



**Tasmanian
Perpetual
Trustees**

Financial Report for
Select Mortgage Fund

2015 - 2016

TASMANIAN PERPETUAL SELECT MORTGAGE FUND
ARSN 089 139 382

Responsible Entity: Tasmanian Perpetual Trustees Limited ABN 97 009 475 629 a wholly owned subsidiary of MyState Limited ABN 26 133 623 962.

Dear Investor,

We have pleasure in providing the Financial Report for the Tasmanian Perpetual Select Mortgage Fund (the Fund) for the year ended 30 June 2016.

FINANCIAL REPORT FOR TASMANIAN PERPETUAL SELECT MORTGAGE FUND
FOR THE YEAR ENDED 30 JUNE 2016

The following statements, comprising the Statement of Financial Position, Statement of Comprehensive Income, Statement of Changes in Net Assets Attributable to Investors, Statement of Cash Flows and accompanying notes, have been prepared by Tasmanian Perpetual Trustees Limited and have been audited by Wise Lord & Ferguson.

DIRECTORS' REPORT

The Directors of Tasmanian Perpetual Trustees Limited, the Responsible Entity of the Fund, submit their report for the Fund for the year ended 30 June 2016.

DIRECTORS

The names of the Directors of the Responsible Entity in office during the financial year and until the date of this report are:

Mr Miles L Hampton, BEc(Hons), FCIS, FCPA, FAICD, Chairman of the Board
Mr Melos Anthony Sulicich, BBus, GAICD, SA FIN. Managing Director, Executive Director
Mr Peter D Armstrong, BEc(Hons), DipED, Dip FP, CPA, FAICD, FAMI.
Mr Brian Bissaker, BEc, CA (appointed 01 May 2016)
Mr Robert L Gordon, BSc, MIFA, MAICD, FAMI.
Mr Colin M Hollingsworth, CPA, MAICD, FAMI.
Mr Stephen Lonie, BCom, MBA, FCA, FFin, FAICD, FIMCA.
Mr Ian G Mansbridge, CPA, FCIS, FCIM, FGIA. (resigned 30 April 2016).
Mrs Sarah Merridew, BEc, FCA, FAICD.

The Directors were in office from the beginning of the year until the date of this report, unless otherwise stated.
All the Directors of the Responsible Entity are non-executive Directors, unless otherwise stated.

PRINCIPAL ACTIVITIES

The Fund is a registered managed investment scheme that seeks to deliver consistently competitive returns to investors through the disciplined implementation of its diversified investment strategy which is set in accordance with the Fund's Product Disclosure Statement and Constitution.

The Fund generally invests in first mortgages over real estate in Australia, with the predominant geography being Tasmania. The Fund also invests in cash and fixed interest securities which include money market instruments such as term deposits; negotiable certificates of deposit, credit market securities such as floating rate notes, bonds and mortgage-backed securities. There has been no significant change in the nature of this activity during the year.

SCHEME INFORMATION

The Fund is an Australian registered scheme. Tasmanian Perpetual Trustees Limited, the Responsible Entity of the Fund, is incorporated and domiciled in Australia. Fees received by the Responsible Entity from the income of the Fund are disclosed in note 13.

The registered office of the Responsible Entity is located at 137 Harrington Street, Hobart, Tasmania, 7000.

REVIEW AND RESULTS OF OPERATIONS

ABOUT THE FUND

The Fund invests directly and indirectly in registered first mortgages and the Tasmanian Perpetual At Call Fund.

PERFORMANCE

During the 2015/16 financial year, the Reserve Bank of Australia reduced the cash rate by 0.25% on the 4th May 2016 to a historic low of 1.75% and money market reference rates fell accordingly. Despite this investment environment, annual fund returns outperformed the benchmark by 1.43%. Total distributions for the year were \$6,885,349. Further information about distributions is provided in note 6.

As at 30th June 2016	Fund	Benchmark
3 Months	4.54%	2.75%
6 Months	4.42%	2.90%
1 Year	4.42%	2.99%
3 Years - per annum	4.83%	3.30%
5 Years - per annum	5.61%	3.91%

Benchmark is the average quarterly Cash Rate +100 points. Both the Fund and Benchmark returns include fees and charges and assume income is not reinvested.

