

LIBERTY TERM INVESTMENT FUND

ARSN 141 340 454

GENERAL PURPOSE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2018

**LIBERTY TERM INVESTMENT FUND
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2018**

The directors of Liberty Fiduciary Limited (the Responsible Entity), of Liberty Term Investment Fund (the "Fund"), present their report together with the financial report of the Fund for the year ended 30 June 2018 and the auditor's report thereon.

Responsible Entity

Liberty Fiduciary Limited (ACN 119 884 623) is the Responsible Entity of the Liberty Term Investment Fund (ARSN 141 340 454). Liberty Financial Pty Ltd (ABN 55 077 248 983) (AFSL 286596) is the Investment Manager of the Fund. The directors of the Responsible Entity at any time during or since the end of the financial year were:

Richard Longes (Chairman)
Peter Hawkins
Sherman Ma

The registered office and principal place of business of the Responsible Entity and the Fund is Level 16, 535 Bourke Street, Melbourne, Victoria 3000.

Principal activities

The Fund is a registered managed investment scheme domiciled in Australia. The Fund invests in consumer and business loans secured by residential and commercial property and motor vehicles.

The Fund did not have any employees during the year.

Results and review of operations

The Fund's change in net assets attributable to unitholders for the year ended 30 June 2018 after distribution expense was nil (2017: nil), and profit for the year ended 30 June 2018 was \$1,171,000 (2017: \$1,275,000).

Distributions paid or payable in respect of each class of unitholders in each financial year were:

	Non Class B		Class B		Total	
	2018	2017	2018	2017	2018	2017
Distributions paid (\$'000)	811	698	-	-	811	698
Final distribution payable (\$'000)	82	67	278	510	360	577
Dollars return per unit (\$)	0.0532	0.0534	2,780	5,100		

The basis for the valuation of the Fund's assets is disclosed in note 3 to the financial statements.

No fees were paid to the Responsible Entity Liberty Fiduciary Limited during the financial year.

Significant changes in the state of affairs

In the opinion of the directors of the Responsible Entity there were no significant changes in the state of affairs of the Fund that occurred during the financial year under review.

**LIBERTY TERM INVESTMENT FUND
DIRECTORS' REPORT (cont.)
FOR THE YEAR ENDED 30 JUNE 2018**

Events subsequent to balance date

There has not arisen in the interval between the end of the annual reporting period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Responsible Entity, to affect significantly the operations of the Fund, the results of those operations or the state of affairs of the Fund, in future financial years.

Likely developments

Information about likely developments in the operations of the Fund and the expected results of those operations in future financial years has not been included in this report because disclosure of such information would likely result in unreasonable prejudice to the Fund.

Environmental regulation

The Fund's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Indemnification of officers

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 Scheme. The Fund has not indemnified any auditor of the Fund.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 3 and forms part of the directors' report for the financial year ended 30 June 2018.

Rounding off

The Fund is of a kind referred to in ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191 dated 1 April 2016, and in accordance with that Rounding Instrument, amounts in the financial report have been rounded to the nearest thousand dollars, unless otherwise stated.

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



Sherman Ma
Director

Dated at Melbourne on 20 September 2018.



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Liberty Fiduciary Limited (the Responsible Entity) of Liberty
Term Investment Fund

I declare that, to the best of my knowledge and belief, in relation to the audit of Liberty Term
Investment Fund for the financial year ended 30 June 2018 there have been:

- i. no contraventions of the auditor independence requirements as set out in the
Corporations Act 2001 in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

BW Szentirmay

Partner

Melbourne

20 September 2018

LIBERTY TERM INVESTMENT FUND
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 \$'000	2017 \$'000
Income			
Interest income	5	1,415	1,456
Fee income		60	93
		<hr/>	<hr/>
Total operating income		1,475	1,549
		<hr/>	<hr/>
Expenses			
Management fee		(219)	(187)
Custodian fee		(28)	(30)
Auditor's remuneration		(40)	(40)
Interest expense on interest rate swaps		(17)	(17)
		<hr/>	<hr/>
Total operating expense		(304)	(274)
		<hr/>	<hr/>
Profit from operating activities		1,171	1,275
		<hr/>	<hr/>
Finance costs			
Distribution to unitholders - Class B	11	278	510
Distribution to unitholders - Non Class B	11	893	765
		<hr/>	<hr/>
		1,171	1,275
		<hr/>	<hr/>
Changes in net assets attributable to unitholders/total comprehensive income		-	-
		<hr/>	<hr/>

The Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the general purpose financial statements set out on pages 8 to 24.

