



Mutual Limited

Mutual Limited

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Mutual Credit Fund

ARSN 635 925 996

Annual Financial Report

For the year ended 30 June 2023

DIRECTOR'S REPORT

The directors of Mutual Limited (ACN 010 338 324), the Responsible Entity of Mutual Credit Fund ("the Fund") submit their report for the Fund for the year ended 30 June 2023.

DIRECTORS OF THE RESPONSIBLE ENTITY

The names and particulars of the directors of the Responsible Entity in office during the year and until the date of this report (unless otherwise stated) are:

Wayne Buckingham
Brian Buckley
Tyson Rattle (resigned 26 October 2022)
Denning Chong (appointed 26 October 2022)

No formal Chairperson has been appointed at this time and it has been agreed that Brian Buckley will Chair meetings going forward.

PRINCIPAL ACTIVITIES

The principal activity of the Fund is to invest funds in accordance with its investment objectives and guidelines as set out in the current Product Disclosure Statement and in accordance with the provisions of the Constitution.

There has been no significant change in the nature of this activity during the year.

FUND INFORMATION

The Responsible Entity is incorporated and domiciled in Australia.

The registered office of the Responsible Entity is located at Level 17, 447 Collins Street Melbourne, Victoria, 3000.

REVIEW AND RESULTS OF OPERATIONS

Results

The net profit/(loss) attributable to unitholders of the Fund is presented in the Statement of Profit or Loss and Other Comprehensive Income. Net profit attributable to unitholders (before finance costs) for the year ended 30 June 2023 was \$33,940,918 (2022 loss: \$2,324,905). Net profit attributable to unitholders (after finance costs) for the year ended 30 June 2023 was \$5,574,688 (2022 loss: \$16,603,578).

Distribution

Income is distributed quarterly on all classes of Units. Distributions paid or declared during the year are disclosed in Note 10.

FEES PAID TO THE RESPONSIBLE ENTITY OR ITS ASSOCIATES

Fees paid to the Responsible Entity or its associates out of the Fund property during the year are disclosed in Note 15(c) to the financial statements.

The interests in the Fund held by the Responsible Entity or its associates at the end of the year are disclosed in Note 15(e) to the financial statements.

UNITS ON ISSUE

	2023 Units	2022 Units
Balance as at 1 July	601,977,331	595,773,211
Units issued	125,275,962	187,140,906
Units redeemed	(201,319,401)	(180,954,511)
Reinvested units	255,961	17,725
Balance as at 30 June	526,189,853	601,977,331

DIRECTOR'S REPORT (continued)

FUND ASSETS

At 30 June 2023 the Fund held gross assets of \$538,428,053 (2022: \$603,036,411). The basis for valuation of the assets is disclosed in Note 4 to the financial statements.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Fund during the year, other than those changes identified in the financial statements for the year ended 30 June 2023.

SIGNIFICANT EVENTS AFTER REPORTING/BALANCE SHEET DATE

Other than those disclosed, no matters or circumstances have arisen since the end of the financial year that has significantly affected, or may significantly affect, the Fund's operations in future financial years, the results of those operations or the Fund's status of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The investment strategy of the Fund will be maintained in accordance with Fund's investment objectives as outlined in the PDS and Trust Deed.

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 or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Fund.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

Neither the Fund nor the Responsible Entity has given or agreed to give any indemnity to an officer or auditor of the Responsible Entity or Fund and have not paid any premium for insurance against those officers' or auditors' liability for legal costs.

AUDITOR INDEPENDENCE

The Directors received the following declaration from the auditor of the Fund as attached on page 4.

Signed in accordance with a resolution of the directors.



Wayne Buckingham
Managing Director

Melbourne, 28 September 2023



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

To the Directors of Mutual Limited, the Responsible Entity of Mutual Credit Fund (MCF)

I declare that, to the best of my knowledge and belief, in relation to the audit of Mutual Credit Fund for the financial year ended 30 June 2023 there have been:

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

KPMG

KPMG

Dean Waters

Partner

Melbourne

28 September 2023

Statement of Financial Position

As at 30 June 2023

	Notes	2023 \$	2022 \$
Assets			
Cash and cash equivalents		3,696,554	5,692,314
Other receivables	5	3,252,232	1,812,779
Financial assets at fair value through profit or loss	6	531,479,267	595,531,318
Total assets		<u>538,428,053</u>	<u>603,036,411</u>
Liabilities			
Payables	8	(1,551,833)	(1,271,206)
Unallocated application monies		(900,000)	-
Distribution payable	10	(8,001,097)	(3,283,964)
Total liabilities		<u>(10,452,930)</u>	<u>(4,555,170)</u>
Net assets attributable to unitholders		<u>527,975,123</u>	<u>598,481,241</u>
Represented by:			
Net assets attributable to unitholders (calculated in accordance with redemption requirements)		527,975,123	598,481,241
Net assets attributable to unitholders	12	<u>527,975,123</u>	<u>598,481,241</u>

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

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2023

	Notes	2023 \$	2022 \$
Income			
Interest income		34,291,233	17,298,587
Changes in fair value of financial assets at fair value through profit and loss	11(a)	2,617,881	(16,544,145)
Total income		<u>36,909,114</u>	<u>754,442</u>
Expenses			
Management fee		(2,872,324)	(2,982,806)
Other expenses		(95,872)	(96,541)
Total expenses		<u>(2,968,196)</u>	<u>(3,079,347)</u>
Net profit / (loss) before finance costs		<u>33,940,918</u>	<u>(2,324,905)</u>
Finance costs			
Distributions to unitholders	10	(28,366,230)	(14,278,673)
Net profit / (loss) for the year		<u>5,574,688</u>	<u>(16,603,578)</u>
Other comprehensive income		-	-
Change in net assets attributable to unitholders		<u>5,574,688</u>	<u>(16,603,578)</u>

The above Statement of Profit or Loss and Other Comprehensive Income is to be read in conjunction with the notes to the financial statements.

Statement of Changes in Equity

For the year ended 30 June 2023

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

The above Statement of Changes in Equity is to be read in conjunction with the notes to the financial statements.

Statement of Cash Flows

For the year ended 30 June 2023

	Notes	2023 \$	2022 \$
Cash flows from operating activities			
Interest received		32,846,942	16,655,692
Investment expenses paid		(3,232,544)	(3,304,475)
GST refund received		214,278	219,047
Other expenses paid		(18,080)	(15,757)
Net cash provided by operating activities	11(a)	<u>29,810,596</u>	<u>13,554,507</u>
Cash flows from investing activities			
Purchase of investments		(577,989,304)	(364,354,549)
Proceeds from sale of investments		<u>644,659,236</u>	<u>330,801,681</u>
Net cash flows from investing activities		<u>66,669,932</u>	<u>(33,552,868)</u>
Cash flows from financing activities			
Proceeds from issue of redeemable units		126,539,618	190,479,253
Payment for redemption of units		(201,622,792)	(185,952,268)
Distributions paid to unitholders		<u>(23,393,114)</u>	<u>(14,529,695)</u>
Net cash flows provided by financing activities		<u>(98,476,288)</u>	<u>(10,002,710)</u>
Net (decrease)/increase in cash and cash equivalents		(1,995,760)	(30,001,071)
Cash and cash equivalents at the beginning of the year		<u>5,692,314</u>	<u>35,693,385</u>
Cash and cash equivalents at the end of the year		<u>3,696,554</u>	<u>5,692,314</u>

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

Notes to the Financial Statements

For the year ended 30 June 2023

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Notes to the Financial Statements

For the year ended 30 June 2023

1. Corporate information

The financial report of Mutual Credit Fund (“the Fund”) for the year ended 30 June 2023 was authorised for issue in accordance with a resolution of the directors of Mutual Limited, the Responsible Entity, on 28 September 2023.

The Fund is an Australian Registered Managed Investment Scheme, constituted on 23 September 2019. The Responsible Entity is incorporated and domiciled in Australia. The registered office of the Responsible Entity is located at Level 17, 447 Collins Street Melbourne, Victoria, 3000.

The Fund is a for profit fund. The principal activity of the Fund is to invest funds in accordance with its investment objectives and guidelines as set out in the current Product Disclosure Statement and in accordance with the provisions of the Constitution.

2. Basis of preparation

The financial report is a tier 1 general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis.

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months. The amount expected to be recovered or settled within twelve months in relation to these balances can be reliably determined.

The financial report is presented in Australian Dollars.

Statement of compliance

The financial statements have been prepared in accordance with Australian Accounting Standards as issued by the Australian Accounting Standards Board and the Corporations Act. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

New accounting standards and interpretations

A number of new standards, amendments and interpretations are effective for annual periods beginning after 1 July 2022 and have not been early adopted in preparing these financial statements. None of these are expected to have a material impact on the amounts recognised in prior periods or will affect the current or future periods.