The global economy slowed modestly through the 2015/16 financial year driven by a slow down in growth across the Chinese economy and across emerging economies more generally. Growth also slowed somewhat in Europe which continues to face challenging economic conditions. Meanwhile, the Australian economy performed relatively well despite significant declines in resource prices with growth ticking up modestly assisted by low interest rates, ongoing improvements in consumption and strength in dwelling investment.

TASMANIAN PERPETUAL SELECT MORTGAGE FUND
ARSN 089 139 382

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes to the state of affairs of the Fund during the year.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The investment strategy of the Fund will be maintained in accordance with the Fund's Constitution and investment objectives.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During the financial year, the Responsible Entity paid a premium insuring the Directors and Officers of the Responsible Entity against liabilities incurred as a Director or Officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of details of the insurance cover and the premium paid.

The Responsible Entity has not otherwise, during or since the financial year, indemnified or agreed to indemnify an Officer or auditor of the Responsible Entity or of any related body corporate against a liability incurred as such by an Officer or auditor.

SIGNIFICANT EVENTS AFTER BALANCE DATE

There has not arisen, in the interval between the end of the financial year and the date of this report, any item, any transaction or event of a material and unusual nature likely, in the opinion 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.

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

Signed in accordance with a resolution of the Directors



Mr Miles Hampton, Chairman
Hobart, 22nd August 2016.



Mr Melos Sulicich, Managing Director
Hobart, 22nd August 2016.

TASMANIAN PERPETUAL SELECT MORTGAGE FUND
ARSN 089 139 382

STATEMENT OF COMPREHENSIVE INCOME FOR YEAR ENDED 30 JUNE 2016		2016	2015
		\$	\$
Revenue			
Interest revenue	4	8,605,491	8,921,732
Expenses			
Responsible Entity fees	13	1,649,905	1,712,497
Auditor's remuneration	5	4,633	8,034
Bad debt expense		65,604	88,963
Provision for doubtful debts	9	-	(122,105)
Total expenses		1,720,142	1,687,389
Profit/(loss) from operating activities		6,885,349	7,234,343
Finance costs			
Distributions to investors	6	6,885,349	7,112,237
Net profit/(loss) for year		-	122,106
Other comprehensive income		-	-
Change in net assets attributable to investors		-	122,106

The Statement of Comprehensive Income is to be read in conjunction with the accompanying notes on pages 4 to 9.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016

Assets			
Cash and cash equivalents	12	62,725,294	83,441,352
Receivables	7	646,780	605,672
Financial instruments at amortised cost			
Long term investments	8	46,213,892	39,556,382
Loans and advances	9	76,894,845	70,444,289
Other assets		10,493	14,087
Total assets		186,491,304	194,061,782
Liabilities			
Trade and other payables	10	20,648	20,661
Total liabilities excluding net assets attributable to investors		20,648	20,661
Net assets attributable to investors	11	186,470,656	194,041,121
Net assets		-	-

The Statement of Financial Position is to be read in conjunction with the accompanying notes on pages 4 to 9.

STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO INVESTORS FOR YEAR ENDED 30 JUNE 2016

Opening value		194,041,121	178,526,300
Deposits made during the period		47,320,424	69,795,146
Withdrawals during the period		(54,890,889)	(54,402,431)
Change in net assets attributable to investors		-	122,106
Closing value		186,470,656	194,041,121

The Statement of Changes in Net Assets Attributable to Investors is to be read in conjunction with the accompanying notes on pages 4 to 9.

