



## **PM CAPITAL ENHANCED YIELD FUND**

### **Annual Report For the Year Ended 30 June 2022**

PM Capital Enhanced Yield Fund is a Registered Scheme under the *Corporations Act 2001* (ARSN 099 581 558).

PM Capital Limited (ABN 69 083 644 731), the Scheme's Responsible Entity, is a company limited by shares, incorporated and domiciled in Australia. Its principal place of business is:

PM Capital Limited,  
Level 11,  
68 York Street,  
Sydney NSW 2000

A description of the nature of the Scheme's operations and its principal activities is included in the directors' report.

**PM CAPITAL ENHANCED YIELD FUND**  
**ANNUAL REPORT**  
**For the Year Ended 30 June 2022**

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**PM CAPITAL ENHANCED YIELD FUND  
DIRECTORS' REPORT**

**PM Capital Limited (ABN 69 083 644 731) as Responsible Entity  
for the PM Capital Enhanced Yield Fund ("the Fund")**

The directors of PM Capital Limited ("PM Capital") submit the financial report of the Fund for the year ended 30 June 2022.

The directors of PM Capital Limited authorised the financial report for issue on 6 September 2022. The directors of PM Capital Limited have the power to amend and reissue the financial report. PM Capital has relied on the New Zealand Financial Markets Conduct Act 2013, Financial Markets Conduct (Overseas FMC Reporting Entities) Exemption Notice 2021 in respect of its financial statements for the year ended 30 June 2022.

**Directors**

The following persons were directors of the Responsible Entity ("RE") during the whole of the financial year, and up to the date of this report:

Paul Moore  
Jarod Dawson  
Benjamin Skilbeck

**Principal activities of the Fund**

The principal activity of the Fund during the year was investing predominantly in cash and listed and unlisted interest bearing securities.

**Review of operations**

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

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Operating (loss)/revenue	(4,875,830)	24,924,500
Operating expenses	3,533,894	7,282,700
Finance costs	3,086	1,611
Total expenses	3,536,980	7,284,311
(Loss)/profit for the year	<b>(8,412,810)</b>	<b>17,640,189</b>

Please refer to the Statement of Profit or Loss and Other Comprehensive Income for further details.

**Distributions**

Accounting and tax distributions for the financial year were \$9,146,758 (2021: \$8,206,026).

**State of affairs**

There have been no significant changes in the Fund's state of affairs during the financial year.

**Events subsequent to balance date**

No matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the Fund, the result of those operations or the state of affairs of the Fund in subsequent financial years.

**Likely developments**

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of investment markets in which the Fund invests. Investment performance is not guaranteed and future returns may differ from past returns. As investment conditions change over time, past returns should not be used to predict future returns.

**Indemnification of officers**

The Responsible Entity has indemnified its directors and officers, including members of the Compliance Committee, from any actions that may arise as a result of acting in their capacity as directors and officers of the Responsible Entity in respect of:

- a) Liability to third parties when acting in good faith; and
- b) Costs and expenses of defending legal proceedings and ancillary matters.

The terms of the policy preclude disclosure of the premium.

**Fees paid and payable to the Responsible Entity and Investment Manager out of Fund property**

The fees payable to the Responsible Entity during the year ended 30 June 2022 were \$2,137,534 (2021: \$2,008,905) and to the Investment Manager were \$1,395,813 (2021: \$5,265,380). Refer to Notes 8(a) and 11 to the financial statements.

**Number of interests in the Fund held by the Responsible Entity or its associates**

As at the end of the financial year 2,950,376 units (2021: 2,916,425) in the Fund were held by the Responsible Entity and its related parties. Refer to Note 11 to the financial statements.

**PM CAPITAL ENHANCED YIELD FUND  
DIRECTORS' REPORT (continued)**

**Interests in the Fund issued during the financial year**

The movement in unitholder funds during the year is disclosed in Note 6 to the financial statements.

The value of the Fund's assets and liabilities is disclosed in the Statement of Financial Position and is derived using the basis set out in Note 1 to the financial statements.

**Number of interests in the Fund as at the end of the financial year**

There were 491,968,011 units (2021: 448,514,513) on issue at the end of the financial year with a further 104,680 units (2021: 85,228) pending issue as a result of the reinvestment of the 30 June 2022 income distribution.

**Auditor's Independence Declaration**

A copy of the Auditor's Independence Declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 3.

Signed at Sydney this 6th day of September 2022, in accordance with a resolution of the Board of Directors, by:



Benjamin Skilbeck  
Director  
PM Capital Limited

6 September 2022

**Auditor's Independence Declaration**

To the directors of PM Capital Limited:

As lead auditor for the audit of the financial report of PM Capital Enhanced Yield Fund for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- (a) the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (b) any applicable code of professional conduct in relation to the audit.