**LIBERTY TERM INVESTMENT FUND
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2018**

The Fund's net assets attributable to unitholders are classified as a liability under AASB 132 Financial Instruments: Presentation. As such the Fund has no equity, and no items of changes in equity have been presented for the current or prior year.

The Statement of Changes in Equity is to be read in conjunction with the notes to the general purpose financial statements set out on pages 8 to 24.

LIBERTY TERM INVESTMENT FUND
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

	Note	2018 \$'000	2017 \$'000
Assets			
Cash and cash equivalents	7	4,841	3,230
Financial assets	8	16,581	13,567
Receivables	9	106	75
Derivative assets		14	-
Total Assets		21,542	16,872
Liabilities			
Payables	10	887	149
Distribution payable	11	1,535	1,242
Derivative liabilities		-	8
Total Liabilities (excluding net assets attributable to unitholders)		2,422	1,399
Net Assets attributable to unitholders	4	19,120	15,473

The Statement of Financial Position is to be read in conjunction with the notes to the general purpose financial statements set out on pages 8 to 24.

**LIBERTY TERM INVESTMENT FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2018**

	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Interest income received		1,394	1,447
Fee income received		60	93
Operating expenses paid		<u>(292)</u>	<u>(271)</u>
Net cash from operating activities	7(b)	<u>1,162</u>	<u>1,269</u>
Cash flows from investing activities			
Net movements in financial assets		<u>(3,014)</u>	<u>(2,583)</u>
Net cash used in investing activities		<u>(3,014)</u>	<u>(2,583)</u>
Cash flows from financing activities			
Applications		3,555	1,917
Redemptions		(654)	(459)
Distributions paid		(154)	(94)
Receipts from related parties		<u>716</u>	<u>26</u>
Net cash from financing activities		<u>3,463</u>	<u>1,390</u>
Net increase in cash held		1,611	76
Cash at the beginning of the year		<u>3,230</u>	<u>3,154</u>
Cash at the end of the year	7(a)	<u>4,841</u>	<u>3,230</u>

The Statement of Cash Flows is to be read in conjunction with the notes to the general purpose financial statements set out on pages 8 to 24.

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

1 REPORTING ENTITY

Liberty Term Investment Fund (the "Fund") is a registered managed investment scheme under the Corporations Act 2001. The address of the Fund's registered office is Level 16, 535 Bourke Street, Melbourne, Victoria 3000. The financial report of the Fund is for the year ended 30 June 2018.

Certain comparative amounts have been re-presented to conform to the current year's presentation to enhance comparability.

2 BASIS OF PREPARATION

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

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The financial report of the Fund complies with International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors of the Responsible Entity on 20 September 2018.

(b) Basis of measurement

The financial statements have been prepared on the basis of historical cost except as otherwise stated.

(c) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Fund's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

(i) Judgements

Information about accounting treatments involving complex or subjective decisions or assessments are described in the following notes:

- Note 3 (e) - Impairment

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

2 BASIS OF PREPARATION (cont.)

(d) Use of estimates and judgements (cont.)

(ii) Measurement of fair values

The Fund's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities. Management assesses the evidence obtained from third parties to support fair value calculations, including the level in the fair value hierarchy in which such valuations should be classified. When measuring the fair value of an asset or liability, the Fund uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2: inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below, have been applied consistently to all periods presented in these financial statements.

(a) Non-derivative financial instruments

Non-derivative financial instruments comprise cash and cash equivalents, financial assets, receivables and payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through the statement of profit or loss and other comprehensive income, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment loss.

A financial instrument is recognised if the Fund becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Fund's contractual rights to the cash flows from the financial assets expire or if the Fund transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset.

(b) Derivative financial instruments

The Fund is exposed to changes in interest rates from its activities and uses interest rate swaps to hedge interest rate risk. The Fund is required to hedge its interest rate exposures under the terms set out in the Fund's Product Disclosure Statement. Derivative financial instruments are not held for trading or to leverage the Fund.

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

3 SIGNIFICANT ACCOUNTING POLICIES (cont.)

(b) Derivative financial instruments (cont.)

Derivatives are recognised initially at fair value and attributable transaction costs are recognised in the statement of profit or loss and other comprehensive income when incurred. Subsequent to initial recognition, derivatives are measured at fair value.

Current derivative financial assets are nil (2017: nil) and non-current derivative financial assets are \$14,000 (non-current derivative financial liabilities 2017: \$8,000).