STATEMENT OF CASH FLOWS FOR YEAR ENDED 30 JUNE 2016

Cash flows from operating activities			
Interest received		8,564,370	9,173,309
GST paid		(68,988)	(66,044)
Responsible Entity fees paid		(1,580,930)	(1,645,455)
Other receipts/(payments)		(70,224)	(97,995)
Net cash flows from operating activities	12	6,844,228	7,363,815
Cash flows from investing activities			
(Increase)/decrease in investments		(6,657,510)	(18,735,559)
(Increase)/decrease in loans and advances		(6,450,556)	11,594,314
Other receipts/(payments)		3,594	(5,923)
Net cash flows from investing activities		(13,104,472)	(7,147,168)
Cash flows from financing activities			
Receipts from investors		42,019,163	64,856,893
Payments to investors		(54,890,889)	(54,402,431)
Income distributions to investors		(1,584,088)	(2,173,984)
Net cash flows from financing activities		(14,455,814)	8,280,478
Net increase/(decrease) in cash and cash equivalents		(20,716,058)	8,497,125
Cash at beginning of year		83,441,352	74,944,227
Cash and cash equivalents at the end of year		62,725,294	83,441,352

The Statement of Cash Flows is to be read in conjunction with the accompanying notes on pages 4 to 9.

TASMANIAN PERPETUAL SELECT MORTGAGE FUND
ARSN 089 139 382

Notes to and forming part of the financial report for the financial year ended 30 June 2016

1 Reporting entity

The Fund is a registered managed investment scheme under the Corporations Act 2001.

2 Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with the Fund's Constitution and the requirements of the Corporations Act 2001 and Australian Accounting Standards. The report has been prepared on an accruals basis. The Fund is a for-profit entity for the purposes of preparing the financial statements.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ("AIFRS"). The financial report also complies with International Financial Reporting Standards ("IFRS").

The financial statements were authorised for issue by the Directors on the 22nd August 2016.

(b) Functional and presentation currency

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

3 Significant accounting policies

The following accounting policies have been applied consistently to all periods presented in these financial statements.

The Fund has elected to early adopt the following accounting standards:

- AASB 9 Financial Instruments. In accordance with transitional provisions, this Standard was early adopted from 1 January 2014, being immediately after the previously prepared and lodged half-year financial statements. AASB 9 specifies the basis for classifying and measuring financial assets. Classification is discussed in Note 3 (a) (i). Amortised cost is measured on the same basis as that required by the previously applied accounting standard AASB 139 Financial Instruments: Recognition and Measurement. The change in accounting policy was applied retrospectively only to financial assets held at the date of initial application of AASB 9 or acquired subsequent to that date.

(a) Financial instruments

(i) Classification

The Fund's business strategy is to hold a variety of short and long term financial instruments and a portfolio of mortgages until they mature, collecting contractual cash flows, consisting solely of payments of principal and interest, for the benefit of investors. In accordance with AASB 9 Financial Instruments, the Fund's financial assets are, therefore, valued at amortised cost and disclosed as financial instruments at amortised cost.

Financial liabilities including redeemable investor deposits and all payables are classified as other financial liabilities under AASB 139.

(ii) Recognition

Financial assets and liabilities are recognised by the Fund at the date it becomes a party to the contractual provisions of the instrument.

Financial assets are recognised using trade date accounting.

(iii) Measurement

All financial instruments are initially recognised at cost, being the fair value of the consideration given plus directly attributable acquisition costs. Subsequent to initial recognition, the carrying amount of financial instruments is determined using the effective interest rate method, less any impairment losses. The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating the interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

(iv) Impairment

Financial assets that are stated at cost or amortised cost are reviewed at each reporting date, to determine whether there is objective evidence of impairment. If any such indication exists, impairment testing is carried out and an expense is recognised in the Statement of Comprehensive Income as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

(v) Fair value

Within the fair value hierarchy, all assets and liabilities are considered to be Level 1, where quoted market rates exist in active markets. Fair value is calculated, for certain assets, using these quoted market rates to determine the present value of estimated future cash flows.

(vi) Derecognition

The Fund derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire or the Fund transfers the asset and the transfer qualifies for derecognition in accordance with AASB 9.

(vii) Specific instruments - cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash, are subject to insignificant risk of changes in value and are held for the purpose of meeting short-term cash commitments rather than any other purposes.

(b) Interest revenue

Interest income is recognised in the Statement of Comprehensive Income as it accrues, using the effective interest rate of the instrument as calculated at the acquisition date. Interest income includes the amortisation of any discount or premium or other differences between the initial carrying amount and its amount at maturity calculated on an effective interest rate basis.