3. Significant accounting judgments and estimates

The preparation of the Fund’s financial statements requires management to make judgments, estimates and assumptions that affect the amounts recognised in the financial statements. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

In the process of applying the Fund’s accounting policies, management has made judgments, apart from those involving estimations, which have an impact on the amounts recognised in the financial statements. No judgments have been determined to be individually significant.

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of certain assets and liabilities within the next annual reporting year are:

Impairment of assets

The Fund determined whether its assets are impaired at least annually. This requires an estimate of the value of the assets’ future cash flows. The Fund’s policy on investments is disclosed in Note 4 (a).

Notes to the Financial Statements

For the year ended 30 June 2023

4. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Investments in financial assets

Mutual Credit Fund invests in a range of fixed income products and credit instruments including, Australian Banks, residential mortgage-backed securities, asset backed securities, credit notes and corporate bonds.

Purchases and sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace are recognised on the trade date i.e. the date that the Fund commits to purchase or sell the asset.

(b) Assets measured at amortised cost

The investment assets with fixed or determinable payments and fixed maturity are measured at amortised cost. Investments intended to be held for an undefined period are not included in this classification. Cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective yield method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the income statement when the investments are derecognised or impaired.

(c) Determination of fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Mandatorily as at fair value through profit or loss

Investments are initially recognised at fair value, being the fair value of the consideration paid excluding transaction costs. After initial recognition, the financial assets mandatorily as at fair value through profit or loss are revalued to fair value at each reporting date. The carrying value of cash and cash equivalents approximates fair value.

The fair values of financial assets that are traded in active markets that the Fund can access at the measurement date are obtained directly from an exchange on which the instruments are traded. For all other financial instruments, the Fund determines fair value using other valuation techniques. Level 2 fair value measurements are those instruments valued based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Investments of the Fund which are designated as fair value through profit and loss include interest bearing securities, for which there is no definitive intention to hold to maturity.

Changes in the fair value of investments

Net gains or losses on investments are calculated as the difference between the fair value at sale, or at year end, and the fair value at the previous valuation point. This includes both realised and unrealised gains and losses but does not include interest or dividend revenue.

Derecognition of financial instruments

The derecognition of a financial instrument takes place when the Fund no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party. In addition, derecognition takes place when the Fund transfers a financial asset and is no longer exposed to substantially all of the risks and rewards of the asset. Where the Fund neither retains nor transfers substantially all of the risks and rewards of the financial asset, derecognition occurs when the Fund no longer controls the asset.

Notes to the Financial Statements

For the year ended 30 June 2023

4. Summary of significant accounting policies (continued)

(d) Functional and presentation currency

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

(e) Revenue and income recognition

Dividends and distributions

Income is recognised when the right to receive the payment is established.

Interest income

Income is recognised as the interest accrues (using the effective interest rate method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument) to the net carrying amount of the financial asset.

(f) Expenses

Expenses are recognised in the Statement of Profit or Loss and Other Comprehensive Income when the Fund has a present obligation (legal or constructive) as a result of a past event that can be reliably measured. Expenses are recognised in the Statement of Profit or Loss and Other Comprehensive Income if expenditure does not produce future economic benefits that qualify for recognition in the Statement of Financial Position.

The total management cost is calculated based on the net assets of the Fund and are accrued on a daily basis as the respective service is provided.

The total management cost disclosed in the Statement of Profit or Loss and other Comprehensive Income comprises investment management fee and responsible entity fee. Custodian fees are paid by the Responsible Entity to the external custodian, Sandhurst Trustees Limited, for the safe keeping of the investment assets of the Fund and to deal with the investment assets as instructed by the Responsible Entity in accordance with the Constitution and the Custodian Agreement. Administration fees are paid by the Responsible Entity to Generation Development Services Pty Ltd, for the general administration of the Fund in accordance with the management agreement and the Constitution. No custodian fees are paid to the external custodian Perpetual Corporate Trust Limited.

The total management fee is calculated based on the net assets of the Fund and are accrued on a daily basis as the respective service is provided. Management cost for the fund is 0.48% exclusive of GST per annum.

(g) Income taxes

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

(h) Distributions to unitholders

In accordance with the Fund's Constitution, the Fund fully distributes its distributable income to unitholders. Distributions are payable at the end of each quarter. Such distributions are determined by reference to the net taxable income of the Fund. Distributable income includes term deposits interest income.