Cash flow hedges

Changes in the value of the derivative hedging instruments designated as a cash flow hedge are recognised directly in net assets attributable to unitholders to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the statement of profit or loss and other comprehensive income.

On entering into a hedging relationship, the Fund formally designates and documents the hedge relationship and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows. The hedges are assessed on an ongoing basis to determine if they have been highly effective throughout the financial reporting periods for which they are designated.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in the statement of financial position remains there until the forecast transaction occurs. When the hedged item is a financial asset the amount recognised in net assets attributable to unitholders is transferred to the statement of profit or loss and other comprehensive income in the same period that the hedged item affects the statement of profit or loss and other comprehensive income.

(c) Cash and cash equivalents

Cash and cash equivalents comprise cash balances with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value, and are used by the Fund in the management of its short-term commitments.

(d) Financial assets

Financial assets, comprising residential mortgages, commercial mortgages and auto receivables in Australia, are initially recognised at fair value when the Fund becomes a party to the contract. They are subsequently measured at amortised cost using the effective interest method.

A financial asset is assessed annually to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

3 SIGNIFICANT ACCOUNTING POLICIES (cont.)

(d) Financial assets (cont.)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

(e) Impairment

Individual assessment - financial assets

Specific provisions relate to loans that are currently known to be impaired, based on objective evidence as a result of one or more events that have occurred after the initial recognition of the asset, otherwise known as a loss event. For loans where a loss event has occurred, the provisioning process involves detailed review and analysis of individual loans. These loans are assessed for impairment based on security value, loan balance outstanding and other factors deemed relevant to collectability by management. Provisions are raised where objective evidence of impairment exists and the negative impact on estimated future cash flows of the asset can be reliably estimated.

Collective assessment - financial assets

AASB 139 requires that an entity first assess whether objective evidence of impairment exists individually for financial assets and collectively for assets where management believe that credit losses are latent in the portfolio, but are not able to be identified on an individual basis. The portion of the portfolio where a loss event has occurred, but management are unable to specifically identify which loans are affected, forms the basis on which the collective provision is calculated.

In determining the collective provision, management consider historical loss data, the current economic cycle, inflation, unemployment, interest rates and their outlook to determine possible impact on serviceability and delinquency.

The impairment charge in the Fund is ultimately borne by unitholders to the extent that the provisions do not exceed distributions to the Class B unitholder in any given year.

(f) Interest income

Interest income including interest income from non-derivative financial assets, is recognised in the statement of profit or loss and other comprehensive income as it accrues, using the effective interest method of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

3 SIGNIFICANT ACCOUNTING POLICIES (cont.)

(g) Expenses

All expenses including management fees and custodian fees are recognised in the statement of profit or loss and other comprehensive income on an accruals basis.

(h) Fee income

Fee income relating to equitably assigned financial assets is recognised as the related service is provided.

(i) Distributions and taxation

Under current legislation the Fund is not subject to income tax as its taxable income (including assessable realised capital gains) is distributed in full to the unitholders. The Fund fully distributes its taxable income, calculated in accordance with the Fund Constitution and applicable taxation legislation, to the unitholders who are presently entitled to the income under the constitution. All distributions made have been treated as an expense and are recognised when the holder of the residual income unit becomes presently entitled.

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

(j) Unit prices

The unit price is based on the unit price accounting outlined in the Fund's constitution and Product Disclosure Statement.

(k) Finance costs

Distributions paid and payable on units are recognised in the statement of profit or loss and other comprehensive income as finance costs and as a liability where not paid. Distributions paid are included in cash flows from financing activities in the statement of cash flows unless reinvested.

(l) Changes in net assets attributable to unitholders

Non-distributable income, which may comprise unrealised changes in the fair value of investments, net capital losses, tax-deferred income, accrued income not yet assessable and non-deductible expenses are reflected in the statement of profit or loss and other comprehensive income as changes in net assets attributable to unitholders.

These items are included in the determination of distributable income in the period for which they are assessable for taxation purposes.

(m) Redeemable units

All redeemable units issued by the Fund provide the investors with the rights to require redemption for cash and give rise to a financial liability. In accordance with the constitution the Fund is obliged to redeem units at the redemption price, which includes an allowance for transaction costs.