**Sydney, NSW**  
**6 September 2022**

**S Grivas**  
**Partner**

**PM CAPITAL ENHANCED YIELD FUND  
RESPONSIBLE ENTITY'S DECLARATION TO THE UNITHOLDERS  
FOR THE YEAR ENDED 30 JUNE 2022**

1. In the opinion of the directors of the Responsible Entity of the Fund:

(a) the financial statements and notes set out on pages 5 to 17 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards and the *Corporations Regulations 2001*; and

(ii) giving a true and fair view of the Fund's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; 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.

2. The notes to the financial statements include a statement of compliance with International Financial Reporting Standards.

The declaration is made in accordance with a resolution of the directors of PM Capital Limited (ABN 69 083 644 731) as Responsible Entity for the PM Capital Enhanced Yield Fund.



Benjamin Skilbeck  
Director  
PM Capital Limited

6 September 2022

**PM CAPITAL ENHANCED YIELD FUND**  
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2022**

	Note	2022 \$	2021 \$
<b>Revenue</b>			
Dividends		369,685	-
Interest		14,769,578	13,143,043
(Losses)/gains on investments at fair value through profit or loss	7	(19,663,614)	10,262,483
(Losses)/gains on foreign exchange		(351,569)	1,518,418
Other revenue		90	556
<b>Total (loss)/revenue</b>		<b>(4,875,830)</b>	<b>24,924,500</b>
<b>Expenses</b>			
Fees paid to the Responsible Entity	8(a), 11	2,137,534	2,008,905
Fees for outsourced functions	8(a), 11	1,395,813	5,265,380
Finance costs		3,086	1,611
Other operating expenses		547	8,415
<b>Total expenses</b>		<b>3,536,980</b>	<b>7,284,311</b>
<b>(Loss)/profit for the year</b>		<b>(8,412,810)</b>	<b>17,640,189</b>
Other comprehensive income		-	-
<b>Total comprehensive (loss)/income for the year</b>		<b>(8,412,810)</b>	<b>17,640,189</b>
Distributions to unitholders		(9,146,758)	(8,206,026)
<b>Change in net assets attributable to unitholders</b>	6	<b>(17,559,568)</b>	<b>9,434,163</b>

*The Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the Notes to the Financial Statements which follow.*

**PM CAPITAL ENHANCED YIELD FUND**  
**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2022**

	<b>Note</b>	<b>2022</b> \$	<b>2021</b> \$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	6,145,700	27,358,079
Investments - Discount securities	2(e)(iii)	48,607,373	27,991,173
Investments - Listed credit and equity securities	2(e)(iii)	26,716,093	27,827,062
Investments - Unlisted credit securities	2(e)(iii)	444,253,606	423,555,952
Investments - Swaps	2(e)(iii)	10,949,997	-
Investments - Futures	2(e)(iii)	-	7,653
Collateral accounts		7,057,450	6,396,510
Receivables	4	2,685,157	1,998,408
<b>Total assets</b>		<b>546,415,376</b>	<b>515,134,837</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Financial liabilities at fair value through profit or loss	2(e)(iii)	330,162	4,502,758
Payables	5	5,844,339	2,651,804
<b>Total liabilities excluding net assets attributable to unitholders</b>		<b>6,174,501</b>	<b>7,154,562</b>
<b>Net assets attributable to unitholders - liability</b>	6	<b>540,240,875</b>	<b>507,980,275</b>

*The Statement of Financial Position should be read in conjunction with  
the Notes to the Financial Statements which follow.*



**PM CAPITAL ENHANCED YIELD FUND  
STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2022**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>Total equity at the beginning of the year</b>	-	-
Profit/(Loss) for the year	-	-
Other comprehensive income/(loss)	-	-
Total comprehensive income/(loss)	<u>-</u>	<u>-</u>
Transactions with owners in their capacity as owners	-	-
<b>Total equity at the end of the year</b>	<u>-</u>	<u>-</u>

Under AASB 132 *Financial Instruments: Presentation*, net assets attributable to unit holders is classified as a liability rather than equity. As a result there was no equity at the start or end of the year.

The above Statement of Changes in Equity should be read in conjunction with Note 6.

*The Statement of Changes in Equity should be read in conjunction with  
the Notes to the Financial Statements which follow.*

**PM CAPITAL ENHANCED YIELD FUND**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2022**

	Note	2022 \$	2021 \$
<b>Cash flows from operating activities</b>			
Dividends received		369,685	-
Interest received		14,056,948	12,247,308
Other operating receipts		25,971	556
Interest paid		(3,086)	(1,611)
Fees paid to the Responsible Entity		(2,124,351)	(2,008,055)
Fees for outsourced functions		(1,659,447)	(5,017,321)
Other operating expenses		(547)	(8,415)
<b>Net cash inflow from operating activities</b>	9	<b>10,665,173</b>	<b>5,212,462</b>
<b>Cash flows from investing activities</b>			
Maturities and proceeds from sale of investments		446,190,941	297,904,760
Purchase of investments		(520,039,218)	(326,119,891)
<b>Net cash outflow from investing activities</b>		<b>(73,848,277)</b>	<b>(28,215,131)</b>
<b>Cash flows from financing activities</b>			
Net applications/(redemptions)		49,509,040	(6,089,272)
Cash distributions		(7,544,026)	(6,700,104)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>41,965,014</b>	<b>(12,789,376)</b>
Impact of exchange rate changes on cash and cash equivalents		5,711	106,314
<b>Net decrease in cash and cash equivalents</b>		<b>(21,212,379)</b>	<b>(35,685,731)</b>
Cash and cash equivalents at the beginning of the year		27,358,079	63,043,810
<b>Cash and cash equivalents at the end of the year</b>	3	<b>6,145,700</b>	<b>27,358,079</b>