The Fund receives distribution revenue from related party managed investments schemes in accordance with normal distribution cycles. Income distributions are recognised in the Statement of Comprehensive Income for the year the income was earned by the related party scheme.

TASMANIAN PERPETUAL SELECT MORTGAGE FUND
ARSN 089 139 382

Notes to and forming part of the financial report for the financial year ended 30 June 2016

(c) Expenses

All expenses, including Responsible Entity fees, are recognised in the Statement of Comprehensive Income on an accruals basis. Operating expenses reimbursed to the Responsible Entity include, but are not limited to, software maintenance, Australian Securities and Investments Commission (ASIC) fees, postage, printing, legal, audit fees, insurance, advertising and electronic banking facility costs.

(d) Receivables

Receivables include amounts where settlement has not yet occurred. Interest is accrued at the reporting date from the time of the last payment. Amounts are generally received within 30 days of being recorded as receivables.

(e) Trade and other payables

Payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Fund and include outstanding settlements on the purchase of investments and distributions payable. The carrying period is dictated by market conditions and is generally less than 30 days.

(f) Taxation

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

(g) Distributions

In accordance with the Fund's Constitution, the Fund fully distributes its distributable income to investors. Distributions are payable at the end of each quarter. Distributions are determined in accordance with the Fund's Constitution and taxation legislation.

(h) Goods and services tax (GST)

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

(i) Redeemable investor deposits

Financial liabilities arising from the redeemable investor deposits are carried at cost (the redemption amount), representing the Investor's right to withdraw their full contribution, at the Investors' option, when the Fund is operating on a going concern basis.

(j) Terms and conditions on investors

Each interest issued confers upon the investors an equal interest in the Fund. An investor does not have any interest in any particular asset or investment of the Fund. Investors have various rights under the Constitution and the Corporations Act 2001, including the right to:

- Have their interests redeemed;
- Receive income distributions;
- Attend and vote at meetings of investors; and
- Participate in the termination and winding up of the Fund.

The rights, obligations and restrictions attached to each investor are identical in all respects.

(k) New standards and interpretations not yet adopted

A number of Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Fund for the annual reporting period ended 30 June 2016. The impact of the standards and interpretations applicable to the Fund has been assessed. These Standards and Interpretations are not expected to have a material impact on the recognition, measurement or disclosure of amounts recognised in the financial statements of the Fund.

	2016	2015
	\$	\$
4 Interest revenue		
Deposits at call	2,283,873	2,533,621
Investments	1,375,164	1,837,632
Loans and advances	4,946,454	4,550,479
Total	<u>8,605,491</u>	<u>8,921,732</u>

5 Auditor's remuneration

Audit services:

Auditors of the Fund - Wise Lord & Ferguson

Audit and review of the financial reports

Audit and review of the compliance plan

	2,938	5,095
	1,695	2,939
Total	<u>4,633</u>	<u>8,034</u>

6 Distributions to investors

- For the quarter ended 30 September	1,652,200	1,761,253
- For the quarter ended 31 December	1,733,043	1,890,954
- For the quarter ended 31 March	1,724,211	1,777,616
- For the quarter ended 30 June	1,775,895	1,682,414
Total	<u>6,885,349</u>	<u>7,112,237</u>

TASMANIAN PERPETUAL SELECT MORTGAGE FUND
ARSN 089 139 382

Notes to and forming part of the financial report for the financial year ended 30 June 2016

	2016 \$	2015 \$
7 Receivables		
Interest receivable	626,132	585,011
Other receivables	20,648	20,661
Total	<u>646,780</u>	<u>605,672</u>
8 Financial instruments at amortised cost		
Long term investments		
Mortgage backed securities	46,213,892	39,556,382
Total long term investments	<u>46,213,892</u>	<u>39,556,382</u>
Maturity analysis:		
Due after 60 months	46,213,892	39,556,382
Total	<u>46,213,892</u>	<u>39,556,382</u>
Average balances in period	45,170,129	34,114,914
Average interest rate	3.04%	5.39%
Total interest earned	1,375,164	1,837,632

The fair value of all financial instruments held at 30 June 2016 is disclosed in note 16.

