

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021**

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

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LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

DIRECTORY

THE MANAGER

Implemented Investment Solutions Limited
Level 2, 1 Woodward Street
Wellington

This is also the address of the registered office.

THE SUPERVISOR

Public Trust
Level 8, 22 Willeston Street, Wellington Central
Private Bag 5902
Wellington, New Zealand 6140

DIRECTORS OF THE MANAGER

Anthony R J Edmonds
Ian H Russon
Jeremy B Valentine
Elizabeth C Maguire (appointed 10 June 2020)

INVESTMENT MANAGER

Legg Mason Asset Management Australia Limited

AUDITOR

PricewaterhouseCoopers
10 Waterloo Quay
PO Box 243
Wellington 6140 New Zealand

FUND ADMINISTRATOR & CUSTODIAN

BNP Paribas Fund Services Australasia Pty Ltd, New Zealand branch

BANK

ANZ Bank New Zealand Limited (ANZ) (effective 22 February 2021)
Westpac New Zealand Limited (Westpac) (terminated 21 February 2021)
BNP Paribas Securities Services

CORRESPONDENCE

All correspondence and enquiries about Legg Mason Brandywine Global Opportunistic Fixed Income Fund should be addressed to the Manager, Implemented Investment Solutions Limited, at the above address.

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

Implemented Investment Solutions Limited (the "Manager") and Public Trust ("Supervisor") are parties to a deed dated 1 December 2016 ("Trust Deed") which sets out the terms and conditions applicable to the Scheme Establishment Deed for the Legg Mason Investments Funds ("Scheme") dated 20 November 2017, then amended 31 January 2018 and funds established by the Manager and the Supervisor within that Scheme.

The Scheme provides that each fund is to be established by the Manager and the Supervisor entering into an Establishment Deed setting out the specific terms and conditions relating to that fund.

The Manager has resolved to establish the Legg Mason Brandywine Global Opportunistic Fixed Income Fund (the "Fund"). The Manager and the Supervisor have entered into an establishment deed (Establishment Deed) dated on 31 January 2018 which sets out the specific terms and conditions relating to the Fund.

STATEMENT BY THE MANAGER

In our opinion, the accompanying financial statements and notes are drawn up in accordance with generally accepted accounting practice in New Zealand and present fairly the financial position of the Fund as at 31 March 2021, and of the results of its financial performance and cash flows for the year ended on that date in accordance with the requirements of the Trust Deed dated 1 December 2016, the Scheme and the Establishment Deed each dated 20 November 2017 and amended 31 January 2018.

It is believed that there are no circumstances that may materially and adversely affect any interest of the Unitholders.

For and on behalf of:

Implemented Investment Solutions Limited



Director



Director

This Statement was approved for signing at a meeting of the Directors on 19 July 2021.

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 \$'000	2020 \$'000
INCOME			
Interest income	3	277	3
Net changes in fair value of financial assets at fair value through profit or loss		42,352	(14,991)
Foreign exchange losses		(1,187)	-
TOTAL INCOME/(LOSS)		41,442	(14,988)
EXPENSES			
Management fees	13	1,894	1,901
TOTAL EXPENSES		1,894	1,901
NET PROFIT/(LOSS)		39,548	(16,889)
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME/(LOSS)		39,548	(16,889)

The accompanying notes form part of and should be read in conjunction with these Financial Statements.

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

STATEMENT OF CHANGES IN UNITHOLDERS' FUNDS FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 \$'000	2020 \$'000
UNITHOLDERS' FUNDS AT THE BEGINNING OF THE YEAR		246,275	254,600
Net profit/(loss) and other comprehensive income for the year		<u>39,548</u>	<u>(16,889)</u>
Total comprehensive income/(loss)		39,548	(16,889)
Subscriptions from Unitholders		50,273	60,355
Redemptions by Unitholders		(46,416)	(51,791)
Distributions to Unitholders		<u>(10,740)</u>	<u>-</u>
		(6,883)	8,564
UNITHOLDERS' FUNDS AT THE END OF THE YEAR	9b	<u>278,940</u>	<u>246,275</u>

The accompanying notes form part of and should be read in conjunction with these Financial Statements.

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2021

	Note	As at 31 March 2021 \$'000	As at 31 March 2020 \$'000
ASSETS			
Cash and cash equivalents		8,231	8,108
Margin accounts		1,409	-
Receivables	5	28	350
Financial assets at fair value through profit or loss			
Investment securities		282,520	246,268
Derivatives	4	<u>3,682</u>	<u>-</u>
TOTAL ASSETS		<u>295,870</u>	<u>254,726</u>
LIABILITIES			
Payables	6	5,506	8,451
Financial liabilities at fair value through profit or loss			
Derivatives	4	<u>11,424</u>	<u>-</u>
TOTAL LIABILITIES		<u>16,930</u>	<u>8,451</u>
UNITHOLDERS' FUNDS		<u>278,940</u>	<u>246,275</u>
TOTAL LIABILITIES AND UNITHOLDERS' FUNDS		<u>295,870</u>	<u>254,726</u>

For and on behalf of the Manager, Implemented Investment Solutions Limited, who authorised the issue of the Financial Statements on 19 July 2021.



Director



Director

The accompanying notes form part of and should be read in conjunction with these Financial Statements.