*The Statement of Cash Flows should be read in conjunction with  
the Notes to the Financial Statements which follow.*

**PM CAPITAL ENHANCED YIELD FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2022**

**1. Summary of significant accounting policies**

PM Capital Enhanced Yield Fund ("the Fund") was constituted on 11 February 2002 under a Trust Deed. Since that date, six amended constitutions have been executed, the dates of each amendment being: 21 October 2002, 19 June 2006, 16 March 2009, 12 March 2012, 29 June 2012 and 26 June 2018. The Fund will terminate on 11 February 2082 unless terminated earlier in accordance with the provisions of the Fund's Constitution.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, the requirements of the Constitution, other authoritative pronouncements of the Australian Accounting Standards Board, and the *Corporations Act 2001*.

Compliance with Australian Accounting Standards ensures that the financial statements comply with International Financial Reporting Standards.

Comparative information is reclassified where appropriate to enhance comparability.

**(a) Investments**

Investments held at fair value through profit or loss are initially recognised at fair value including any transaction costs related to their acquisition. Subsequent to initial recognition, all financial instruments held at fair value through profit or loss are accounted for at fair value, with changes to such values recognised in profit or loss.

Details of how the Fund values its investments are shown in Note 2(e). Investments are recognised on a trade date basis.

**(b) Foreign currency translation**

*(i) Functional and presentation currency*

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Fund competes for funds and is regulated. The Australian dollar is also the Fund's presentation currency.

*(ii) Transactions and balances*

Transactions during the year denominated in foreign currency have been translated at the exchange rate prevailing at the transaction date. Overseas investments and currency, together with any accrued income, are translated at the exchange rate prevailing at the balance date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognised in profit or loss. Net exchange gains and losses arising on the revaluation of investments are included in (Losses)/gains on investments at fair value through profit or loss.

Hedging may be undertaken in order to avoid or minimise possible adverse financial effects of movements in exchange rates. Hedging gains or losses are included in profit or loss, as part of (Losses)/gains on foreign exchange.

**(c) Income tax**

Under current legislation, the Fund is not subject to income tax provided that taxable income (including assessable capital gains) is attributed to unitholders under the AMIT regime.

The unit price of the Fund is based upon the net fair value of underlying assets and thus may include a share of unrealised capital gains.

Realised capital losses are not distributed/attribution to unitholders but are retained in the Fund to be offset against any realised capital gains. As at 30 June 2022 the Fund has \$5,669,505 of retained capital losses (2021: \$5,664,313). If realised capital gains exceed realised capital losses, the excess is distributed/attribution to unitholders.

The Fund currently has withholding tax imposed by certain countries on investment income. Such income is recorded net of withholding tax in profit or loss. The benefits of imputation credits and withholding tax are passed on to unitholders.

**(d) Goods and services tax ("GST")**

The Fund is registered for GST and currently claims 75% or 55% of the GST incurred depending on the nature of the expense. The unclaimable portion is written off as an expense.

**(e) Revenue and expenses**

Revenue and expenses are brought to account on the accrual basis. Changes in the net fair value of investments are recognised in profit or loss.

**(f) Distributions**

Distributions to unitholders comprise the distributable income of the Fund. The distributions are payable at the end of each quarter. If the unitholder has elected to reinvest, the amount to be reinvested is not recorded as a payable. Amounts payable in cash at balance date are recorded as a current liability.

**(g) Cash and cash equivalents**

For the purpose of the Statement of Cash Flows, Cash and Cash Equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within Interest Bearing Liabilities in Current Liabilities in the Statement of Financial Position.

**PM CAPITAL ENHANCED YIELD FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2022 (CONTINUED)**

**1. Summary of significant accounting policies (continued)**

**(h) Receivables**

Receivables may include amounts for dividends, interest and securities sold. Dividends are receivable when they have been declared and are legally payable. Interest is accrued at the balance date from the time of last payment. Amounts receivable for securities sold are recorded when a sale has occurred.

**(i) Payables**

These amounts represent liabilities for amounts owing by the Fund at year end which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

**(j) Portfolio valuation**

The Fund calculates its net asset value daily for purposes of unit applications and redemptions. The net asset value of the Fund is calculated by deducting from the value of the Fund's gross assets the value of the liabilities of the Fund, excluding net assets attributable to unitholders.

