levels

There were no transfers between levels as at 19 June 2019 or 30 June 2018.

#### (iii) Valuation processes

Management undertook regular portfolio reviews to identify securities that might not be actively traded or had stale security pricing and could be regarded as level 2 or level 3 securities. Further analysis, should it be required, was undertaken to determine the accounting significance of the identified securities. In the event that the security was not actively traded an assessment was performed by management to determine the appropriate valuation price to use that was most representative of fair value.

### (b) Fair values of non-financial instruments

Due to their short-term nature, the carrying value of receivables and payables are assumed to approximate their fair values.

## 6 Other operating expenses

	<b>Period 1 July 2018 to 19</b>	
	<b>June 2019</b>	<b>Year ended 30 June 2018</b>
	\$	\$
Regulatory change expense recovery	276	-
Other	3	3
<b>Total other operating expenses</b>	<b>279</b>	<b>3</b>

## 7 Remuneration of auditors

	Period 1 July 2018 to 19 June 2019 \$	Year ended 30 June 2018 \$
<i>Audit and other assurance services</i>		
Audit of financial statements	6,958	12,957
Other services*	-	1,307
Total remuneration for audit and other assurance services	6,958	14,264

\* Other services include compliance plan audit and controls reporting.

Audit fees were paid by the Responsible Entity for the period ended 19 June 2019 and year ended 30 June 2018.

## 8 Net assets attributable to unitholders

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

	19 June 2019 No.	30 June 2018 No.	19 June 2019 \$	30 June 2018 \$
Opening balance	3,893,009	4,050,938	3,513,040	3,474,608
Profit/(loss) for the period	-	-	159,432	261,445
Applications	10,592	24,615	9,549	21,732
Redemptions	(3,954,095)	(278,405)	(3,667,967)	(246,730)
Units issued upon reinvestment of distributions	50,494	95,861	45,337	82,929
Distributions paid and payable	-	-	(59,391)	(80,944)
Closing balance	-	3,893,009	-	3,513,040

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There were no separate classes of units and each unit has the same rights attached to it as all other units of the Fund.

### (a) Capital risk management

On 18 March 2019, the Responsible Entity resolved to terminate the Fund. The last unitholders' units were redeemed effective 8 May 2019 with final amounts settled on 19 June 2019 completing the termination of the Fund.

**9 Distributions to unitholders**

	Period 1 July 2018 to 19 June 2019 \$	Period 1 July 2018 to 19 June 2019 CPU	Year ended 30 June 2018 \$	Year ended 30 June 2018 CPU
Distributions paid				
- 31 July	4,303	0.110	4,116	0.100
- 31 August	4,291	0.110	4,112	0.100
- 30 September	4,176	0.110	4,112	0.100
- 31 October	4,169	0.110	4,058	0.100
- 30 November	4,171	0.110	4,002	0.100
- 31 December	4,134	0.110	3,959	0.100
- 31 January	4,092	0.110	3,925	0.100
- 28 February	4,059	0.110	3,928	0.100
- 31 March	4,061	0.110	3,921	0.100
- 30 April	4,037	0.110	3,923	0.100
- 6 May	17,898	0.488	-	-
- 31 May	-	-	3,920	0.100
Distribution payable				
- 30 June	-	-	36,968	0.950
	<b>59,391</b>	<b>1.588</b>	<b>80,944</b>	<b>2.050</b>

**10 Cash and cash equivalents**

	As at	
	19 June 2019 \$	30 June 2018 \$
Cash at bank	-	18,855
Total cash and cash equivalents	-	18,855

**11 Financial assets held at fair value through profit or loss**

	As at	
	19 June 2019 Fair value \$	30 June 2018 Fair value \$
Financial assets held at fair value through profit or loss		
Unlisted unit trusts	-	3,506,087
Total financial assets held at fair value through profit or loss	-	3,506,087

## 11 Financial assets held at fair value through profit or loss (continued)

	As at	
	19 June 2019 Fair value \$	30 June 2018 Fair value \$
<b>Unlisted unit trusts</b>		
Units in diversified trusts	-	3,506,087
Total unlisted unit trusts	-	3,506,087
<b>Total financial assets held at fair value through profit or loss</b>	-	3,506,087

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in note 4 and note 5.

## 12 Related party transactions

### (a) Responsible Entity

The Responsible Entity of the Fund is BT Funds Management No. 2 Limited (ABN 22 000 727 659), a wholly owned subsidiary of Westpac Financial Services Group Ltd (ABN 50 000 326 312). The ultimate parent entity is Westpac Banking Corporation (ABN 33 007 457 141). The registered office of the Responsible Entity and the Fund is Level 18, 275 Kent Street, Sydney, NSW 2000.