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2021

	Note	2021 \$'000	2020 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest		(558)	3
Realisation of investments		117,991	38,911
Movement in margin accounts		(1,409)	-
Operating expenses		(1,867)	(1,957)
Purchase of investments		(106,141)	(45,735)
Net settlement of derivatives		1,920	-
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	10	9,936	(8,778)
CASH FLOWS FROM FINANCING ACTIVITIES			
Subscriptions from Unitholders		50,273	60,355
Redemptions by Unitholders		(54,689)	(43,518)
Distributions to Unitholders		(5,439)	-
NET CASH (OUTFLOW)/INFLOW FROM FINANCING ACTIVITIES		(9,855)	16,837
Net increase in cash and cash equivalents		81	8,059
Cash and cash equivalents at beginning of the year		8,108	49
Effect of exchange rate fluctuations on cash and cash equivalents		42	-
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		8,231	8,108
CASH AND CASH EQUIVALENTS COMPRISE OF:			
Cash and cash equivalents		8,231	8,108
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		8,231	8,108

The accompanying notes form part of and should be read in conjunction with these Financial Statements.

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

1. GENERAL INFORMATION

The Legg Mason Brandywine Global Opportunistic Fixed Income Fund (the "Fund") is a for-profit managed investment scheme domiciled in New Zealand under the Financial Market Conduct Act 2013 ("FMC Act 2013").

The Fund was established under a Trust Deed dated 1 December 2016, Scheme and Establishment Deed each dated 20 November 2017, then amended 31 January 2018 and commenced operations on 27 March 2018.

The Fund's investment activities are managed by Legg Mason Asset Management Australia Limited ("Investment Manager"). BNP Paribas Fund Services Australasia Pty Ltd ("BNP Paribas") is the administrator and custodian of the Fund. The Supervisor of the Fund is Public Trust.

The investment objective of Fund is to provide a return, before fees and taxes, in excess of the FTSE World Government Bond Index NZD Hedged over rolling five year periods.

The Fund invests in an actively managed portfolio of sovereign bonds, investment grade corporate bonds, mortgage securities, currencies and other similar securities. The Fund can also invest in emerging market debt, high yield debt, and below investment grade non-sovereign and corporate debt.

The Fund may use derivatives to obtain or reduce exposure to securities, markets, currencies (including taking short positions in individual currencies). Derivatives may also be used to manage cash flows or to facilitate timely exposure to securities. The use of derivatives may result in the Fund being leveraged, for example if this was not backed by cash, cash equivalents, or securities.

On 17 March 2021, the Manager has moved from investing in a sole Legg Mason Brandywine unlisted unit trust (UUT) (also called the Legg Mason Brandywine Global Opportunistic Fixed Income Fund) to being a direct mandate managed by the Investment Manager.

Statement of compliance

The financial statements comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), and other applicable Financial Reporting Standards, as appropriate for a for-profit entity.

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

Reporting period

These financial statements of the Fund are for the year ended 31 March 2021, with comparatives for the year ended 31 March 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes in accounting policies during the year. All policies have been applied on a basis consistent with those used in the prior period.

The principal accounting policies applied in the preparation of these financial statements are set out below.

Basis of preparation

The financial statements of the Fund have been prepared in accordance with generally accepted accounting practice in New Zealand and the requirements of the FMC Act 2013. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

The preparation of financial statements in conformity with NZ IFRS requires the use of certain critical accounting estimates. It also requires the Manager to exercise its judgment in the process of applying the Fund's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed below.

The financial statements are prepared in New Zealand dollars ("NZ\$") and all values are rounded to the nearest thousand dollars (\$'000), unless otherwise stated.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Implemented Investment Solutions Limited is the Manager of the Fund. The Manager enters into fund hosting arrangements with various investment managers. The arrangements involve the issuing and managing of funds, under the Manager's Managed Investment Scheme licence, on behalf of an investment manager who wants to provide investors with access to their investment solutions. The Manager contracts with other service providers to provide the services required to be provided directly to the Fund. This includes investment management, trustee/supervisor, custodian, fund administration and audit services. In respect of these services the Manager is acting as an agent of the Fund.

New standards and amendments to existing standards effective 1 April 2020

There are no new standards, amendments to standards or interpretations that are effective for the annual reporting period commencing beginning on 1 April 2020 that have a material effect on the financial statements of the Fund.

Issued but not yet effective accounting standards

A number of new accounting standards and amendments to existing standards are issued that are not yet effective as at 31 March 2021, they have been identified as not applicable or relevant to the Fund. Therefore they are not included in the financial statements.

Investment Entity

The Fund has multiple investors and holds multiple investments (mainly fixed income securities).

Ownership interests in the Fund are in the form of redeemable units which are classified as equity of the Fund in accordance with *NZ IAS 32 Financial Instruments: Presentation* and which are exposed to variable returns from changes in the fair value of the Fund's net assets. The Fund meets the definition of an investment entity per *NZ IFRS 10: Consolidated Financial Statements* as the following criteria are met:

- The Fund has obtained funds for the purpose of providing investors with investment management services.
- The Fund's business purpose, which was communicated directly to investors, is investing solely for returns from capital appreciation and investment income, through the unit trust investments.
- The performance of its investments is measured and evaluated on a fair value basis.

Accordingly, investments in subsidiaries are recognised at fair value and subsequently measured at fair value through profit or loss. The Fund had no subsidiaries at 31 March 2021 (31 March 2020: none).

The Fund is considered to meet the definition of an Investment Entity, hence, it qualifies as an Investment Entity.

Foreign currency translation

Functional and presentation currency

The Manager considers the New Zealand dollar to be the currency to most accurately represent the economic effect of the underlying transactions, events and conditions, therefore it is the Fund's functional currency. The New Zealand dollar is the currency in which the Fund measures and presents its performance and reports its results, as well as the currency in which it receives subscriptions from Unitholders.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency assets and liabilities are translated into the functional currency using the exchange rate prevailing at the Statement of Financial Position date.

Foreign exchange gains and losses relating to financial assets carried at fair value through profit or loss are presented in the Statement of Profit or Loss and Other Comprehensive Income within 'Net changes in fair value on financial instruments at fair value through profit or loss'.