9 Financial instruments at amortised cost

Loans and advances		
Maturity analysis:		
Due within 3 months	24,007,234	37,364,613
Due between 4 and 12 months	18,832,480	20,613,990
Due between 13 and 60 months	34,055,131	12,465,686
Total	<u>76,894,845</u>	<u>70,444,289</u>
Provision for doubtful debts		
Specific provision		
Opening balance	-	122,105
Specific provision for impairment	65,604	-
Bad debts written off	(65,604)	(122,105)
Closing balance	<u>-</u>	<u>-</u>
Average balances in period	74,641,114	75,540,803
Average interest rate	6.63%	6.02%
Total interest earned	4,946,454	4,550,479

10 Trade and other payables

Amounts due to Responsible Entity	20,648	20,661
Total	<u>20,648</u>	<u>20,661</u>

11 Net assets attributable to investors

The Fund's net assets attributable to investors is the capital of the Fund, notwithstanding the classification as a liability. Net assets attributable to investors is the pool of funds contributed by investors over time. The objective of the Fund is to provide returns to investors in accordance with the Product Disclosure Statement. Note 16 provides detailed information on how the Responsible Entity manages the Fund's capital to achieve the Fund's objectives.

12 Statement of cash flows

(a) Reconciliation of net operating income from ordinary activities to the net cash flows from operations		
Net operating income from ordinary activities	6,885,349	7,234,343
(Increase)/decrease in receivables	(41,108)	250,579
(Decrease)/increase in trade and other payables	(13)	998
Add back provision for doubtful debts	-	(122,105)
Net cash flow provided/(used) by operating activities	<u>6,844,228</u>	<u>7,363,815</u>
(b) Reconciliation of cash:		
Cash balance comprises:		
Deposits at call	<u>62,725,294</u>	<u>83,441,352</u>
(c) Non-cash financing and investing activities		
Non-cash financing and investing activities carried out during the year on normal commercial terms and conditions included:		
- Reinvestment of investor distributions	<u>5,301,261</u>	<u>4,938,253</u>

TASMANIAN PERPETUAL SELECT MORTGAGE FUND
ARSN 089 139 382

Notes to and forming part of the financial report for the financial year ended 30 June 2016

2016
\$

2015
\$

13 Related party information

Responsible Entity fees

Management fees

Expenses incurred on behalf of the Fund by the Responsible

Entity and reimbursed by the Fund

Total

1,536,123	1,533,649
<u>113,782</u>	<u>178,848</u>
<u>1,649,905</u>	<u>1,712,497</u>

Management fees

Tasmanian Perpetual Trustees Limited, in its capacity as Responsible Entity of the Fund, is entitled to charge management fees of 1.1% pa, inclusive of GST, of the value of the Fund's assets, as stated in the PDS of the Fund. The management fees are deducted from the income of the Fund, together with out-of-pocket expenses and Government taxes, where not recouped from the investors. There are no other fees, commissions, benefits or advantages derived by the Responsible Entity or its employees or associates in connection with the management of the Fund other than the discount provided by the Responsible Entity of its management fee to employees of the Responsible Entity.

Key Management Personnel (KMP)

The Fund does not employ personnel in its own right. However, it is required to have an incorporated Responsible Entity to manage the activities of the Fund and the Responsible Entity is considered to be the KMP. The Directors of the Responsible Entity are KMP of that entity and they are also considered to be the KMP of the Fund. The names of the Directors during the year and up to the date of this report were as follows: Peter Armstrong, Brian Bissaker, Robert Gordon, Miles Hampton, Melos Sulicich, Colin Hollingsworth, Stephen Lonie, Ian Mansbridge and Sarah Merridew. The period of office for the Directors is stated in the Directors' Report. Directors do not receive any remuneration from the Fund.