### (b) Directors

The directors of BT Funds Management No. 2 Limited during the financial period or since the end of the period and up to the date of this report were as follows:

Lorraine Berends (resigned 10 July 2019)  
Robin Burns (appointed 1 July 2019)  
Michael Cottier  
Melinda Howes  
Jane Perry  
David Plumb  
John Shuttleworth (resigned 1 August 2018)  
Katherine Vincent (appointed 1 August 2018)

### (c) Other key management personnel

Name	Position	Employer
Brad Cooper*	CEO, BT Financial Group	Westpac Banking Corporation
Alastair Welsh*	Acting Chief Executive, Business	Westpac Banking Corporation

\* Brad Cooper was no longer classified as key management personnel and Alastair Welsh was appointed Acting Chief Executive, Business effective 1 April 2019 due to a change in the structure of BT Financial Group.

There was no other person with responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly, during the financial period.

## 12 Related party transactions (continued)

### (d) Responsible Entity's/manager's fees and other transactions

For the period 1 July 2018 to 28 February 2019, in accordance with the Fund's governing documents, the Fund incurred a management fee of 1.84% (inclusive of GST, net of RITC available to the Fund) per annum. This fee was decreased to Nil% per annum from 1 March 2019 (30 June 2018: 1.84%).

This fee was partially paid out of the Fund and partially out of the assets of the underlying fund into which the Fund invested. The latter was reflected in the daily unit prices for the underlying fund.

All expenses in connection with the preparation of accounting records and the maintenance of the unit register were fully borne by the Responsible Entity.

All related party transactions were conducted on normal commercial terms and conditions. The transactions during the period and amounts payable/(receivable) at the end of each reporting period between the Fund and the Responsible Entity were as follows:

	<b>Period 1 July 2018 to 19 June 2019</b>	<b>Year ended 30 June 2018</b>
	<b>\$</b>	<b>\$</b>
Management fees incurred by the Fund#	<b>(18,519)</b>	(9,976)
Regulatory change expense recovery incurred by the Fund#	<b>276</b>	-
Aggregate amounts payable/(receivable) to/(from) the Responsible Entity at the end of the reporting period	-	(820)

# This represents fee revenue of the Fund. The Responsible Entity's fee was calculated after rebating the fee in the underlying fund. As the fee charged by the underlying fund was higher than this Fund's fee, the result was fee revenue.

### (e) Related party and/or other unitholdings

Other funds related to the Responsible Entity held units in the Fund but these funds do not meet the definition of related parties under the Australian Accounting Standards and as such unitholdings are not required to be disclosed.

### (f) Transactions with key management personnel

Key management personnel services were provided by BT Funds Management No. 2 Limited and included in the management fees disclosed in (d) above. There was no separate charge for these services. There was no compensation paid directly by the Fund to any of the key management personnel.

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

#### *Key management personnel unitholdings*

At 19 June 2019 no key management personnel held units in the Fund (30 June 2018: Nil).

## 12 Related party transactions (continued)

### (g) Investments

The Fund held the following investments including funds which are also managed by the Responsible Entity or its related parties:

#### 19 June 2019

	Fair value of investment \$	Interest held %	Distributions received/ receivable \$	Units acquired during the period Units	Units disposed during the period Units
BT Tax Effective Income Fund - NEF	-	-	39,758	76,951	(3,238,436)

#### 30 June 2018

	Fair value of investment \$	Interest held %	Distributions received/ receivable \$	Units acquired during the period Units	Units disposed during the period Units
BT Tax Effective Income Fund - NEF	3,506,087	7.36	70,782	131,382	(262,702)

Distributions received/receivable includes the following amounts which remain unpaid at the end of each reporting period:

	As at	
	19 June 2019 \$	30 June 2018 \$
<b>Distributions receivable</b>		
BT Tax Effective Income Fund - NEF	-	24,337

### (h) Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial period and there were no material contracts involving key management personnel's interests existing at the end of the reporting period.

## 13 Structured entities

A structured entity is an entity in which voting or similar rights are not the dominant factor in deciding control. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities. Depending on the Fund's power over the activities of the entity and its exposure to and ability to influence its own returns, it may control the entity. However the Fund applied the Investment Entity Exemption available under AASB 10 *Consolidated Financial Statements* and therefore did not consolidate its controlled entities. In other cases it may have had exposure to such an entity but did not control it.

An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Fund. Such interests include holdings of units in unlisted trusts. The nature and extent of the Fund's interests in structured entities are summarised in notes 11 and 12. Income earned and realised and unrealised gains/(losses) from structured entity investments are disclosed within the statement of comprehensive income.



### 13 Structured entities (continued)

The Fund had exposure to unconsolidated structured entities through its investment activities. The Fund's maximum exposure to loss was restricted to the carrying value of the asset.