**(k) Derivative financial instruments**

The Fund may invest in financial derivatives. Derivative financial instruments are accounted for on the same basis as the underlying investment exposure. Gains and losses relating to financial derivatives are included in profit or loss as part of (Losses)/gains on investments at fair value through profit or loss.

**(l) New and amended standards adopted by the Fund**

There are no new accounting standards and interpretations that have been published and have been adopted for the 30 June 2022 reporting year that are material to the financial statements.

**(m) New standards and interpretations not yet adopted**

A number of new accounting standards, amendments to standards and interpretations have recently been issued or amended but are not yet effective for the 30 June 2022 reporting period and have not been early adopted in preparing these financial statements. The directors' assessment of these new accounting standards and interpretations (to the extent relevant to the Fund) is that they are not expected to have a material effect on future financial statements of the Fund.

**2. Financial risk management**

**(a) Objectives, strategies, policies and processes**

The Fund's activities are exposed to different types of financial risks. These risks include market risk (including price risk, interest rate risk and foreign currency risk), credit risk and liquidity risk. The Fund may employ derivative financial instruments to hedge these risk exposures in order to minimise the effects of these risks. The use of derivatives is an essential part of proper portfolio management and is not managed in isolation. Consequently, the use of derivatives is multifaceted and includes, but is not limited to:

- hedging to protect an asset of the Fund against a fluctuation in market values or foreign exchange rates or to reduce volatility;
- adjusting the interest rate duration of fixed interest securities;
- adjusting asset exposures within the parameters set in the investment strategy; and
- as a substitute for physical securities.

**(b) Market risk**

Market risk is the risk that the fair value of financial instruments will fluctuate. These fluctuations can be caused by market volatility, interest rate volatility, economic cycles, political events and levels of economic growth, both global and domestic. There are three different types of market risks, namely price risk, interest rate risk and foreign currency risk. Market risk exposures are assessed and managed through employing established investment strategies.

The Fund aims to invest a significant portion of its assets in investments with a yield in excess of the RBA cash rate of return. If the Fund cannot find suitable investments it will let the cash levels build up. If appropriate the Fund may be 100% invested in cash.

As part of its risk management strategy, the Fund may use derivative contracts to manage exposures resulting from changes in interest rates, credit spreads, equity price risks and foreign currencies.

**(i) Price risk**

Price risk is the risk that the fair value of financial instruments will fluctuate, whether those changes are specifically related to an individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

The Fund is exposed to price risk for its investments in both listed and unlisted securities. The price risk of a security is dependent upon the financial circumstances of the company in which the security is purchased, including its profits, earnings and cash flows. The return on a security may also be affected by the quality of company management, the general health of the sector in which it operates and government policy. Securities present a risk of loss of capital.

In cases where financial instruments are denominated in currencies other than the Australian dollar, future prices will also fluctuate because of changes in foreign exchange rates. Refer to Note 2(b)(iii) for foreign currency risk. The portfolio is substantially hedged into Australian dollars at all times. The net foreign currency risk exposure is minimal. The Fund's overall market positions are monitored on an ongoing basis by the Investment Manager.

**PM CAPITAL ENHANCED YIELD FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022 (CONTINUED)**

**2. Financial risk management (continued)**

**(b) Market risk (continued)**

*(i) Price risk (continued)*

*Price sensitivity*

The directors of PM Capital Limited believe that it is errant to try to estimate future returns. Market returns can be somewhat volatile and returns from year to year can have a fairly wide variance. As such, PM Capital Limited uses a sensitivity analysis that the Directors consider is more commensurate with the risk profile of the Fund.

As at reporting date, if the security prices had increased/(decreased) by 2% [2021: 2%] with all other variables being constant, this would have increased/(decreased) the net assets attributable to unitholders by approximately +/- \$10,610,541 [2021: +/- \$9,587,637]. Some of the securities held by the Fund are directly affected by movements in interest rates and credit spreads. Refer to Note 2(b)(ii) for the management of interest rate risk, and Note 2(c) for the management of credit risk. The impact of price movements in currency forward contracts and collateral accounts are unlikely to have a significant impact on the Fund.

*(ii) Interest rate risk*

Interest rate risk is the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate because of changes in market interest rates.

The Fund has interest rate risk exposures from the holding of financial assets and liabilities in the normal course of business. The Fund may use derivative instruments to manage its exposure against unexpected changes in interest rates. In accordance with the Fund's policy, the Investment Manager monitors the Fund's overall interest rate sensitivity on an ongoing basis.