2016
\$

2015
\$

Estates and agencies managed by the Responsible Entity with investments in the Fund

<u>11,329,593</u>	<u>18,151,758</u>
-------------------	-------------------

Details of investments in the Fund by Funds also managed by the Responsible Entity:

Tasmanian Perpetual Mortgage Fund

<u>8,079,499</u>	<u>9,429,134</u>
------------------	------------------

Details of investments by the Fund in other Funds also managed by the Responsible Entity:

Tasmanian Perpetual At Call Fund

<u>63,011,149</u>	<u>83,644,592</u>
<u>63,011,149</u>	<u>83,644,592</u>

Details of investments held by the Fund in other entities controlled by the Parent Entity of the Responsible Entity:

Conquest 2010-2 Trust Class B RMBS Notes

6,698,243	7,933,048
-----------	-----------

Conquest 2013-1 Trust Class B RMBS Notes

2,273,824	2,923,333
-----------	-----------

Conquest 2014-1 Trust Class B1 RMBS Notes

4,500,000	4,500,000
-----------	-----------

Conquest 2014-2 Trust Class B1 RMBS Notes

1,900,000	-
-----------	---

Conquest 2014-2 Trust Class B2 RMBS Notes

500,000	500,000
---------	---------

Conquest 2014-2 Trust Class B3 RMBS Notes

300,000	300,000
---------	---------

Conquest 2016-1 Trust Class B1 RMBS Notes

373,667	-
---------	---

Conquest 2016-1 Trust Class B2 RMBS Notes

164,392	-
---------	---

Total investments held at balance date

<u>16,710,126</u>	<u>16,156,382</u>
-------------------	-------------------

All related party transactions are conducted on normal commercial terms and conditions.

14 Subsequent events

Since 30 June 2016, there has not been any matter or circumstance not otherwise dealt with in the financial report that has significantly affected, or may significantly affect the Fund.

15 Financial instruments fair value

The amortised cost carrying amount of all assets and liabilities in the Condensed Statement of Financial Position, other than certain loans and advances, is a reasonable approximation of fair value due to the short term to maturity or periodic yield resets. Fair values have, therefore, not been calculated.

Receivables, other assets and payables are amounts that will generally settle within three months.

The majority of short term investments are negotiated with a maturity between three and six months.

The interest rates on all long term investments reset to a specific margin above current market rates, either monthly or quarterly.

The interest rates on loans and advances with a variable rate, change based on market interest rate movements.

The fair value of loans and advances with a fixed rate is calculated as the present value of future known cash flows using the Fund's current variable rate as the discount factor.

TASMANIAN PERPETUAL SELECT MORTGAGE FUND
ARSN 089 139 382

Notes to and forming part of the financial report for the financial year ended 30 June 2016

16 Financial instruments

Overview

The Fund's assets principally consist of financial instruments which comprise mortgages and an investment in a related party Fund. It holds these the discretion of the Responsible Entity, in accordance with its published investment strategy. The objective of these investments is to provide relatively secure investments, together with a competitive return of income.

The allocation of assets between the various types of financial instruments is determined by the Responsible Entity, which manages the Fund's portfolio of assets to achieve the Fund's investment objectives. The composition of the portfolio is monitored by the Responsible Entity on a daily basis.

The Fund's investing activities expose it to the following risks from its use of financial instruments:

- Market risk;
- Credit risk; and
- Liquidity risk.

The nature and extent of the financial instruments employed by the Fund are discussed in the following Section. This note presents information about the Fund's exposure to each of these risks, the Fund's objectives, policies and processes for measuring and managing risk.

The Board of Directors of the Responsible Entity has overall responsibility for the establishment and oversight of the Fund's risk management framework.

The Board of the Responsible Entity has established an Asset and Liability Committee, which is responsible for developing and monitoring the Fund's risk management policies, including those policies related to its investment activities. The Responsible Entity's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls and to monitor risks and adherence to limits. These risk management policies and systems are reviewed regularly, to reflect changes in market conditions and the Fund's activities.

The Responsible Entity's Asset and Liability Committee receives quarterly activity reports from management and, in turn, reports regularly to the Board of Directors of the Responsible Entity on its activities. The quarterly activity reports include details on compliance with the Fund's investment strategy, asset allocation of the Fund and performance.