Foreign exchange gains and losses arising from translation are included in profit or loss in the Statement of Profit or Loss and Other Comprehensive Income.

Income recognition

Distributions

Distribution income is recognised on the date that the Fund's right to receive payment is established.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest

Interest income is recognised as the interest accrues (using the effective interest 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.

Changes in fair value of investments

Net changes in fair value of financial assets and financial liabilities at fair value through profit or loss are calculated as the difference between the fair value at sale, or at period end, and the fair value at the previous valuation point or cost. This includes both realised and unrealised gains and losses, but does not include interest and distribution income.

Financial instruments

Classification

(a) Assets

The Fund classifies its financial instruments based on both the Fund's business model for managing those financial asset and contractual cash flow characteristic of the financial assets. The portfolio of financial assets is managed and performance is evaluated on a fair value basis. The Fund is primarily focused on fair value information and uses that information to assess the assets' performance and to make decisions. The Fund does not directly hold any debt securities. Consequently, all investments are measured at fair value through profit or loss.

(b) Liabilities

The Fund holds derivative financial instruments. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

The Fund's policy requires the Manager to evaluate the information about these financial assets and liabilities on a fair value basis together with other related financial information.

Recognition, Derecognition and Measurement

Purchases and sales of investments and derivatives are recognised on the trade date - the date on which the Fund commits to purchase or sell the investment or derivatives. Financial instruments at fair value through profit or loss ("FVTPL") are initially recognised at fair value. Transaction costs are expensed in profit or loss.

Financial assets are derecognised when the rights to receive cash flows from the investments and derivatives have expired or the Fund has transferred substantially all risks and rewards of ownership.

Subsequent to initial recognition, the financial assets at FVTPL are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss in the Statement of Profit or Loss and Other Comprehensive income within net changes in fair value of financial assets and at fair value through profit or loss in the period in which they arise.

Fair value estimation

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an ordinary transaction between market participants at the measurement date. The fair value of units held by the Fund in a managed investment fund is determined by reference to published bid prices at the close of business on the reporting date being the redemption price established by the underlying investment fund manager.

For investments with no active markets, fair values are determined using valuation techniques. Such techniques include: using recent arm's length transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgmental inputs to a minimum.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Fund or the counterparty.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets and financial liabilities at amortised cost

Financial assets at amortised cost comprise cash and cash equivalents and receivables. These include cash balances and call deposits and accrued interest, and proceeds expected from sale transactions where the trade date and settlement date spanned the reporting date. The carrying value closely approximates their fair value.

Subsequent to initial recognition, the receivables are measured at amortised cost using the effective interest method less any impairment losses. The effective interest method calculates the amortised cost of a financial asset or financial liability and allocates the interest income or interest expense, including any fees and directly related transaction costs that are an integral part of the effective interest rate, over the expected life of the financial asset or liability so as to achieve a constant yield on the financial asset or liability.

(i) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank, deposits held at call with banks and short-term deposits in banks that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, with an original maturity of three months or less and bank overdrafts. Bank overdrafts are shown in current liabilities in the Statement of Financial Position.

(ii) Receivables

Receivables include amounts where settlement has not yet occurred, and include outstanding settlements on the sale of investments. Amounts are generally received within 30 days of being recorded as receivables. Given the short-term nature of most receivables, the carrying amount approximates their fair value.

(iii) Payables

Payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Fund, and include outstanding settlements on the purchase of investments. Payables are measured initially at fair value and subsequently at amortised cost. Amounts are generally paid within 30 days of being recorded as payables. Given the short-term nature of most payables, the carrying amount approximates their fair value.

Impairment of financial assets at amortised cost

NZ IFRS 9: Financial Instruments requires the Fund to record expected credit losses (ECL) on all of its receivables, either on a 12-month or lifetime basis.

The Fund holds receivables with no financing component and which have maturities of less than 12 months at amortised cost. Therefore the Fund has adopted an approach similar to the simplified approach to ECL to all its financial assets at amortised cost.

With short time period and the simplistic nature of accrued interest and receivables from sale of investments, the Fund does not anticipate any expected credit losses for these assets.

Expenses

All expenses are recognised on an accrual basis.

Taxation

Income taxation

The Fund has elected to become a Portfolio Investment Entity ("PIE") for the purposes of the Income Tax Act 2007.

Tax treatment applicable to a PIE:

Under current taxation law the Fund pays no income tax on the taxable income of the Fund and all taxable income and associated tax credits applicable are allocated to investors, in proportion to the units they hold on the days when taxable income and credits arise.

The Fund is responsible for deducting tax from each investor's allocation using each investor's Prescribed Investor Rate ("PIR"), capped at a maximum of 28%, and pays the tax to the taxation authorities on behalf of the investor. PIE tax assets or liabilities for the current period are measured at the amount expected to be recovered or paid to the Inland Revenue on behalf of the investors based on the investors' current period's income and their PIR.

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Fund calculates and deducts tax based on each investor 's PIR and pays the tax to the Inland Revenue on behalf of the investor. The PIE tax liabilities, at the end of the year, are due for payment on the last day of the next month.

Goods and services tax (GST)

The Fund is not registered for GST and consequently all components of the financial statements are stated inclusive of GST where appropriate.

Redeemable units and Unitholders' interests

The Fund issues units that are redeemable at the Unitholders' option and have identical features and are therefore classified as equity. The units can be put back to the Fund at any time for cash equal to the value of the Unitholder's proportionate share in the Fund's net asset value on the redemption date. The redemption unit price is based on different valuation principles to that applied in financial reporting.

The redeemable units are redeemed at the Unitholders' option at price based on the Fund's net assets valued as per the Unit Pricing Methodology less any spread at the time of redemption.