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

3 SIGNIFICANT ACCOUNTING POLICIES (cont.)

(n) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Fund in the period of initial application. They are available for early adoption at 30 June 2018, but have not been applied in preparing this financial report. The Fund has prepared its analysis of the transitional impact of the respective standards, including input from auditors and advisors. Where relevant the estimated impact of the adoption of these standards on the Fund's statement of financial position as at 1 July 2018 is outlined below, otherwise the analysis is expected to be completed prior to the respective implementation dates.

(i) AASB 9 Financial Instruments

Classification and measurement

AASB 9 will replace existing financial instrument categories with new categories of Fair Value through Profit or Loss (FVPL), Fair Value through Other Comprehensive Income (FVOCI), and Amortised Cost. Financial assets (other than equity and derivatives) will be assessed and categorised based on their contractual cash flow characteristics and the business model for managing the assets. Accounting for financial liabilities remains unchanged, except that gains or losses on liabilities designated at FVPL (if any), arising from the Fund's own credit risk, will be presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss and other comprehensive income, unless an accounting mismatch in profit or loss would arise.

Upon adoption the Fund does not expect significant changes to the classification or measurement of most financial assets and financial liabilities.

Impairment of financial assets

AASB 9 introduces an expected credit loss impairment model that replaces the existing incurred loss model and applies to all financial assets, except for those which are FVPL, and equity securities designated as at FVOCI, which are not subject to impairment assessment. The new model may result in earlier recognition of some credit losses and may also result in more conservative provisioning levels depending on the economic cycle. The estimated adjustment to the opening balance of the Fund's statement of financial position at 1 July 2018 is nil as the impairment charge is borne by the unitholders.

As the Fund writes off loans when there is no realistic probability of recovery, the Fund's policy on when financial assets are written off is not expected to significantly change on adoption of AASB 9.

Hedge accounting

AASB 9 allows entities to continue with the hedge accounting under AASB 139 even when other elements of AASB 9 become mandatory on 1 January 2018. The Fund expects to continue to apply hedge accounting under AASB 139 and therefore the transition impact is expected to be immaterial.

Transition

AASB 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The adoption of AASB 9 has no impact on the Fund's opening statement of financial position at 1 July 2018.

LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

3 SIGNIFICANT ACCOUNTING POLICIES (cont.)

(n) New standards and interpretations not yet adopted (cont.)

(ii) AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much, and when revenue is recognised. It replaces existing revenue recognition guidance in AASB 118 Revenue. The Fund has assessed all revenue streams that fall within the scope of the standard, which indicates that transition impacts will be immaterial.

AASB 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. The adoption of AASB 15 has no impact on the Fund's opening statement of financial position at 1 July 2018.

4 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

The Fund manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability.

The objective of the Fund is to provide unitholders with returns in accordance with the Product Disclosure Statement (PDS). The Fund aims to deliver this objective through investing in a highly diversified portfolio in accordance with limitations set out in the PDS.

The Fund strives to invest in products that meet the Funds investment objectives while maintaining sufficient liquidity to meet unitholders' redemptions.

The Fund's constitution prescribes the income entitlement for Non Class B unitholders as the target return (rate of return multiplied by the number of units held) multiplied by the number of days for which the Non Class B unitholder has held the unit in the distribution period. The return calculated for a Class B unitholder is equal to the excess distribution income available after all the income entitlements of Non Class B unitholders have been paid.

2018	Non Class B	Class B	Total
Number of units			
Opening balance	15,480,800	100	15,480,900
Applications	3,554,800	-	3,554,800
Units issued/distributions reinvested	724,318	-	724,318
Redemptions	(654,280)	-	(654,280)

Closing unitholders balance	19,105,638	100	19,105,738
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2018	Non Class B \$'000	Class B \$'000	Total \$'000
Unitholders			
Opening balance	15,473	-	15,473
Applications	3,555	-	3,555
Units issued/distributions reinvested	724	-	724
Redemptions	(654)	-	(654)
Cash flow hedge reserve attributable to unitholders	22	-	22

Closing unitholders balance	19,120	-	19,120
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Cash distributions (not reinvested)	154	-	154
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LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

4 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (cont.)