The Responsible Entity's Group Risk Committee oversees how management monitors compliance with the Fund's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Fund. The Responsible Entity's Group Risk Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes regular reviews of risk management controls and procedures, the results of which are reported to the Group Risk Committee and the Group Audit Committee of the Responsible Entity.

(A) Market risk

Market risk represents the risk that a financial instrument's value will fluctuate as a result of changes in the market prices such as foreign exchange rates (currency risk), interest rates (interest rate risk), and property values (property market price risk).

Currency risk

The Fund is not exposed to currency risk with all financial instruments being held in Australian Dollars.

Interest rate risk

The majority of the Fund's financial assets are held in interest bearing assets. The majority of the Fund's mortgages are variable interest rate mortgages. The investment in the Tasmanian Perpetual At Call Fund is expected to move in line with changes in Australian interest rates since the underlying investments in this Fund are cash, bank bills and floating rate notes.

The Fund's interest rate risk is managed on a daily basis in accordance with policies and procedures in place. Interest rate risk is managed by:

- Ensuring that the Fund has a tactical asset allocation that provides for the effective management of interest rate and associated liquidity risk;
- Ensuring that there is adequate matching of the duration of assets with the likely duration of investors' funds;
- Continually monitoring the effect upon yield and liquidity, of probable movements in interest rates; and
- Continually modelling the effect of utilising a hedging strategy to counteract the probable movement in interest rates.

The Fund's overall interest rate risk is monitored on a quarterly basis by the Responsible Entity's Asset and Liability Committee which reports to the Board of Directors of the Responsible Entity.

The Fund's exposure to interest rate risk is as follows:

	Weighted average effective interest rate	Floating interest rate \$	Fixed interest rate maturing in 1 year or less \$	Fixed interest rate maturing in 2 to 5 years \$	Carrying amount per Balance Sheet \$	Aggregate net fair value \$
Financial assets - 2016						
Cash and cash equivalents	2.96%	62,725,294	-	-	62,725,294	62,725,294
Receivables		-	(non-interest bearing)		646,780	646,780
Investments	3.04%	46,213,892	-	-	46,213,892	46,213,892
Loans and advances	6.63%	32,422,588	25,886,628	18,585,628	76,894,845	76,177,761
Other assets		-	(non-interest bearing)		10,493	10,493
Total financial assets		95,147,882	25,886,628	18,585,628	186,491,304	185,774,220
Financial liabilities - 2016						
Trade and other payables		-	(non-interest bearing)		20,648	20,648

TASMANIAN PERPETUAL SELECT MORTGAGE FUND
ARSN 089 139 382

Notes to and forming part of the financial report for the financial year ended 30 June 2016

	Weighted average effective interest rate	Floating interest rate \$	Fixed interest rate 1 year or less \$	Fixed interest rate 2 to 5 years \$	Carrying amount per Balance Sheet \$	Aggregate net fair value \$
Financial assets - 2015						
Cash and cash equivalents	3.28%	83,441,352	-	-	83,441,352	83,441,352
Receivables		-	(non-interest bearing)		605,672	605,672
Investments	5.39%	39,556,382	-	-	39,556,382	39,556,382
Loans and advances	6.02%	12,973,352	33,388,440	24,082,497	70,444,289	58,330,236
Other assets		-	(non-interest bearing)		14,087	14,087
Total financial assets		<u>96,414,704</u>	<u>33,388,440</u>	<u>24,082,497</u>	<u>194,061,782</u>	<u>181,947,729</u>
Financial liabilities - 2015						
Trade and other payables		-	(non-interest bearing)		20,661	20,661

Interest rate sensitivity

An increase of 25 basis points in interest rates throughout the reporting period would have increased the amount available for distribution by \$353,744 (2015: \$369,478). A decrease of 25 basis points would have had an equal but opposite effect.

Property market price risk

Property market price risk is the risk that adverse movements in the market value of a property could result in financial loss to the Fund.

The objective of property market price risk management is to ensure that movements in the market value of individual properties mortgaged to the Fund do not result in financial loss to the Fund.