(i) Cash and cash equivalents

For the purposes of the Statement of Financial Position and the Statement of Cash Flows, cash and cash equivalents includes deposits held at call with a bank or financial institution, that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Notes to the Financial Statements

For the year ended 30 June 2023

4. Summary of significant accounting policies (continued)

(j) Other receivables

Other receivables are measured at amortised cost using the effective interest method.

An impairment loss in respect of a financial asset measured at amortised cost was calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses were recognised in profit or loss and reflected in an allowance account against receivables.

(k) Payables

Payables are carried at amortised costs which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Fund. These 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.

(l) Redeemable participating units

Redeemable participating units are redeemable at the unitholders' option at any time for cash equal to a proportionate share of the Fund's net asset value (calculated in accordance with redemption requirements) and are classified as financial liabilities. The units are classified as financial liabilities due to the fact that, in addition to the contractual obligation to pay cash to unitholders' upon redemption, the Fund also has compulsory distribution clauses in the Fund's Constitution. The liabilities arising from the redeemable units are carried at the redemption amount being the net asset value calculated in accordance with redemption requirements.

For the purpose of calculating the net assets attributable to unitholders in accordance with the Fund's redemption requirements, the Fund's assets and liabilities are valued on the basis of last sale-market prices. This valuation of net assets is different from the Australian Accounting Standards and IFRS valuation requirements (see Note 7).

The Fund issues units at the unit price of the existing units. The holder of participating units can redeem them at any time for cash equal to a proportionate share of the Fund's net asset value (calculated in accordance with redemption requirements). The minimum Redemption Amounts are \$5,000. The Fund's net asset value per unit is calculated by dividing the net assets attributable to unitholders (calculated in accordance with redemption requirements) by the number of units on issue.

(m) Unit prices

Unit prices are determined in accordance with the Fund's Constitution and are calculated as the net assets attributable to unitholders of the Fund, less estimated costs, divided by the number of units on issue, on a forward pricing basis, as determined by the Responsible Entity.

(n) Capital management

The Responsible Entity manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount 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 Responsible Entity monitors the level of daily applications and redemptions relative to the liquid assets in the Fund. In order to maintain or adjust the capital structure, the Responsible Entity may return capital to unitholders. The Fund is not subject to any externally imposed capital requirements.

Reduced input tax credits (RITC) recoverable by the Fund from the ATO are recognised as a receivable in the Statement of Financial Position.

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

Notes to the Financial Statements

For the year ended 30 June 2023

5. Other Receivables

	2023	2022
	\$	\$
GST refund receivable from ATO	47,917	52,755
Interest receivable – Bank	-	171
Interest receivable – Term Deposit, Bond and Floating Rate Notes	3,204,315	1,759,853
	<u>3,252,232</u>	<u>1,812,779</u>

6. Financial assets at fair value through profit or loss

	2023	2022
	\$	\$
Interest bearing securities designated upon initial recognition		
- Unlisted floating rate notes	380,919,266	440,195,191
- Unlisted commercial loans	13,073,911	-
- Unlisted mortgage-backed securities	137,486,051	155,336,048
- Delisted bonds	39	79
	<u>531,479,267</u>	<u>595,531,318</u>

	2023	2022
	\$	\$
Realised gain/(loss) on sale of investments	(1,517,353)	577,833
Unrealised gain/(loss) on investments	4,135,234	(17,121,978)
Changes in fair value of financial assets at fair value through profit and loss	<u>2,617,881</u>	<u>(16,544,145)</u>

7. Fair value of financial instruments

The table below analyses financial instruments carried at fair value, by valuation method. The different levels of fair value measurement have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observables either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are not considered active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data. These investments are predominantly made up of listed and unlisted floating rate notes and bonds. These securities are valued based on the impact of interest rate fluctuations in the market.
- Level 3: inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

	Level 1	Level 2	Level 3	Total
2023	\$	\$	\$	\$
Financial assets				
- Unlisted floating rate notes	15,905,990	365,013,276	-	380,919,266
- Unlisted commercial loans	-	13,073,911	-	13,073,911
- Unlisted mortgage-backed securities	-	127,903,058	9,582,993	137,486,051
- Delisted bonds	-	-	39	39
	<u>15,905,990</u>	<u>505,990,245</u>	<u>9,583,032</u>	<u>531,479,267</u>

Notes to the Financial Statements

For the year ended 30 June 2023

7. Fair value of financial instruments (continued)

2022	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
Financial assets				
- Unlisted floating rate notes	50,980,639	389,214,552	-	440,195,191
- Unlisted commercial loans	-	-	-	-
- Unlisted mortgage-backed securities	-	148,037,050	7,298,998	155,336,048
- Delisted bonds	-	-	79	79
	<u>50,980,639</u>	<u>537,251,602</u>	<u>7,299,077</u>	<u>595,531,318</u>

The level in which instruments are classified in the hierarchy is based on the lowest level input that is significant to the fair value measurement in its entirety. Assessment of the significance of an input requires judgement after considering factors specific for the instrument.