2017	Non Class B	Class B	Total
Number of units			
Opening balance	13,361,253	100	13,361,353
Applications	1,916,700	-	1,916,700
Units issued/distributions reinvested	661,906	-	661,906
Redemptions	(459,059)	-	(459,059)
Closing unitholders balance	15,480,800	100	15,480,900

2017	Non Class B \$'000	Class B \$'000	Total \$'000
Unitholders			
Opening balance	13,321	-	13,321
Applications	1,917	-	1,917
Units issued/distributions reinvested	662	-	662
Redemptions	(459)	-	(459)
Cash flow hedge reserve attributable to unitholders	32	-	32
Closing unitholders balance	15,473	-	15,473

Cash distributions (not reinvested)	94	-	94
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2018 \$'000	2017 \$'000
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5 INTEREST INCOME

Interest income on financial assets measured at amortised cost	1,373	1,427
Interest on deposits	42	29
	1,415	1,456

6 AUDITOR'S REMUNERATION

Audit Services:

Auditor of the Fund - KPMG

Audit of the financial statements

22	22
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Other Services:

Auditor of the Fund - KPMG

Other audit related services

18	18
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LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

	2018	2017
	\$'000	\$'000
7 CASH AND CASH EQUIVALENTS		
(a) Reconciliation of cash and cash equivalents		
Cash and cash equivalents at bank	4,841	3,230
(b) Reconciliation of cash flows from operating activities		
Profit after distributions	-	-
Adjustments for:		
Total distribution paid or reinvested	878	756
Increase in distribution payable to unitholders	293	519
Increase in receivables	(21)	(10)
Increase in accrued expenses	12	4
Net cash from operating activities	1,162	1,269

8 FINANCIAL ASSETS

Financial assets measured at amortised cost	16,581	13,567
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Geographic concentration of financial assets

New South Wales/ACT	5,759	6,002
Victoria/Tasmania	6,550	4,603
Queensland	3,338	1,413
Western Australia	490	1,285
South Australia/Northern Territory	444	264
	16,581	13,567

As at 30 June 2018 the Fund held collateral valued at \$21,576,000 (2017: \$18,589,000). Specific provision charges for financial asset impairment for the year ended 30 June 2018 were nil (2017: nil) and collective provision charges were \$103,000 (2017: \$102,000) all of which are incurred by the Class B unitholder.

Current financial assets are \$3,549,000 (2017: \$2,306,000) and non-current financial assets are \$13,032,000 (2017: \$11,261,000).

9 RECEIVABLES

Interest and other receivables	76	55
Receivable from related parties	30	20
	106	75

All receivable balances are current.

LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

	2018	2017
	\$'000	\$'000
10 PAYABLES		
Payable to related parties	842	116
Accrued expenses	45	33
	<u>887</u>	<u>149</u>

All payable balances are current.

11 DISTRIBUTIONS PAID AND PAYABLE

	2018			2017		
	Non Class B	Class B	Total	Non Class B	Class B	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Opening balance	67	1,175	1,242	58	665	723
Less amount distributed relating to prior year	(67)	-	(67)	(58)	-	(58)
Current year distributions	893	278	1,171	765	510	1,275
Less amount distributed relating to current year	(811)	-	(811)	(698)	-	(698)
Balance at the end of the financial year	<u>82</u>	<u>1,453</u>	<u>1,535</u>	<u>67</u>	<u>1,175</u>	<u>1,242</u>

12 DETERMINATION OF FAIR VALUES

The Fund's disclosures require determination of fair values for financial assets and liabilities. Management assesses the evidence obtained from third parties to support the conclusion that fair value valuation meet the requirements of AASB 13, including the level in the fair value hierarchy in which such valuation should be classified. When measuring the fair value of an asset or liability, the Fund uses market observable data as far as possible. See note 12 (d) for further information about fair value measurement techniques.

(a) Short term financial assets and receivables

Cash and cash equivalents, accrued interest and receivables are short term financial assets. Management have assessed that the carrying value of these assets approximates fair value as they are short term in nature.

(b) Financial assets

The carrying amount of financial assets includes deferred fees accounted for using the effective interest method and are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method net of provisions for impairment. Fair value is calculated based on the present value of future principal and interest cash flows discounted at the credit risk-adjusted rate of interest at the reporting date.

(c) Payables

The carrying value of payables approximates fair value as they are short term in nature.

LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

12 DETERMINATION OF FAIR VALUES (cont.)

(d) Fair value

The following table shows the carrying amounts and fair values of the financial assets and financial liabilities.

2018	Note	Carrying Amount				Fair Value
		Fair value through P&L	Loans and receivables	Other financial liabilities	Total	
		\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets measured at fair value						
Derivative assets		14	-	-	14	14
Financial assets not measured at fair value						
Cash and cash equivalents	7	-	4,841	-	4,841	4,841
Financial assets	8	-	16,581	-	16,581	18,625
Receivables	9	-	106	-	106	106
Financial liabilities not measured at fair value						
Payables	10	-	-	(887)	(887)	(887)
Distribution payable	11	-	-	(1,535)	(1,535)	(1,535)
		14	21,528	(2,422)	19,120	21,164

Derivative financial instruments measured at fair value are measured using level 2 valuation inputs. Financial assets are disclosed at fair value using level 3 valuation inputs.