The Responsible Entity manages property market price risk by rigorously applying the mortgage lending policy, which forms part of its investment policies. The mortgage lending policy is specifically designed to manage property market price risk, whilst providing competitively priced funds to property owners and investors.

The Responsible Entity continually monitors property market trends, through analysis of commodity price movements, geographical price trends and other such localised issues.

The measurement of the Fund's exposure to property market price risk is based upon the analysis of loans, at the time of review, being reported as being in excess of the investment policy's set loan to valuation ratios.

(B) Credit risk

Credit risk is the risk that a counter party to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund. The Fund has a credit policy in place and the exposure to credit risk is monitored on a daily basis. All investments within the Fund are subject to credit risk. This risk is mitigated by the Responsible Entity's use of lending policies and procedures designed to protect investor's funds.

The Fund's financial assets exposed to credit risk were concentrated in the following classifications:

	2016	2015
Asset Backed Securities	14.43%	15.26%
Related Party Managed Investment Scheme	33.86%	43.20%
Managed Investment Scheme	10.40%	5.16%
Mortgages	41.31%	36.38%
Total	<u>100.00%</u>	<u>100.00%</u>

(C) Liquidity risk

Liquidity Risk is the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund's approach to managing liquidity is to ensure that it will have sufficient liquidity to meet its liabilities as and when they fall due. The Fund's liquidity risk is managed on a daily basis by the Responsible Entity in accordance with the Investment Policy Statement and Liquidity Management Policy.

The following table sets out the contractual maturities of the Fund's financial liabilities:-

	Contractual cash flows \$	Less than 1 month \$	1 - 3 months \$	3 months to 1 year \$	On Call \$
Financial liabilities - 2016					
Trade and other payables	20,648	20,648	-	-	-
Net assets attributable to investors	<u>186,470,656</u>	<u>186,470,656</u>	-	-	-
	<u>186,491,304</u>	<u>186,491,304</u>	-	-	-
Financial liabilities - 2015					
Trade and other payables	20,661	20,661	-	-	-
Net assets attributable to investors	<u>194,041,121</u>	<u>194,041,121</u>	-	-	-
	<u>194,061,782</u>	<u>194,061,782</u>	-	-	-

(D) Estimation of fair value

The major methods and assumptions used in estimating the fair values of financial instruments were disclosed in note 3(a).

(E) Specific instruments

The Fund does not borrow, short sell, or use futures. However, the Fund's Investment Policy allows for the use of forward rate contracts, interest rate options and interest rate swaps. Currently, the Fund does not utilise these instruments and, if it should do so, it would only be for the purpose of managing interest rate risk.

TASMANIAN PERPETUAL SELECT MORTGAGE FUND
ARSN 089 139 382


DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Tasmanian Perpetual Trustees Limited as Responsible Entity for the Fund, I state that:

In the opinion of the Directors :

- (a) the financial statements and notes of the Fund 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 2016 and of its performance, as represented by the results of its operations and its cash flows for the year ended on that date; and
 - (ii) complying with 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 statements are in accordance with the provisions of the Fund's Constitution.
- (d) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2 (a).

On behalf of the Board
Tasmanian Perpetual Trustees Limited



Mr Miles Hampton, Chairman
Hobart, 22nd August 2016.

Auditor's Independence Declaration to the Directors of Tasmanian Perpetual Select Mortgage Fund

In relation to our audit of the financial report of Tasmanian Perpetual Select Mortgage Fund for the financial year ended 30 June 2016, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



JOANNE DOYLE
Partner
Wise Lord & Ferguson
Chartered Accountants

Date: 18 August 2016



Independent auditor's report to the members of Tasmanian Perpetual Select Mortgage Fund

Report on the financial report

We have audited the accompanying financial report of Tasmanian Perpetual Select Mortgage Fund, which comprises the statement of financial position as at 30 June 2016, the statement of comprehensive income, statement of changes in net assets attributable to unit holders and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Opinion

In our opinion:

- a. the financial report of Tasmanian Perpetual Select Mortgage Fund is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).



JOANNE DOYLE

Partner

Wise Lord & Ferguson

Chartered Accountants

Date: 18 August 2016