Distributions to Unitholders

The Fund makes distributions on last business day in March and September and pays the distributions with 10 business days.

(b) Margin Accounts and Cash Collaterals

Margin accounts and cash collateral comprise futures margin accounts and amount due from or due to financial institutions.

Margin accounts comprise cash held as collateral for securities' transactions. The cash is held by the broker and is only available to meet margin calls. Amounts due from financial institutions includes the cash collateral lent by the Fund that is identified in the Statement of Financial Position as margin cash.

Margin accounts are not included as a component of cash and cash equivalents.

Presentation of cash flows

For the purposes of the Statement of Cash Flows, proceeds from the sale and purchase of investments at fair value through profit or loss and proceeds from realisation of derivatives are operating activities. The sale and purchase of investments maintain the operating capability of the Fund even though the investments may not be acquired specifically for resale or trading.

Critical accounting estimates and assumptions

Fair value of investments

The investments of the Fund have been valued at closing bid price. Fixed interest securities have been valued at bid price or binding dealer price quotations, therefore there are no accounting estimates or assumptions required in the valuation of the carrying amounts of these assets.

Fair value of derivative financial instruments

The Fund may, from time to time, hold financial instruments that are not quoted in an active market, such as over-the-counter derivatives.

The Fund's derivative financial instruments are classified as held for trading. Fair values of such instruments are determined by using valuation techniques that are primarily based on inputs derived or corroborated by observable market data. Forward foreign exchange contracts are mark to market at the currency forward exchange rate at the valuation date for contracts with similar maturity and risk profiles.

COVID-19

The Manager continues to closely monitor the impacts of the COVID-19 Pandemic on the Fund. The Manager has evaluated the impact of COVID-19 on the valuation of financial instruments as at 31 March 2021 and has concluded that an adjustment was not required on the basis that the markets were functioning and the redemption price for the financial assets at fair value through profit or loss represented fair value.

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

3. INTEREST INCOME

	2021 \$'000	2020 \$'000
Cash at bank	-	3
Financial assets at fair value through profit or loss	<u>277</u>	<u>-</u>
	<u><u>277</u></u>	<u><u>3</u></u>

4. DERIVATIVE FINANCIAL INSTRUMENTS

The Fund holds the following derivative financial instruments:

Forward foreign exchange contracts (FFX)

Forward foreign exchange contracts are contractual obligations to buy or sell foreign currencies on a future date at a specified price. Forward foreign exchange contracts are settled on a net basis.

	2021 \$'000	2020 \$'000
Assets		
<i>Held for Trading :</i>		
Forward foreign exchange contracts	<u>3,682</u>	<u>-</u>
	<u><u>3,682</u></u>	<u><u>-</u></u>
Liabilities		
<i>Held for Trading :</i>		
Forward foreign exchange contracts	<u>11,424</u>	<u>-</u>
	<u><u>11,424</u></u>	<u><u>-</u></u>

5. RECEIVABLES

	2021 \$'000	2020 \$'000
Interest receivable	28	-
Receivables from sale of investments	<u>-</u>	<u>350</u>
	<u><u>28</u></u>	<u><u>350</u></u>

6. PAYABLES

	2021 \$'000	2020 \$'000
Management fees payable	205	178
Distribution payable	5,301	-
Redemptions payable	<u>-</u>	<u>8,273</u>
	<u><u>5,506</u></u>	<u><u>8,451</u></u>

7. AUDIT FEES

PricewaterhouseCoopers fees for the audit of the financial statements for the year ended 31 March 2021 amounted to \$20,000 (31 March 2020: \$14,500) excluding GST.

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

8. NON-CASH TRANSACTIONS

On 22 March 2021, the Manager has moved from investing a sole Legg Mason Brandywine UUT to being a direct mandate managed by the Investment Manager.

The Manager has redeemed from the UUT and the Investment Manager are transferring international fixed income securities in lieu of cash, details are as following:

	2021	2020
	\$'000	\$'000
In-specie and non cash transfers - purchases of investments	232,596	-
In-specie and non cash transfers - sales of investments	232,596	-

9. UNITHOLDERS' FUNDS

9a. Units on issue

	2021	2020
	'000	'000
Units on issue at the beginning of the year	261,326	254,594
Subscriptions from Unitholders	48,020	58,861
Redemptions by Unitholders	<u>(44,294)</u>	<u>(52,129)</u>
Units on issue at the end of the year	<u>265,052</u>	<u>261,326</u>

9b. Units in dollar value

	2021	2020
	\$'000	\$'000
Unitholders' Funds at the end of the year	<u>278,940</u>	<u>246,275</u>
Unit price NAV at the end of the year	<u>277,350</u>	<u>245,150</u>

The unit price Net Asset Value ("NAV") is calculated using mid or last sale price and the latest available prices as at the close of business on the last business day of the reporting period. The NAV per the Statement of Financial Position is based on bid price as at the last business day of the reporting period. Therefore, the difference in the NAV between the unit price and the financial statements is due to price valuation and timing, if any.

Redeemable units and capital management

The Fund issues redeemable units. The net asset value of the units is shown in the Statement of Financial Position as Unitholders' Funds. Each Unitholder is entitled to payment based on the value of the Unitholder's share in the Fund's net asset value, which the Unitholder selected on the redemption date.

The minimum initial investment for the Fund is \$50,000. Thereafter, the minimum additional investment is \$5,000.

A Unitholder may make a redemption request at any time; the payment for the redemption request will be made within 15 business days. The minimum number of unit holdings in the Fund for a Unitholder is 500 units. The Manager reserves the right to refuse a redemption request for less than 500 units or a redemption request that would result in the Unitholder's holding less than 500 units, except all of the Unitholder's units are redeemed.