2017	Note	Carrying Amount				Fair Value
		Fair value through P&L	Loans and receivables	Other financial liabilities	Total	
		\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets not measured at fair value						
Cash and cash equivalents	7	-	3,230	-	3,230	3,230
Financial assets	8	-	13,567	-	13,567	15,142
Receivables	9	-	75	-	75	75
Financial liabilities measured at fair value						
Derivative liabilities		(8)	-	-	(8)	(8)
Financial liabilities not measured at fair value						
Payables	10	-	-	(149)	(149)	(149)
Distribution payable	11	-	-	(1,242)	(1,242)	(1,242)
		(8)	16,872	(1,391)	15,473	17,048

Derivative financial instruments measured at fair value are measured using level 2 valuation inputs. Financial assets are disclosed at fair value using level 3 valuation inputs.

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

12 DETERMINATION OF FAIR VALUES (cont.)

Valuation techniques - financial instruments not measured at fair value

Type	Valuation technique	Significant unobservable inputs
Financial assets	Discounted cash flows: a fair value adjustment is made for fixed rate loans using actual loan rate as this incorporates a credit risk margin as at reporting date to calculate the present value of future cash flows.	Future cash flows for the remaining term of loans, including principal and interest; discount rate; credit risk of customers.

Transfers between level 1, level 2 and level 3

There were no transfers between level 1, level 2 and level 3 in 2018 (2017: nil).

Level 3 fair values

In 2018 there were no financial assets or liabilities measured in the statement of financial position at fair value calculated using level 3 unobservable inputs (2017: nil).

13 FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

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

(b) Risk management framework

The Board of the Responsible Entity has overall responsibility for the establishment and oversight of the risk management framework. The Board works with a related party's Risk, Audit and Compliance Committee (the "Committee") which is responsible for monitoring the emerging and changing risk profile of the Fund. The Committee is responsible for reviewing the adequacy of internal systems, controls and procedures in relation to the risk management framework and the risks faced by the Fund and Responsible Entity. The Committee is assisted in its oversight by the Risk department which coordinates, sets policy and monitors the Fund's effectiveness in credit risk, liquidity and market risk. The Chief Financial Officer reports regularly to the Committee and the Board. Risk management policies and systems are updated to reflect changes in market conditions and the Fund's activities.

(c) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. Credit risk arises primarily from the Fund's financial assets.

(i) Management of credit risk

The Fund's policy over credit risk is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties meeting the credit standards set out in the Fund's Product Disclosure Statement.

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

13 FINANCIAL RISK MANAGEMENT (cont.)

(c) Credit risk (cont.)

(i) Management of credit risk (cont.)

Credit risk is monitored on a monthly basis by the Investment Manager in accordance with policies and procedures in place. The Fund's credit risk is monitored on a quarterly basis by the board of directors.

(ii) Exposure to credit risk

The Fund's maximum credit risk exposure (without taking into account collateral) at the reporting date is represented by the respective carrying amounts of the relevant financial assets in the statement of financial position.

The carrying amount of financial assets held by the Fund that would be otherwise past due or impaired is nil. As such no financial assets were subject to renegotiated terms during the current year (2017: nil).

The derivatives are entered into with bank and financial institution counterparties, which are rated AA-, based on rating agency Standard and Poor's or comparable ratings.

(iii) Past due and impaired assets

There were no impaired financial assets as at 30 June 2018 (2017: nil).

(d) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivery of cash or other financial assets, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

(i) Management of liquidity risk

The Fund's policy and the Investment Manager's approach to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units, as and when due without incurring undue losses or risking damage to the Fund's reputation.

The Fund produces cash flow estimates to ensure that at all times the Fund has cash or cash equivalents sufficient to meet its projected cash needs over the next three months.

Management does not expect all current unitholders to redeem their units in the short term, and as such has sufficient liquid assets to meet its commitments.

Contractual maturity

The contractual maturities profile below is based on the Fund's assumptions that (i) interest and principal receipts on financial assets are based on the existing portfolio; (ii) interest income on financial assets are based on current interest rates; (iii) the maturity profile of unitholder's investment reflects the legal maturity date.

LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

13 FINANCIAL RISK MANAGEMENT (cont.)

(d) Liquidity risk (cont.)

(i) Management of liquidity risk (cont.)

2018	Note	Carrying amount \$'000	Contractual cash flows \$'000	<1 year \$'000	1-5 years \$'000	> 5 years \$'000
Non-derivative financial assets						
Cash and cash equivalents	7	4,841	4,841	4,841	-	-
Financial assets	8	16,581	28,347	4,727	8,032	15,588
Receivables	9	106	106	106	-	-
Derivative financial assets						
Derivative assets		14	16	(7)	19	4
Total assets		21,542	33,310	9,667	8,051	15,592
Non-derivative financial liabilities						
Unitholders	4	19,120	19,246	19,246	-	-
Payables	10	887	887	887	-	-
Distributions payable	11	1,535	1,535	1,535	-	-
Total liabilities		21,542	21,668	21,668	-	-
2017						
	Note	Carrying amount \$'000	Contractual cash flows \$'000	<1 year \$'000	1-5 years \$'000	>5 years \$'000
Non-derivative financial assets						
Cash and cash equivalents	7	3,230	3,230	3,230	-	-
Financial assets	8	13,567	22,266	3,581	7,973	10,712
Receivables	9	75	75	75	-	-
Total assets		16,872	25,571	6,886	7,973	10,712
Non-derivative financial liabilities						
Unitholders	4	15,473	15,775	15,343	432	-
Payables	10	149	149	149	-	-
Distributions payable	11	1,242	1,242	1,242	-	-
Derivative financial liabilities						
Derivative liabilities		8	8	18	(9)	(1)
Total liabilities		16,872	17,174	16,752	423	(1)

(e) Market risk

Market risk is the risk that changes in market prices, such as interest rates and credit spreads will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

(i) Management of market risk

The Fund's strategy for the management of market risk is driven by the Fund's investment objective. The Fund's market risk is managed on a daily basis by the Investment Manager in accordance with policies and procedures in place.

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

13 FINANCIAL RISK MANAGEMENT (cont.)

(e) Market risk (cont.)

(ii) Exposure to interest rate risk

The Fund is exposed to the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates. Interest rate swaps are entered into to achieve an appropriate mix of fixed and floating rate exposure in line with the Fund's interest rate risk management strategy. The swap has a fixed rate of 2.010% (2017: 2.070%) and a notional contract amount of \$6,495,000 (2017: \$4,785,000).

At reporting date the interest rate profile of the Fund's interest bearing financial instruments was as follows:

	2018 \$'000	2017 \$'000
Fixed rate instruments		
Financial assets	8,521	7,701
Variable rate instruments		
Cash and cash equivalents	4,841	3,230
Financial assets	8,060	5,866
	12,901	9,096

The return on financial liabilities varies depending upon the performance of the Fund, and are therefore not directly linked to interest rate movements.

Sensitivity analysis

The Fund's exposure to interest rate risk is minimised as the Fund actively manages its cost of funding and reprices its loan portfolio in response to changes in cost of funds within a short timeframe.

A change in market interest rates and interest rate swaps affects the value placed on future cash flows. A movement in the variable interest rate of +1%/-1% would result in an increase/decrease in profit of \$129,000 (2017: \$91,000). A movement in the interest rate swaps of 1%/-1% would result in a decrease/increase in profit of \$65,000 (2017: \$48,000).

(f) Capital management

The Fund manages its capital to ensure that it will be able to continue as a going concern while maximising the return to unitholders and maintaining investor, creditor and market confidence.

The Fund maintains a minimum level of capital in liquid form to support future operational initiatives, expected short term cash outflows and unexpected asset impairment. The Fund manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. Withdrawals are required to be in line with each investment term, and the Fund monitors and projects these cash flows on a monthly basis.

There have been no significant changes to the Fund's capital management strategy during the year.

14 RELATED PARTIES

(a) Responsible Entity

The Responsible Entity of Liberty Term Investment Fund is Liberty Fiduciary Limited (ACN 119 884 623).

LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018

14 RELATED PARTIES (cont.)

(b) Key management personnel

Key management personnel are remunerated by a related entity. Payments made from the Fund to the Responsible Entity do not include any amount that is directly attributable to key management personnel remuneration.

Key management personnel of the Fund are the Directors of the Responsible Entity.

The directors of the Responsible Entity at any time during or since the end of the financial year were:

Richard Longes (Chairman)
Peter Hawkins
Sherman Ma

(c) Related party transactions

All transactions with related parties are conducted on normal commercial terms and conditions. All related party receivables/payables are unsecured.