The Fund's exposure to interest rate risk and the effective weighted average interest rate for each class of financial asset and financial liability are summarised in the table below:

	<b>Floating Interest Rate</b>	<b>Less than 12 months</b>	<b>Fixed Interest rate 1 to 5 years</b>	<b>Over 5 years</b>	<b>Other Securities</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>2022</b>						
<b>Assets</b>						
Cash and cash equivalents	6,145,700	-	-	-	-	6,145,700
Discount securities	-	48,607,373	-	-	-	48,607,373
Listed credit and equity securities	18,685,340	-	-	-	8,030,753	26,716,093
Unlisted credit securities	126,685,386	89,432,760	144,682,799	83,452,661	-	444,253,606
Swaps	10,949,997	-	-	-	-	10,949,997
Collateral accounts	-	-	-	-	7,057,450	7,057,450
Receivables	-	-	-	-	2,685,157	2,685,157
	<b>162,466,423</b>	<b>138,040,133</b>	<b>144,682,799</b>	<b>83,452,661</b>	<b>17,773,360</b>	<b>546,415,376</b>
Weighted Average Interest / Coupon Rate (%pa)	4.17%	2.36%	3.83%	3.68%	0.00%	
<b>Liabilities</b>						
Currency forward contracts	-	-	-	-	330,162	330,162
Payables	-	-	-	-	5,844,339	5,844,339
	-	-	-	-	<b>6,174,501</b>	<b>6,174,501</b>
Weighted Average Interest / Coupon Rate (%pa)	-	-	-	-	0.00%	
<b>Net assets attributable to unitholders</b>	<b>162,466,423</b>	<b>138,040,133</b>	<b>144,682,799</b>	<b>83,452,661</b>	<b>11,598,859</b>	<b>540,240,875</b>
<b>2021</b>						
<b>Assets</b>						
Cash and cash equivalents	27,358,079	-	-	-	-	27,358,079
Discount securities	-	27,991,173	-	-	-	27,991,173
Listed credit and equity securities	17,377,611	-	-	-	10,449,451	27,827,062
Unlisted credit securities	221,718,061	56,227,970	74,633,299	70,976,622	-	423,555,952
Collateral accounts	-	-	-	-	6,396,510	6,396,510
Futures	7,653	-	-	-	-	7,653
Receivables	-	-	-	-	1,998,408	1,998,408
	<b>266,461,404</b>	<b>84,219,143</b>	<b>74,633,299</b>	<b>70,976,622</b>	<b>18,844,369</b>	<b>515,134,837</b>
Weighted Average Interest / Coupon Rate (%pa)	1.55%	2.73%	3.41%	4.44%	0.00%	
<b>Liabilities</b>						
Swaps	4,432,043	-	-	-	-	4,432,043
Currency forward contracts	-	-	-	-	70,715	70,715
Payables	-	-	-	-	2,651,804	2,651,804
	<b>4,432,043</b>	-	-	-	<b>2,722,519</b>	<b>7,154,562</b>
Weighted Average Interest / Coupon Rate (%pa)	4.59%	-	-	-	0.00%	
<b>Net assets attributable to unitholders</b>	<b>262,029,361</b>	<b>84,219,143</b>	<b>74,633,299</b>	<b>70,976,622</b>	<b>16,121,850</b>	<b>507,980,275</b>

**PM CAPITAL ENHANCED YIELD FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2022 (CONTINUED)**

**2. Financial risk management (continued)**

**(b) Market risk (continued)**

*(ii) Interest rate risk (continued)*

*Interest rate sensitivity*

Fluctuations in interest rates will also affect forward points used in determining gains or losses on forward contracts. The impact of interest rate movements on the Fund's financial instruments is very small given the Fund's short interest rate duration. As at 30 June 2022 and 30 June 2021, should interest rates have increased/decreased by 75 basis points with all other variables being constant, the direct impact on the operating result and net assets would not be considered significant for the Fund.

*(iii) Foreign currency risk*

Foreign currency risk is the risk that the value of a financial commitment, asset or liability will fluctuate due to changes in foreign currency rates.

The Fund holds assets denominated in currencies other than the Australian dollar (being the functional currency) and is therefore exposed to foreign currency risk when the value of assets denominated in other currencies fluctuates due to movements in exchange rates.

The Fund utilises derivatives to hedge the foreign exchange risk implicit in the value of portfolio securities denominated in a foreign currency and to secure a particular exchange rate.

As the nature of these contracts is to hedge the international investment activities of the Fund, they are accounted for by marking to market at balance date in a manner consistent with the valuation of the underlying securities. The currency position of the Fund is monitored on an ongoing basis by the Investment Manager. The net foreign currency risk exposure is minimal. Included in (Losses)/gains on foreign exchange in profit or loss are the gains and losses on foreign currency derivative contracts. Offsetting these (Losses)/gains on foreign currency derivative contracts are (Losses)/gains on investments at fair value through profit or loss.

The Fund's exposure to foreign currencies will not have a material impact on the net assets attributable to unitholders or profit or loss of the Fund.

**(c) Credit risk**

Credit risk is the risk that a counterparty or issuer will fail to perform contractual obligations (i.e. default in either whole or part) under a contract, causing the Fund to make a financial loss.

Market prices generally incorporate credit assessments into valuations, and risk of loss is implicitly provided for in the carrying value of assets and liabilities as they are marked to market at balance date.