The relevant movements are shown on the Statement of Changes in Unitholders' Funds. The Fund endeavours to invest the contributions received in appropriate investments while maintaining sufficient liquidity to meet redemptions.

Each unit in the Fund ranks equally and provides Unitholders with a beneficial interest in the Fund. Unitholders have various rights under the Trust Deed of the Fund, including the rights to:

- Have their units redeemed; and
- Receive the Unitholders' funds of the Fund upon termination of the Fund.
- Receive distributions distributed by the Manager.

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

10. RECONCILIATION OF NET PROFIT/(LOSS) TO NET CASH FLOW FROM OPERATING ACTIVITIES

	2021	2020
	\$'000	\$'000
Net profit/(loss)	39,548	(16,889)
<i>Adjustments for:</i>		
Payments for the purchase of investments	(106,141)	(45,735)
Proceeds from the sales of investments	117,991	38,911
Net changes in fair value of financial assets at fair value through profit or loss	(42,352)	14,991
Foreign exchange loss	1,187	-
Increase in receivables	(28)	-
Increase/(decrease) in payables	27	(56)
Movement in margin accounts	(1,409)	-
Net settlement of derivatives	1,920	-
Movement in accrued interest and take-on interest receivable	(807)	-
Net cash inflow/(outflow) from operating activities	<u>9,936</u>	<u>(8,778)</u>

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

11. CLASSIFICATION OF FINANCIAL INSTRUMENTS

	Financial liabilities at fair value through profit or loss \$'000	Financial assets at fair value through profit or loss \$'000	2021 Financial assets at amortised cost \$'000	Financial liabilities at amortised cost \$'000	Total \$'000
Assets					
Cash and cash equivalents	-	-	8,231	-	8,231
Margin accounts	-	-	1,409	-	1,409
Receivables	-	-	28	-	28
Investment securities	-	282,520	-	-	282,520
Derivative assets	-	3,682	-	-	3,682
Total Assets	-	286,202	9,668	-	295,870
Liabilities					
Payables	-	-	-	5,506	5,506
Derivative liabilities	11,424	-	-	-	11,424
Total Liabilities	11,424	-	-	5,506	16,930
	Financial liabilities at fair value through profit or loss \$'000	Financial assets at fair value through profit or loss \$'000	2020 Financial assets at amortised cost \$'000	Financial liabilities at amortised cost \$'000	Total \$'000
Assets					
Cash and cash equivalents	-	-	8,108	-	8,108
Margin accounts	-	-	-	-	-
Receivables	-	-	350	-	350
Investment securities	-	246,268	-	-	246,268
Derivative assets	-	-	-	-	-
Total Assets	-	246,268	8,458	-	254,726
Liabilities					
Payables	-	-	-	8,451	8,451
Derivative liabilities	-	-	-	-	-
Total Liabilities	-	-	-	8,451	8,451

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

12. MATURITY ANALYSIS

Funds attributable to Unitholders do not have a maturity date, however, the Fund is required to settle the amount due to and when the Unitholders exercise their right to redeem units.

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

2021	Within 12 months \$'000	Over 12 months \$'000	Maturity not specified \$'000	Total \$'000
Assets				
Cash and cash equivalents	8,231	-	-	8,231
Margin accounts	1,409	-	-	1,409
Receivables	28	-	-	28
Investment securities	15,786	266,734	-	282,520
Derivatives	3,682	-	-	3,682
Total Assets	29,136	266,734	-	295,870
Liabilities				
Payables	5,506	-	-	5,506
Derivatives	11,424	-	-	11,424
Total Liabilities	16,930	-	-	16,930
2020	Within 12 months \$'000	Over 12 months \$'000	Maturity not specified \$'000	Total \$'000
Assets				
Cash and cash equivalents	8,108	-	-	8,108
Receivables	350	-	-	350
Investment securities	-	-	246,268	246,268
Total Assets	8,458	-	246,268	254,726
Liabilities				
Payables	8,451	-	-	8,451
Total Liabilities	8,451	-	-	8,451

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

13. RELATED PARTY TRANSACTIONS

Management Fees

As outlined in the Fund's Product Disclosure Statement, the Fund incurs management fees fixed at 0.80% of net asset value excluding GST. GST is currently charged at various rates driven by the nature of the service provided including exempt services such as custody, 10% of 15% for Investment Management services and 15% for other services. The management fees include fees paid to the Investment Manager, the Manager for hosting the Fund, the Supervisor, the Custodian and Administration Manager, bank charges and other various costs and expenses incurred.

The Supervisor of the Fund is Public Trust. For the year ended 31 March 2021 Supervisor fee charged to the Fund amounted to \$40,217 (31 March 2020: \$41,000).

During the year, no other funds managed by the Manager invested in the Fund (31 March 2020: none); the Fund did not hold investments in the funds that were managed by the Manager (31 March 2020: none).

During the period, the Fund invested into units of the Legg Brandywine UCITS fund ("UUT"), which is managed by Brandywine Global Investment Management LLC ("BGIM"). Both BGIM and the Investment Manager are part of Franklin Templeton Group and are related parties of the Fund.

Legg Mason Brandywine Global Opportunistic Fixed Income Fund

	2021	2020
	\$'000	\$'000

Legg Mason Brandywine UCITS

Opening value	246,268	253,635
Purchase of investments	30,980	45,735
Sale of investments	(35,675)	(38,110)
Transfer to direct holdings (Non- cash) note 8	(232,596)	-
Transfer to direct holdings (Cash)	(50,873)	-
Change in fair value	41,896	(14,992)
Closing value	-	246,268

14. FINANCIAL RISK MANAGEMENT

Strategy in Using Financial Instruments

The objective of the Fund is to earn a return before fees and taxes in excess of the FTSE World Government Bond Index NZD Hedged over rolling five years.