The fair value of assets is based on quoted market prices or binding dealer price quotations at the reporting date (bid price for long position), without any deduction for transaction costs. Level 3 assets value is determined at a discount to the latest traded price and when transfers occur.

The following table presents the movement in level 3 instruments:

	2023 \$	2022 \$
Opening balance as at 1 July	7,299,077	79
Purchase of Level 3 instruments	12,806,599	7,298,998
Sale of Level 3 instruments	(10,530,500)	-
Profit recognised in profit and loss	7,856	-
Closing balance as at 30 June	<u>9,583,032</u>	<u>7,299,077</u>

Total amount transferred to level 3 instruments for the year ended 30 June 2023 was nil (2022: \$122).

The table below sets out information about significant unobservable inputs used at 30 June 2023 in measuring financial instruments categorised as Level 3 in the fair value hierarchy.

Description	Fair value at 30 June 2023	Valuation technique	Significant unobservable inputs	Range (weighted-average) for unobservable input	Sensitivity to changes in significant unobservable inputs
Residential mortgage back security	9,582,993 (2022: 7,298,998)	Value at par	YTM is set to equal the Coupon Rate and the Capital Price will reflect Par for the security's life	Not applicable	The estimated fair value will not change
Delisted bonds	38 (2022: 79)	Expected cash receivable from liquidator	Not applicable	Not applicable	The estimated fair value will not change

Notes to the Financial Statements

For the year ended 30 June 2023

8. Payables

	2023	2022
	\$	\$
Redemption payable	828,968	475,353
Accrued management fees	722,865	795,853
	<u>1,551,833</u>	<u>1,271,206</u>

9. Net assets attributable to unitholders

Each unit issued confers upon the unitholder an equal interest in the Fund, and is of equal value. A unit does not confer any interest in any particular asset or investment of the Fund. Unitholders have various rights under the Fund's constitution, including the right to:

- have their units redeemed at a proportionate share based on the Fund's net asset value per unit on the redemption date;
- receive income distributions;
- attend and vote at meetings of unitholders; and
- participate in the termination and winding up of the Fund.

The rights, obligations and restrictions attached to each unit are identical in all respects. For the purpose of calculating the net assets attributable to unitholders in accordance with the Fund's Constitution, the Fund's assets and liabilities are valued on the basis of last sale-market prices. This valuation of net asset value is different from Australian Accounting Standards and International Financial Reporting Standards valuation requirements.

A reconciliation between the Fund's Net Asset Value (NAV) under Australian Accounting Standards, IFRS and the NAV calculated per the Fund's Constitution is provided in the Statement of Changes in Net Assets Attributable to Unitholders and the Statement of Financial Position.

	2023	2022
	\$	\$
NAV/unit calculated in accordance with IFRS	1.003393	0.994192
NAV/unit calculated in accordance with the Fund's Constitution	1.003393	0.994192

Capital Management

As a result of the ability to issue and redeem units, the capital of the Fund can vary depending on the demand for redemptions and applications to the Fund. The Fund is not subject to externally imposed capital requirements and has no restrictions and redemptions of units.

The Fund's objectives for managing capital, being net assets attributable to unitholders, are:

- To invest the capital in investments meeting the description, risk exposure and expected return indicated in its offer document;
- To maintain sufficient liquidity to meet the expenses of the Fund, and to meet redemption requests as they arise; and
- To maintain sufficient size to make the operation of the Fund cost-efficient.

Refer to Note 13 'Financial risk management objectives and policies' for the policies and processes applied by the Fund in managing its capital.

The Fund monitors the level of daily applications and redemptions relative to the liquid assets in the Fund. The Fund's strategy is to hold a certain portion of the net assets attributable to unitholders in liquid investments. Liquid assets include cash and cash equivalents.