The total credit risk for assets including fixed income and equity securities is therefore limited to the amount carried in the Statement of Financial Position.

The Investment Manager manages the Fund's concentrations of credit risk by adopting a number of procedures, including but not limited to the following:

- Holding no more than 5% of the portfolio in any individual debt issue, and no more than 1% of the portfolio in any individual equity issue; and
- Limiting investments rated BBB flat or below to 50% of the portfolio, and 30% for sub-investment grade and unrated securities (as at the time of acquisition); and
- Periodically using derivatives to reduce credit risk; and
- Undertaking transactions with numerous counterparties and on recognised and reputable exchanges, entering into appropriate contractual documentation, and in some cases requiring collateral to fulfill obligations to which they are liable.

Contractual credit risk is represented by the net payments or receipts that remain outstanding. There are no financial assets that are past due or impaired as at balance date.

An analysis of the credit risk exposure by ratings of the counterparties for the Fund's holdings of listed and unlisted credit securities is set out in the table below.

Short term ratings displayed as A1 or A2, relate to securities which are rated as A-1+ or A-1 (A1) and A-2 (A2), or their equivalent.

Long term ratings displayed as AAA, AA, A, BBB, BB or B relate to securities which are rated as AAA, AA+ to AA- (AA), A+ to A- (A), BBB+ to BBB- (BBB), BB+ to BB- (BB) or B+ to B- (B). The securities have been grouped together for disclosure purposes only.

**PM CAPITAL ENHANCED YIELD FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2022 (CONTINUED)**

**2. Financial risk management (continued)**

**(c) Credit risk (continued)**

Rating (S&P)	2022 \$	2021 \$
<b>Unlisted credit securities and other unlisted interest-bearing instruments</b>		
These are classified as current assets despite their maturity dates, as the assets are held for trading.		
Fixed rate bonds, floating rate notes and swaps, and discount securities that have a maturity date within the next twelve months:		
A1	119,188,662	136,240,686
A2	47,118,049	73,790,646
Not Rated	-	15,025,167
	<b>166,306,711</b>	<b>225,056,499</b>
Fixed rate bonds, floating rate notes and swaps, and discount securities that have a maturity date beyond the next twelve months:		
AAA	5,216,062	10,637,300
AA	-	13,518,570
A	36,278,546	30,619,290
BBB	233,904,016	130,427,336
BB	31,440,423	18,653,709
B	3,324,286	11,304,097
Not Rated	16,390,935	11,330,324
	<b>326,554,268</b>	<b>226,490,626</b>
<b>Total unlisted credit securities and other unlisted interest-bearing instruments</b>	<b>492,860,979</b>	<b>451,547,125</b>
<b>Listed credit securities</b>		
Not Rated	18,685,340	17,377,611
<b>Total listed credit securities</b>	<b>18,685,340</b>	<b>17,377,611</b>
Listed credit securities are included within Listed credit and equity securities in the Statement of Financial Position as follows:		
Listed credit securities	18,685,340	17,377,611
Listed equity securities	8,030,753	10,449,451
<b>Total listed credit and equity securities</b>	<b>26,716,093</b>	<b>27,827,062</b>

The credit position of the Fund is monitored on an ongoing basis by the Investment Manager.

**(d) Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting its financial obligations. This risk is mitigated through investing sufficient funds in cash and in instruments that are tradeable in liquid markets, and that are readily convertible to cash to meet daily operating requirements.

The Constitution of the Fund provides for the daily application and redemption of units, therefore it is exposed to the liquidity risk of meeting unitholder redemptions at any time.

The Fund's liquidity position is monitored on an ongoing basis by the Investment Manager.

**(e) Fair value measurements**

The Fund measures and recognises financial assets and liabilities held at fair value through profit or loss on a recurring basis.

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

*(i) Fair value in an active market (Level 1)*

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and listed credit and equity securities) is based on quoted market prices at the close of trading at the end of the reporting period without any deduction for estimated future selling costs.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

**PM CAPITAL ENHANCED YIELD FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2022 (CONTINUED)**

**2. Financial risk management (continued)**

**(e) Fair value measurements (continued)**

*(i) Fair value in an active market (Level 1) (continued)*

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

*(ii) Fair value in an inactive or unquoted market (Level 2 and Level 3)*

Discount securities are priced based on the yield at transaction date.

Currency forward contracts and swaps are valued with reference to external third party pricing information.