A management fee is payable to the Investment Manager Liberty Financial Pty Ltd for administering and managing the Fund and its investments. This is an ongoing fee per annum based on the gross asset value of the Fund. The management fee paid and payable for the year ended 30 June 2018 was \$215,000 and \$22,000 respectively (2017: \$185,000 and \$18,000 respectively).

(d) Related party investments held by the Fund

The Fund has a policy on related party transactions, including arrangements to manage conflicts of interest, and it monitors these regularly. The Responsible Entity, the Investment Manager, and their related parties may hold units in the Fund from time to time.

(e) Units in the Fund held by related parties

Liberty Fiduciary Limited, its controlled entities and related parties as at 30 June 2018 hold the following units in the Fund:

	Unitholding \$'000	Interest held %	Units redeemed \$'000	Distribution received/ receivable \$'000
Minerva Holding Trust	11,139	58%	-	563

Liberty Fiduciary Limited, its controlled entities and related parties as at 30 June 2017 hold the following units in the Fund:

	Unitholding \$'000	Interest held %	Units redeemed \$'000	Distribution received/ receivable \$'000
Minerva Holding Trust	10,576	68%	-	535

(f) Units in the Fund held by other related parties

As at 30 June 2018 no directors of the Responsible Entity held units in the Fund (2017: nil) and no related parties of directors held units in the Fund (2017: nil).

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2018**

15 COMMITMENTS AND CONTINGENCIES

There are no outstanding commitments or contingencies as at 30 June 2018 (2017: nil).

16 EVENTS SUBSEQUENT TO BALANCE DATE

There has not arisen in the interval between the end of the annual reporting period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Responsible Entity, to affect significantly the operations of the Fund, the results of those operations or the state of affairs of the Fund, in future financial years.

**LIBERTY TERM INVESTMENT FUND
DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2018**

In the opinion of the directors of Liberty Fiduciary Limited, the Responsible Entity of the Liberty Term Investment Fund (the "Fund"):

- (a) the financial statements and notes, set out on pages 4 to 24, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its performance, for the financial year ended 30 June 2018; and
 - (ii) complying with the Australian Accounting Standards and the Corporations Regulations 2001; and
- (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 report also complies with International Financial Reporting Standards as disclosed in note 2 (a).

Signed in accordance with a resolution of the directors of Liberty Fiduciary Limited in their capacity as Responsible Entity of the Liberty Term Investment Fund:



Sherman Ma
Director

Dated at Melbourne on 20 September 2018.

**LIBERTY TERM INVESTMENT FUND
DIRECTORY
AS AT 30 JUNE 2018**

Fund

Liberty Term Investment Fund
Registered Office and Principal Place of Business
Level 16, 535 Bourke Street
Melbourne VIC 3000

Investment Manager

Liberty Financial Pty Ltd (ABN 55 077 248 983)
Level 16, 535 Bourke Street
Melbourne VIC 3000
Ph: 03 8635 8888
Fax: 03 8635 9988

Trustee

Liberty Fiduciary Limited (ABN 80 119 884 623)
Level 16, 535 Bourke Street
Melbourne VIC 3000
Ph: 03 8635 8888
Fax: 03 8635 9988

Custodian

Perpetual Trustee Company Limited (ABN 42 000 001 007)
Level 7, 39 Hunter Street
Sydney NSW 2000
Ph: 02 9229 9000
Fax: 02 9221 7870



Independent Auditor's Report

To the unitholders of Liberty Term Investment Fund

Opinion

We have audited the **Financial Report** of the Liberty Term Investment Fund (the Fund).

In our opinion, the accompanying **Financial Report** of the Liberty Term Investment Fund is in accordance with the *Corporations Act 2001*, including

- giving a true and fair view of the Fund's financial position as at 30 June 2018, and of its financial performance and its cash flows for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises the:

- Statement of financial position as at 30 June 2018;
- Statement of profit or loss and other comprehensive income for the year then ended;
- Statement of changes in equity, and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Fund in accordance with the *Corporations Act 2001* and the relevant ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code). We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in the Liberty Term Investment Fund's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Liberty Fiduciary Limited (the Responsible Entity) are responsible for the Other Information.

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. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of Directors for the Financial Report

The Directors of Liberty Fiduciary Limited (the Responsible Entity) are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Fund's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they 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 objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at:

http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

KPMG

BW Szentirmay

Partner

Melbourne

20 September 2018