Notes to the Financial Statements

For the year ended 30 June 2023

10. Distribution to unitholders

In accordance with the Constitutions of the Funds, the Funds fully distribute their distributable income to unitholders by cash or reinvestment. Distributions payable are the amounts that the unitholders are presently entitled to as at 30 June 2023, but have not yet received. Distributions are recognised in the income statement as finance costs attributable to unitholders.

The final distribution for the year, which was paid on 06 July 2023, is disclosed in the Statement of Financial Position.

	2023 \$	2023 CPU	2022 \$	2022 CPU
30 September	4,936,573	0.7961	3,161,333	0.5013
31 December	6,561,841	1.0646	4,174,074	0.6742
31 March	8,866,720	1.4156	3,659,302	0.6048
30 June	8,001,096	1.5206	3,283,964	0.5455
Total distribution to unitholders	28,366,230	4.7969	14,278,673	2.3258

11. Statement of cash flows reconciliation

(a) Reconciliation of change in net assets attributable to unitholders to net cash flows from operating activities

	2023 \$	2022 \$
Change in net assets attributable to unitholders	5,574,688	(16,603,578)
Distribution to unitholders	28,366,230	14,278,673
Net movement in the fair value of investments	(2,617,881)	16,544,145
Net Changes in operating assets and liabilities:		
Increase in interest receivable	(1,444,291)	(642,895)
Decrease/(Increase) in other receivables	4,838	1,551
Decrease/(Increase) in expenses payable	(72,988)	(23,389)
Net cash provided by operating activities	29,810,596	13,554,507

(b) Non-cash financing and investing activities

	2023 \$	2022 \$
Reinvestment of unitholder distributions	255,983	18,000

12. Statement of changes in net assets attributable to unitholders

	Units on issue No.	Net assets attributable to unitholders \$	Adjustment from last sale to bid price \$	Net assets attributable to unitholders \$
Balance as at 1 July 2022	601,977,332	598,482,445	(1,204)	598,481,241
Applications	125,275,962	125,639,618	-	125,639,618
Distributions reinvested	255,961	255,983	-	255,983
Redemptions	(201,319,402)	(201,976,407)	-	(201,976,407)
Change in net assets attributable to unitholders	-	5,574,688	-	5,574,688
Balance as at 30 June 2023	526,189,853	527,976,327	(1,204)	527,975,123

Notes to the Financial Statements

For the year ended 30 June 2023

12. Statement of changes in net assets attributable to unitholders (continued)

	Units on issue	Net assets attributable to unitholders	Adjustment from last sale to bid price	Net assets attributable to unitholders
	No.	\$	\$	\$
Balance as at 1 July 2021	595,773,211	608,490,418	(1,204)	608,489,214
Applications	187,140,906	190,479,250	-	190,479,250
Distributions reinvested	17,725	18,000	-	18,000
Redemptions	(180,954,510)	(183,901,645)	-	(183,901,645)
Change in net assets attributable to unitholders	-	(16,603,578)	-	(16,603,578)
Balance as at 30 June 2022	601,977,332	598,482,445	(1,204)	598,481,241

13. Financial risk management objectives and policies

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

Financial instruments of the Fund comprise investments in financial assets for the purpose of generating a return on the investment made by unitholders, cash and cash equivalents, net assets attributable to unitholders, and other financial instruments such as debtors and creditors, which arise directly from its operations.

The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments. The risks are measured using a method that reflects the expected impact on the results and net assets attributable to unitholders of the Fund from reasonably possible changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is disclosed below. Information about the total value of assets measured at amortised cost exposed to risk, as well as compliance with established investment mandate limits, is also monitored by the Responsible Entity.

These mandate limits reflect the investment strategy and market environment of the Fund, as well as the level of risk that the Fund is willing to accept, with additional emphasis on selected industries.

This information is prepared and reported to relevant parties within the Responsible Entity on a regular basis as deemed appropriate, including the fund manager, compliance manager, other key management, and ultimately the Board of Directors of the Responsible Entity.

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

In order to avoid excessive concentrations of risk, the Fund monitors its exposure to ensure concentrations of risk remain within acceptable levels and either reduces exposure or uses derivative instruments to manage the excessive risk concentrations when they arise.

Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandate limits and investment strategies.

Notes to the Financial Statements

For the year ended 30 June 2023

13. Financial risk management objectives and policies (continued)

The Fund invests primarily in Debt Instruments. The calculation of net fair values is made assuming that the investments would be sold at current market yields. As there is a readily identifiable market for instruments with comparable ratings and in comparable asset classes, current market pricing is used to determine the fair value of the investments at 30 June. Management's estimate of value of assets measured at amortised cost and financial assets at fair value through profit or loss as at 30 June 2023 is \$531,479,267 (2022: \$595,531,318).