The Fund's activities expose it to a variety of financial risks: market risk (including market price risk, currency risk and interest rate risk), credit risk and liquidity risk. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Fund's financial performance. The Fund uses derivative financial instruments to actively manage portfolio risk where this is more efficient than trading the underlying physical asset. Derivative exposures are generally collateralised and the total risk exposure, both physical and derivative, must fall under mandate risk constraints. Derivatives are not used to leverage the portfolio.

14a. Market Price Risk

Market price risk is the risk that the Fund's income or the value of its holdings of financial instruments will fluctuate as a result of changes in market prices.

The Fund's overall market positions are monitored on a daily basis by the Investment Manager. The Fund's investments in fixed interest securities are not susceptible to market price risk arising from uncertainties about future values of the investments.

The Fund's unit trust investments was susceptible to market price risk arising from uncertainties about future values of the investments.

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

14. FINANCIAL RISK MANAGEMENT (Continued)

At 31 March 2020, the overall market exposures were as follows

	2020	
	Fair value	% of investments
	\$'000	%
Unit trust investments	246,268	100
Total	246,268	100

Had the market price in local currency of the underlying investments increased or decreased by 10% with all other variables held constant, the increase or decrease respectively in net investment income and the Unitholders' Funds would amount to the following:

	2020	
	Profit or loss or Unitholders' Funds 10% increase	10% decrease
	\$'000	\$'000
Unit trust investments	24,627	(24,627)

The Manager believes the 10% market price movement assumption to be management's best estimate of reasonable possible change in current market condition.

The Fund also manages its exposure to market risk by analysing the investments by industrial sector. At 31 March 2021 the Fund's overall industry concentration exposures were as follows:

Sector	2021	
	Fair value	% of investments
	\$'000	%
Government	214,821	76.04
Corporate		
<i>Financial Institutions</i>		
Banking	22,305	7.90
Finance companies	6,110	2.16
<i>Industrial</i>		
Energy	22,087	7.82
Transportation	5,819	2.06
Manufacture	9,052	3.20
<i>Securitised</i>		
Residential mortgage	2,326	0.82
Total	282,520	100.00

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

14. FINANCIAL RISK MANAGEMENT (Continued)

14b. Currency Risk

Currency risk is the risk that the value of the financial instruments or foreign cash will fluctuate due to changes in foreign exchange rates.

The Fund predominantly invests in international fixed interest securities and therefore is subject to risk due to fluctuations in the prevailing currency exchange rate. A change in exchange rates would impact the New Zealand dollar equivalent market value of the Fund's underlying investments.

The Fund enters into forward exchange contracts designed to economically hedge the currency exposure of the underlying investments. The foreign exchange contracts are held to mitigate the currency exposure by aiming to be fully hedged to the New Zealand dollars. The Investment Manager has a limited discretion to take some currency risk within the overall risk constraint of the portfolio. Accordingly at any point in time currency risk is limited to the currency market movement on the unhedged portion of the portfolio, typically recent gains and losses that have not been hedged.

The portfolios within the Fund are to be economically hedged up to 100%.

The foreign exchange risk disclosures have been prepared on the basis of the Fund's direct investments and not on a full look through basis for investments held indirectly through other funds.

At 31 March 2020, the Fund invested in an underlying offshore fund and was fully hedged back to NZD, therefore, the currency risk for prior year was insignificant.

2021

	AUD \$000	CAD \$000	EUR \$000	GBP \$000	JPY \$000	USD \$000	Others \$000
Monetary assets and liabilities							
Foreign cash and cash equivalents	-	-	-	-	-	6,749	50
Margin accounts	-	-	-	-	-	1,409	-
Receivables/(Payables)	151	7	-	17	-	680	1,386
Interest bearing securities	<u>12,065</u>	<u>3,087</u>	<u>53</u>	<u>15,417</u>	<u>-</u>	<u>174,198</u>	<u>77,700</u>
	<u>12,216</u>	<u>3,094</u>	<u>53</u>	<u>15,434</u>	<u>-</u>	<u>183,036</u>	<u>79,136</u>
Forward foreign exchange contracts							
Notional value	<u>(16,580)</u>	<u>9,066</u>	<u>(84,010)</u>	<u>(15,372)</u>	<u>(36,211)</u>	<u>(239,528)</u>	<u>95,191</u>

2021

	Monetary assets and liabilities			
	Profit or loss		Unitholders' Fund	
	10% increase	10% decrease	10% increase	10% decrease
	\$'000	\$'000	\$'000	\$'000
AUD	436	(436)	436	(436)
CAD	(1,216)	1,216	(1,216)	1,216
EUR	8,396	(8,396)	8,396	(8,396)
GBP	(6)	6	(6)	6
JPY	3,621	(3,621)	3,621	(3,621)
USD	5,649	(5,649)	5,649	(5,649)
Other	(17,433)	17,433	(17,433)	17,433

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

14. FINANCIAL RISK MANAGEMENT (Continued)

14c. Interest Rate Risk

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

The Fund holds investments in international fixed interest securities and so is exposed to risks arising from the fluctuations in the prevailing levels of market interest rates which impact its financial position and cash flows. Interest rate risk is actively managed within the terms of the investment guidance for the Fund as agreed with the Manager.

In accordance with the Fund's policy, the Investment Manager monitors and the Manager reviews the Fund's overall interest sensitivity on a regular basis.

The following table analyses the Fund's interest rate risk exposure. The analysis has been prepared on the basis of the remaining period to contractual repricing or maturity dates.