*(iii) Recognised fair value measurements*

The following table presents the Fund's financial assets and liabilities measured and recognised at fair value at 30 June 2022 and 30 June 2021:

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>2022</b>				
<b>Financial assets at fair value through profit or loss</b>				
Listed credit and equity securities	26,716,093	-	-	26,716,093
Unlisted credit securities	444,253,606	-	-	444,253,606
Discount securities	-	48,607,373	-	48,607,373
Swaps	-	10,949,997	-	10,949,997
	<b>470,969,699</b>	<b>59,557,370</b>	<b>-</b>	<b>530,527,069</b>
<b>Financial liabilities at fair value through profit or loss</b>				
Currency forward contracts	-	330,162	-	330,162
	<b>-</b>	<b>330,162</b>	<b>-</b>	<b>330,162</b>
<b>2021</b>				
<b>Financial assets at fair value through profit or loss</b>				
Listed credit and equity securities	27,827,062	-	-	27,827,062
Unlisted credit securities	423,555,952	-	-	423,555,952
Discount securities	-	27,991,173	-	27,991,173
Futures	7,653	-	-	7,653
	<b>451,390,667</b>	<b>27,991,173</b>	<b>-</b>	<b>479,381,840</b>
<b>Financial liabilities at fair value through profit or loss</b>				
Swaps	-	4,432,043	-	4,432,043
Currency forward contracts	-	70,715	-	70,715
	<b>-</b>	<b>4,502,758</b>	<b>-</b>	<b>4,502,758</b>

*(iv) Transfer between levels*

Management's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels in the fair value hierarchy at the end of the reporting period.

*(v) Fair value of financial instruments not carried at fair value*

The carrying value of collateral accounts, receivables and payables are assumed to approximate their fair values.

**3. Cash and cash equivalents**

*Cash and cash equivalents*

	2022 \$	2021 \$
Cash at bank (Custodian)	4,421,971	20,904,109
Deposits in money markets	1,723,729	6,453,970
	<b>6,145,700</b>	<b>27,358,079</b>

Cash at bank (Custodian) is a cash facility offered by the Custodian.

**4. Receivables**

	2022 \$	2021 \$
Interest receivable	2,636,963	1,924,333
GST and tax credits	48,194	74,075
	<b>2,685,157</b>	<b>1,998,408</b>



**PM CAPITAL ENHANCED YIELD FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2022 (CONTINUED)**

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>5. Payables</b>		
Distributions payable to unitholders	3,437,492	2,145,888
Accruals	255,465	505,916
Outstanding settlements	2,151,382	-
	<b>5,844,339</b>	<b>2,651,804</b>

**6. Changes in net assets attributable to unitholders**

Opening balance	507,980,275	504,216,915
Applications	147,042,996	113,645,744
Redemptions	(97,533,956)	(119,735,016)
Reinvestments	311,128	418,469
Change in net assets attributable to unitholders	(17,559,568)	9,434,163
Net assets attributable to unitholders per Statement of Financial Position	540,240,875	507,980,275
Less distribution reinvestments	(115,119)	(96,684)
Net assets attributable to unitholders as defined in the Constitution	<b>540,125,756</b>	<b>507,883,591</b>

**Capital risk management**

The Fund manages its net assets attributable to unitholders as capital, notwithstanding that net assets attributable to unitholders are classified as a liability. The value of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

The Fund manages its redemption requirements through maintaining a level of cash and cash equivalents to meet daily operating requirements.

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>7. Gains/(losses) on investments at fair value through profit or loss</b>		
Listed credit and equity securities	(998,644)	1,318,887
Unlisted credit securities and swaps	(20,485,979)	8,345,142
Discount securities	96,937	16,030
Futures	1,724,072	582,424
	<b>(19,663,614)</b>	<b>10,262,483</b>

**8. Expenses**

**(a) Fees paid to the Responsible Entity and fees for outsourced functions**

The following fees are charged by the Responsible Entity and the Investment Manager:

- (i) Management fees; and
- (ii) Performance fees.

These fees are paid at rates which, after GST and related GST recoveries, results in a cost to the Fund at the rates noted below.

**Management fees (Unit Class A and Unit Class B)**

*Unit Class A*

Management fees at a rate of 0.55% per annum of the capital invested in the Fund are assessed and payable on a monthly basis. The management fee is remitted as follows:

- (i) 0.4% (2021: 0.4%) to the Responsible Entity for responsible entity and administration services; and
- (ii) 0.15% (2021: 0.15%) to the Investment Manager.

*Unit Class B*

Management fees at a rate of 0.79% per annum of the capital invested in the Fund are assessed and payable on a monthly basis. The management fee is remitted as follows:

- (i) 0.4% (2021: 0.4%) to the Responsible Entity for responsible entity and administration services; and
- (ii) 0.39% (2021: 0.39%) to the Investment Manager.

**PM CAPITAL ENHANCED YIELD FUND  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2022 (CONTINUED)**

**8. Expenses (continued)**

**(a) Fees paid to the Responsible Entity and fees for outsourced functions (continued)**

Performance fees (Unit Class A only)

The performance fee of the Fund is equal to 25% p.a. (2021: 25% p.a.) of any investment return on each unit in the Fund in excess of the Reserve Bank of Australia cash rate that prevails at the commencement of a performance fee period, subject to a "high water mark", and after taking into account the management fee. The performance fee is remitted to the Investment Manager.

Further details of the calculation of these fees can be found in the current offer document. Refer to Note 11 for further details.