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments such as term deposits. The following table demonstrates the sensitivity of the Fund's income statement to a reasonable possible change in interest rates, with all other variables held constant. The effect on the income statement is identical to the effect on net assets attributable to unitholders.

At 30 June, the Fund had the following mix of financial assets exposed to Australian variable interest rate risk:

	2023	2022
	\$	\$
Cash and cash equivalents	3,696,554	5,692,314
Unlisted commercial loans	13,073,911	-
Unlisted floating rate notes	380,919,266	440,195,191
Unlisted mortgage-backed securities	137,486,051	155,336,048
	<u>535,175,782</u>	<u>601,223,553</u>

Effect on net assets attributable to unitholders

	2023	2022
	\$	\$
Interest rates +1.0% (2022: +1.0%)	5,351,758	6,012,236
Interest rates -1.0% (2022: -1.0%)	(5,351,758)	(6,012,236)

Mutual Credit Fund predominantly invests in assets that reset their base interest rate frequently, i.e. monthly and quarterly.

Currency Risk

Currency risk is a form of risk that arises from the change in price of one currency against another. The Fund only invests in Australian financial assets and is not exposed to currency risk.

Liquidity risk

Liquidity risk is the risk that an asset may not be readily sold or sold for a reasonable price. It is only applicable if a large majority of funds are required simultaneously. This will not impact capital value if it only has the ability to affect accrued income for the year since last payment.

In order to manage the Fund's overall liquidity, the Responsible Entity has discretion to suspend redemption requests for such period that is deemed necessary. The Fund did not suspend any redemptions in the current year.

Maturity analysis for financial liabilities

Financial liabilities of the Fund comprise payables, distributions payable, and net assets attributable to unitholders. Payables and distributions payable have no contractual maturities but are typically settled within 30 days by the Fund. Net assets attributable to unitholders are repayable on demand, subject to redemption freeze provisions mentioned above.

Notes to the Financial Statements

For the year ended 30 June 2023

13. Financial risk management objectives and policies (continued)

Credit Risk

Credit risk represents the risk that the counterparty to the financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

With respect to credit risk arising from the financial assets of the Fund, the Fund's exposure to credit risk arises from default of the counterparty, with the current exposure equal to the cost of these instruments as disclosed in the Statement of Financial Position.

This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

Credit quality per class of debt instruments

The credit quality of financial assets is managed by the Fund using the investment manager's own risk analysis and is monitored on a regular basis.

	Investment grade	Non- investment grade	Total
	\$	\$	\$
2023			
Cash and cash equivalents	3,696,554	-	3,696,554
Other receivables	3,252,232	-	3,252,232
Financial assets at fair value through profit or loss	531,479,267	-	531,479,267
	<u>538,428,053</u>	<u>-</u>	<u>538,428,053</u>

Credit Risk (continued)

	Investment grade	Non- investment grade	Total
	\$	\$	\$
2022			
Cash and cash equivalents	5,692,314	-	5,692,314
Other receivables	1,812,779	-	1,812,779
Financial assets at fair value through profit or loss	595,531,318	-	595,531,318
	<u>603,036,411</u>	<u>-</u>	<u>603,036,411</u>

Risk concentrations of credit risk exposure

The Fund has investment exposures in one geographical location, being Australia. The Fund also has concentration of risk exposure in one industry sector, being the financial services industry. The day-to-day function of valuing the investments was conducted by Generation Development Services Pty Limited, which was ultimately approved by the Responsible Entity on a daily basis.

14. Commitments and contingencies

The Fund has no undisclosed commitments or contingencies as at 30 June 2023.

Notes to the Financial Statements

For the year ended 30 June 2023

15. Related party disclosures

(a) Responsible Entity

The Responsible Entity is owned as follows:

B & K Investments Australia Pty Ltd ATF Brian Buckley Family Trust	36.00021%
WEB Corporation Pty Ltd ATF Wayne Buckingham Family Trust	36.00021%
JLI Enterprises Pty Ltd ATF The Mutual Unit Trust	8.99993%
Happy AJ Company 2 Pty Ltd ATF Happy AJ 2 Trust	8.99993%
Scott Murray Rundell ATF Rundell Family Trust	7.49994%
Antonietta Sestito & Simon Clark ATF Sestito Clark Family Trust	2.49977%

(b) Details of Key Management Personnel

Directors

The Directors of Mutual Limited are considered to be Key Management Personnel of the Fund. The Directors of the Responsible Entity in office during the year and up to the date of the report (unless otherwise stated) are:

Wayne Buckingham
Brian Buckley
Tyson Rattle (resigned 26 October 2022)
Denning Chong (appointed 26 October 2022)

No formal Chairperson has been appointed at this time and it has been agreed that Brian Buckley will Chair meetings going forward.