	2021					Total \$'000
	Within 6 months \$'000	Between 6- 12 months \$'000	Between 1- 2 years \$'000	Between 2- 5 years \$'000	Over 5 years \$'000	
	Financial assets					
Cash and cash equivalents	8,231	-	-	-	-	8,231
Interest-bearing securities	<u>10,929</u>	<u>4,857</u>	<u>148,174</u>	<u>18,700</u>	<u>99,860</u>	<u>282,520</u>
Total financial assets subject to interest rate risk	<u>19,160</u>	<u>4,857</u>	<u>148,174</u>	<u>18,700</u>	<u>99,860</u>	<u>290,751</u>

	2020					
	Within 6 months \$'000	Between 6- 12 months \$'000	Between 6- 12 months \$'000	Between 6- 12 months \$'000	Between 6- 12 months \$'000	Between 6- 12 months \$'000
	Financial assets					
Cash and cash equivalents	<u>8,108</u>	-	-	-	-	<u>8,108</u>
Total financial assets subject to interest rate risk	<u>8,108</u>	-	-	-	-	<u>8,108</u>

The table below show the sensitivity of the Fund's profit or loss and equity to a reasonably possible change in interest rates with all other variables remaining constant. The sensitivity of the income statement is the effect of the assumed changes in interest rates on:

- 1) The interest income for the period based on floating rate financial assets held as at 31 March 2021.
- 2) Changes in fair value of investments for the period based on revaluing fixed rate financial assets as at 31 March 2021.

	31 March 2021			
	Sensitivity of interest income		Sensitivity of changes in fair value of investments	
	100 basis points increase \$'000	100 basis points decrease \$'000	100 basis points increase \$'000	100 basis points decrease \$'000
	Cash and cash equivalents	83	(83)	-
Interest bearing securities	1,206	(1,206)	(9,797)	11,141

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2021

14. FINANCIAL RISK MANAGEMENT (Continued)

14d. Credit Risk

Credit risk represents the risk that a counterparty to the financial instrument will fail to perform contractual obligations under a contract and cause the Fund to incur a loss.

With respect to credit risk arising from the financial assets of the Fund, the Fund's exposure to credit risk arises from the default of the counterparty, with the current exposure equal to the fair value 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.

There are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated.

The Fund's cash and cash equivalents balances are held with ANZ AA- (Standard & Poor's ("S&P") credit rating) (31 March 2020: Westpac (AA- S&P credit rating) and BNP Paribas Securities Services (A+ S&P credit rating) (31 March 2020: A+).

At 31 March 2021 substantially all assets are placed in custody with BNP Paribas, which has a S&P credit rating of A+ (31 March 2020: A+).

At 31 March 2021, all amounts due from brokers, cash and short-term deposits are held with counterparties with a credit rating of A or higher and are due to be settled within 1 month. The Manager considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

31 March 2021

	AAA to AA- \$'000	A+ to A- \$'000	BBB+ to B- \$'000	Less than B- \$'000	No rated \$'000	Total \$'000
Overseas and local government securities	137,121	14,576	63,124	-	-	214,821
Other overseas fixed interest securities	3,509	13,926	50,264	-	-	67,699
Forward foreign exchange contracts	3,316	366	-	-	-	3,682
	143,946	28,868	113,388	-	-	286,202

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

14. FINANCIAL RISK MANAGEMENT (Continued)

14e. Liquidity Risk

Liquidity risk is the risk that the Fund will not be able to meet its financial obligations as they fall due.

The liquidity risk of the Fund is assessed with reference to liquidity of the underlying assets and securities. The Manager then establishes an appropriate application and redemption frequency for the Fund. The Fund invests predominantly in liquid securities and hence has daily applications and redemptions. Market conditions can, however, change resulting in some assets becoming difficult to sell. Hence if the Fund were to experience liquidity problems the Manager may defer or suspend redemptions for a period of time.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

	Statement of Financial Position \$000	Contractual cash flows \$000	2021				Over 1 year \$000
			Within 30 days \$000	Between 1- 2 months \$000	Between 3-6 months \$000	Between 7- 12 months \$000	
			Assets				
Cash and cash equivalents	8,231	8,231	8,231	-	-	-	-
Margin accounts	1,409	1,409	1,409	-	-	-	-
Receivables	28	28	28	-	-	-	-
	9,668	9,668	9,668	-	-	-	-
Liabilities							
Payables	5,506	5,506	5,506	-	-	-	-
	5,506	5,506	5,506	-	-	-	-
	Statement of Financial Position \$000	Contractual cash flows \$000	2020				Over 1 year \$000
			Within 30 days \$000	Between 1- 3 months \$000	Between 4 - 6 months \$000	Between 7 - 12 months \$000	
			Assets				
Cash and cash equivalents	8,108	8,108	8,108	-	-	-	-
	8,108	8,108	8,108	-	-	-	-
Liabilities							
Payables	8,451	8,451	8,451	-	-	-	-
	8,451	8,451	8,451	-	-	-	-
31 March 2021	Statement of Financial Position \$000	Contractual cash flows \$000	Within 6 months \$000	Between 6- 12 months \$000	Between 1- 2 years \$000	Between 2- 5 years \$000	Over 5 years \$000
Derivatives Held for Trading							
Assets							
Foreign forward exchange contracts	3,682						
Inflow		246,917	246,917	-	-	-	-
Outflow		(243,180)	(243,180)	-	-	-	-
Liabilities							
Foreign forward exchange contracts	11,424						
Inflow		375,021	375,021	-	-	-	-
Outflow		(386,458)	(386,458)	-	-	-	-

LEGG MASON BRANDYWINE GLOBAL OPPORTUNISTIC FIXED INCOME FUND

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2021

14. FINANCIAL RISK MANAGEMENT (Continued)

14g. Financial Assets and Liabilities Subject to Offsetting, Enforceable Master Netting Arrangements and Similar Agreements

The Fund holds derivative financial instruments.