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>(b) Auditor's remuneration</b>		
Audit and review of the financial reports	42,950	40,900
Other services	17,420	13,970
	<b>60,370</b>	<b>54,870</b>

The auditor's remuneration is an expense of the Responsible Entity. Other services comprise income tax compliance and other compliance services.

	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
<b>9. Reconciliation of profit/(loss) for the year to net cash flows from operating activities</b>		
(Loss)/profit for the year	(8,412,810)	17,640,189
Losses/(gains) on investments at fair value through profit or loss	19,663,614	(10,262,483)
Losses/(gains) on foreign exchange	351,569	(1,518,418)
Changes in assets and liabilities		
Increase in receivables	(686,749)	(895,735)
(Decrease)/increase in payables	(250,451)	248,909
Net cash inflow from operating activities	<b>10,665,173</b>	<b>5,212,462</b>

**10. Events subsequent to balance date**

No matter or circumstance has arisen since the end of the financial year that has significantly affected or may significantly affect the operations of the Fund, the result of those operations or the state of affairs of the Fund in subsequent financial years.

**11. Related party transactions**

Details of fees and other expenses paid to the Responsible Entity are set out in Note 8(a) and in the Statement of Profit or Loss and Other Comprehensive Income. Details of fees and other expenses paid to the Investment Manager are set out in Note 8(a) and in the Statement of Profit or Loss and Other Comprehensive Income.

The Investment Manager (MAPP Pty Ltd as trustee for MAPP Trust) is a Corporate Authorised Representative of PM Capital Limited, and is controlled by the same entities or parties that control PM Capital Limited.

**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 this is considered the KMP. The directors of the Responsible Entity are key management personnel of that entity and their names are Paul Moore, Jarod Dawson and Benjamin Skilbeck.

During the year, the Fund expensed an amount of \$2,137,534 (2021: \$2,008,905) as fees paid or payable to the Responsible Entity and as at balance date an amount of \$179,654 (2021: \$166,471) owing to the Responsible Entity is included in accruals and is interest free.

Also during the year, the Fund expensed an amount of \$1,395,813 (2021: \$5,265,380) as fees paid or payable to the Investment Manager and as at balance date an amount of \$75,811 (2021: \$339,445) owing to the Investment Manager is included in accruals and is interest free.

No compensation is paid directly by the Fund to any of the key management personnel of the Responsible Entity.

**PM CAPITAL ENHANCED YIELD FUND**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2022 (CONTINUED)**

**11. Related party transactions (continued)**

**Number of investment interests held**

All transactions with related parties are conducted on normal commercial terms and conditions, with the exception of management fee rebates to certain related parties by the Responsible Entity. From time to time the Responsible Entity may invest in or withdraw from the Fund. These investments or withdrawals are on the same terms and conditions as those entered into by other Fund investors.

Investment interests held in the Fund by the Responsible Entity and its related parties at 30 June 2022 and 30 June 2021 are as follows:

	<b>Opening Units Held</b> (Units)	<b>Number of Units Acquired</b> (Units)	<b>Number of Units Redeemed</b> (Units)	<b>Units Acquired via Distributions Reinvestments</b> (Units)	<b>Closing Units Held</b> (Units)	<b>Distributions paid/payable By the Fund</b> (\$)
<b>2022</b>						
Unit Class A	2,691,791	-	(396,331)	-	2,295,460	44,804
Unit Class B	224,634	426,071	-	4,211	654,916	8,109
	<b>2,916,425</b>	<b>426,071</b>	<b>(396,331)</b>	<b>4,211</b>	<b>2,950,376</b>	<b>52,913</b>
<b>2021</b>						
Unit Class A	2,691,791	-	-	-	2,691,791	49,798
Unit Class B	886	308,927	(86,333)	1,154	224,634	2,453
	<b>2,692,677</b>	<b>308,927</b>	<b>(86,333)</b>	<b>1,154</b>	<b>2,916,425</b>	<b>52,251</b>

## **Independent Auditor's Report to the Unitholders of PM Capital Enhanced Yield Fund**

### **REPORT ON THE AUDIT OF THE FINANCIAL REPORT**

#### **Opinion**

We have audited the financial report of PM Capital Enhanced Yield Fund ("the Fund") which comprises the statement of financial position as at 30 June 2022, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Fund is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Fund's financial position as at 30 June 2022 and of its financial performance for the year then ended; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### **Basis for Opinion**

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

#### **Information Other than the Financial Report and Auditor's Report Thereon**

The directors of the Responsible Entity ("the directors") are responsible for the other information. The other information comprises the information included in the Fund's annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

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

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

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

#### **Responsibilities of the Directors for the Financial Report**

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

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In preparing the financial report, the directors are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

### **Auditor's Responsibilities for the Audit of the Financial Report**

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Responsible Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



**HLB Mann Judd**  
**Chartered Accountants**

**Sydney, NSW**  
**6 September 2022**



**S Grivas**  
**Partner**