Compensation of Key Management Personnel

No amount is paid by the Fund directly to the Directors of the Responsible Entity. Consequently, no compensation as defined in AASB 124 "Related Party Disclosures" is paid by the Fund to the Directors as Key Management Personnel.

Other Key Management Personnel

In addition to the Directors noted above, the senior management of Mutual Limited, the Responsible Entity of the Fund, are considered to be Key Management Personnel with the authority for the strategic direction and management of the Fund.

(c) Fees

The Responsible Entity provided investment management services for the Fund, and outsourced administrative functions to Generation Development Services Pty Limited. Generation Development Services Pty Limited provides investment accounting services to the Fund. All costs associated with the provision of administrative and investment accounting services are paid for by the Responsible Entity from the ongoing management fee and are conducted on normal commercial terms and conditions.

Transactions between the Fund and the Responsible Entity resulted from normal dealings with that company as the Fund's Responsible Entity. Mutual Limited is a holder of an Australian Financial Services Licence No. 230347.

The Responsible Entity received investment management fees of \$2,872,324 (2022: \$2,982,806) during the year for the management of the Fund.

Auditor's remuneration is to be paid on behalf of the Fund by the Responsible Entity. During the year the following fees were paid or payable to KPMG:

	2023	2022
	\$	\$
Audit of the financial report of the Fund	7,431	7,215
Audit of compliance plan services of the Fund	3,366	3,268
	<u>10,797</u>	<u>10,483</u>

Notes to the Financial Statements

For the year ended 30 June 2023

15. Related party disclosures (continued)

(d) Related party transactions

Related Parties

Transactions between the Fund and other Funds managed by a related party of the Responsible Entity consisted of purchase and sale of units in related Funds, and receipts of distributions on normal commercial terms and conditions.

Terms and conditions of transactions with related parties

All related party transactions are made in arm's length transactions on normal commercial terms and conditions. Outstanding balances at year end are unsecured and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables.

(e) Investments

Related party investments of the Fund

The Fund does not hold investments in the Responsible Entity or other Funds managed by the Responsible Entity.

Related party investments in the Fund

From time to time directors and other key management personnel of Mutual Credit Fund, or their related entities, 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.

The value of these investments at 30 June 2023 is \$10,177 (2022: \$nil).

16. Significant events after reporting/balance sheet date

Since 30 June 2023 there have been no other matters or circumstances not otherwise dealt with in the financial report that have significantly affected or may significantly affect the Fund.

Directors' Declaration

In the opinion of the directors:

- (a) the financial statements and notes of Mutual Credit Fund are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of Mutual Credit Fund's financial position as at 30 June 2023 and of its performance, as presented by the results of its operations and its cash flows for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that Mutual Credit 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 Mutual Credit Fund's constitution.
- (d) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

On behalf of the Board

Mutual Limited



Wayne Buckingham
Managing Director

Melbourne, 28 September 2023



Independent Auditor's Report

To the unitholders of Mutual Credit Fund

Opinion

We have audited the **Financial Report of Mutual Credit Fund** (the Scheme).

In our opinion, the accompanying **Financial Report of the Mutual Credit Fund** is in accordance with the *Corporations Act 2001*, including

- giving a true and fair view of the Scheme's financial position as at 30 June 2023, and of its financial performance and its cash flows for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises the:

- Statement of financial position as at 30 June 2023
- Statement of profit or loss and other comprehensive income, for the year then ended
- Statement of changes in equity, and Statement of cash flows for the year then ended
- Notes including a summary of significant accounting policies
- Directors' Declaration.

Basis for opinion

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

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

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

Other Information

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

The Other Information we obtained prior to the date of this Auditor's Report was the Directors Report. Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not



express any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Responsibilities of Directors for the Financial Report

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

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Scheme's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

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

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.



KPMG

KPMG

A handwritten signature in black ink, appearing to read 'Dean Waters'.

Dean Waters

Partner

Melbourne

28 September 2023