The following table presents the recognised financial assets and liabilities that are subject to offsetting, or other similar arrangements but not offset, as at 31 March 2021.

	31 March 2021						
	Gross amounts of recognised financial instruments	Gross amounts of recognised financial instruments set-off in the statement of financial position	Net amounts of financial instruments presented in the statement of financial position	Financial instruments	Related amounts not set-off in the statement of financial position	Cash collateral received/pledged	Net amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets							
Derivatives - FFX Contracts	3,682	-	3,682	(615)	-	-	3,067
Total financial assets	3,682	-	3,682	(615)	-	-	3,067
Financial liabilities							
Derivatives - FFX Contracts	11,424	-	11,424	(615)	(110)	-	10,699
Total financial liabilities	11,424	-	11,424	(615)	(110)	-	10,699

15. CONTINGENT LIABILITIES AND COMMITMENTS

The Fund had no material commitments or contingencies at 31 March 2021 (31 March 2020: nil).

16. EVENTS SUBSEQUENT TO BALANCE DATE

No significant events occurred after balance date.



Independent auditor's report

To the unitholders of Legg Mason Brandywine Global Opportunistic Fixed Income Fund (the Fund)

Our opinion

In our opinion, the accompanying financial statements of the Fund present fairly, in all material respects, the financial position of the Fund as at 31 March 2021, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

What we have audited

The Fund's financial statements comprise:

- the statement of financial position as at 31 March 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in unitholders' funds for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Fund in accordance with Professional and Ethical Standard 1 International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We have provided the following services to Implemented Investment Solutions Limited (the Manager): agreed upon procedures on the net tangible assets calculation, controls assurance reporting, registry compliance assurance, and the audit of the financial statements of the Manager and other funds managed by the Manager. Subject to certain restrictions, employees of the firm may invest in the Fund on normal market terms. These services and relationships have not impaired our independence as auditor of the Fund. Other than in our capacity as auditor, we have no other relationships with, or interests in, the Fund.



Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year. We have one key audit matter: Valuation and existence of financial assets and financial liabilities at fair value through profit or loss. This matter was addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

Description of the key audit matter	How our audit addressed the key audit matter
<p>Valuation and existence of financial assets and financial liabilities at fair value through profit or loss</p> <p>Refer to note 4 in the financial statements for disclosures of financial assets and financial liabilities at fair value through profit or loss (financial instruments).</p> <p>This was an area of focus for our audit as it represents the majority of the net assets of the Fund.</p> <p>The fair value of the financial instruments that are not traded in an active market are determined using valuation techniques. The valuation technique depends on the underlying asset or liability and includes assumptions that are based on market conditions existing at 31 March 2021. Financial instruments with inputs to the valuation that are observable either directly or indirectly are categorised as level 2 in the fair value hierarchy.</p> <p>The Fund's level 2 financial instruments include fixed interest securities and forward foreign exchange contracts.</p> <p>For financial instruments quoted in foreign currencies, these are then translated to New Zealand dollars using the exchange rates at 31 March 2021.</p> <p>Holdings of all financial instruments are either held by the Custodian on behalf of the Fund or entered into with counterparties.</p>	<p>We assessed the processes employed by the Manager and Administrator, for recording and valuing the financial instruments including the relevant controls operated by the third-party service organisations. The third-party service organisations include the Administrator and the Custodian.</p> <p>Our assessment of the business processes included obtaining the internal control reports over custody and investment accounting provided by the third-party service organisations. We evaluated the evidence provided by the internal controls reports over the design and operating effectiveness of the key controls operated by the third-party service organisations for the year.</p> <p>Valuation</p> <p>We used our own valuation experts to test the fair value of fixed interest securities using independent valuation models and reconciled inputs used to independent sources and available market data.</p> <p>For investments in forward foreign exchange contracts we agreed the observable inputs to third party pricing sources and used our own valuation experts to test the fair value using independent valuation models.</p> <p>We have assessed the reasonableness of the exchange rates used to translate financial instruments quoted in foreign currencies.</p> <p>Existence</p> <p>We obtained confirmation from the Custodian and counterparties of the holdings of the financial instruments held by the Fund as at 31 March 2021.</p>



Our audit approach

Overview

Materiality	<p>Our materiality for the Fund is calculated based on approximately 1% of the unitholders' funds.</p> <p>We chose unitholders' funds as the benchmark because, in our view, the objective of the Fund is to provide members with a total return on the Fund's net assets, taking into account both capital and income returns.</p>
Key audit matters	<p>As reported above, because of the significance of the financial instruments to the financial statements, we have determined that there is one key audit matter: valuation and existence of financial assets and liabilities at fair value through profit or loss.</p>

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements of the Fund as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the financial statements of the Fund as a whole.

How we tailored our audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements of the Fund as a whole, taking into account the structure of the Fund, the Fund's investments and the accounting and registry processes and controls.

The Manager is responsible for the governance and control activities of the Fund. The Fund's investments are held by a Custodian. The Manager has outsourced investment accounting (Administrator) and registry services (Registrar) to a third party service organisation.

In completing our audit, we performed relevant audit procedures over the control environment of the Manager, the Custodian, the Administrator and the Registrar to support our audit conclusions.

Other information

The Manager is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and our auditor's report thereon.

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



In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Manager for the financial statements

The Manager is responsible for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Manager is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Manager either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are 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 ISAs (NZ) and ISAs 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 these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-2/>

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Fund's unitholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund's unitholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Christopher Barber.

For and on behalf of:

Chartered Accountants
21 July 2021

Wellington