The Fund's overall risk management program focused on ensuring compliance with its governing documents and sought to maximise the returns derived for the level of risk to which the Fund was exposed. The risks associated with the investments are referred to in note 4.

During the period the Fund did not provide financial support to unconsolidated structured entities and had no intention of providing financial or other support.

As at 19 June 2019, there were no capital commitment obligations (30 June 2018: \$Nil). The Fund did not have any assets or liabilities as at 19 June 2019.

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

	Period 1 July 2018 to 19 June 2019	Year ended 30 June 2018
	\$	\$
<b>(a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Operating profit/(loss) for the period/year	159,432	261,445
Proceeds from sale of financial instruments held at fair value through profit or loss	3,690,888	285,176
Purchase of financial instruments held at fair value through profit or loss	(20,881)	(17,431)
Net (gains)/losses on financial instruments held at fair value through profit or loss	(99,828)	(180,502)
Income reinvested	(64,092)	(122,714)
Net change in accrued income and receivables	25,159	51,957
Net change in payables	(93)	(6)
<b>Net cash inflow/(outflow) from operating activities</b>	<b>3,690,585</b>	<b>277,925</b>

#### (b) Non-cash transactions

Distribution payments satisfied by the issue of units under the distribution reinvestment plan	45,337	82,929
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### 15 Events occurring after the reporting period

As the Fund has terminated, there have been no matters subsequent to the end of the reporting period that significantly affected, or may significantly affect, the Fund.

### 16 Contingent assets and liabilities and commitments

There were no outstanding contingent assets, liabilities or commitments as at 19 June 2019 and 30 June 2018.

### Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 23 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
  - (ii) giving a true and fair view of the Fund's financial position as at 19 June 2019 and of its performance for the period 1 July 2018 to 19 June 2019,
- (b) as disclosed in note 2(a) to the financial statements, the Fund has been terminated and all debts were paid for at that time, and
- (c) note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Director



Director

Sydney  
4 September 2019



## *Independent auditor's report*

To the unitholders of BT Tax Effective Income Fund

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### *Our opinion*

In our opinion:

The accompanying financial report of BT Tax Effective Income Fund (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 19 June 2019 and of its financial performance for the period 1 July 2018 to 19 June 2019
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

### ***What we have audited***

The financial report comprises:

- the balance sheet as at 19 June 2019
- the statement of comprehensive income for the period 1 July 2018 to 19 June 2019
- the statement of changes in equity for the period 1 July 2018 to 19 June 2019
- the statement of cash flows for the period 1 July 2018 to 19 June 2019
- the notes to the financial statements, which include a summary of significant accounting policies
- the declaration of the directors of the Responsible Entity.

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

### ***Independence***

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* (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.

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### *Emphasis of matter - going concern no longer appropriate*

We draw attention to Note 2(a) in the financial report, which states that on 18 March 2019, the Responsible Entity resolved to terminate the Fund. The last unitholder's units were redeemed effective 8 May 2019 with final balances settled on 19 June 2019 completing the termination of the Fund. As a

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result, the financial report has been prepared on a liquidation basis and not on a going concern basis. Our opinion is not modified in respect of this matter.

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*Other information*

The directors of the Responsible Entity is responsible for the other information. The other information comprises the information included in the annual report for the period 1 July 2018 to 19 June 2019, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

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*Responsibilities of the directors of the Responsible Entity for the financial report*

The directors of the Responsible Entity of the Fund is 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 of the Responsible Entity determines 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 is responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intends to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

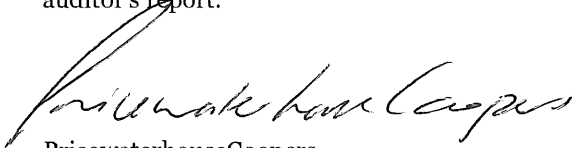
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*Auditor's responsibilities for the audit of the financial report*

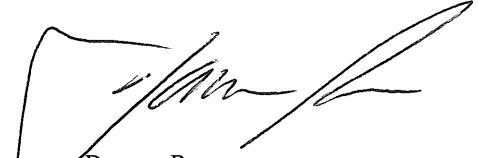
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that 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 the financial report.



A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). This description forms part of our auditor's report.



PricewaterhouseCoopers



Darren Ross  
Partner

Sydney  
4 September 2019

## For more information

BT Customer Relations – 132 135 (8am to 6.30pm – Syd time – Mon to Fri)

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### Disclaimer

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The tax position described is a general statement and is for guidance only. It has not been prepared by a registered tax agent. It does not constitute tax advice and is based on current tax laws and our interpretation. Your individual situation may differ and you should seek independent professional tax advice. Past performance is not a reliable indicator of future performance.

Information current as at 30 September 2019.

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