

**Low Correlation Strategy Trust
Financial Report
For the year ended 30 June 2017**

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Directors' report

The Directors of MLC Investments Limited, the Trustee of Low Correlation Strategy Trust (the 'Scheme') present their report together with the financial report of the Scheme for the year ended 30 June 2017 and the independent audit report thereon.

Directors of the Trustee

The names of the persons who were Directors of MLC Investments Limited during or since the end of the year are as follows:

| Name | Appointment / Resignation Date |
|-----------------|--|
| S C Birkenleigh | Appointed 9 September 2015 / Resigned 3 October 2016 |
| J G Duffield | Appointed 24 August 2011 |
| P Gupta | Appointed 1 September 2012 |
| C M Keating | Appointed 5 December 2016 |
| G J Mulcahy | Appointed 7 July 2014 |
| K A Watt | Appointed 5 December 2016 |

The registered office of MLC Investments Limited is located at Ground Floor, MLC Building, 105-153 Miller Street, North Sydney NSW 2060.

Principal activities

The Scheme is an unlisted unregistered managed investment scheme domiciled in Australia and is open to wholesale investors only.

The Scheme invests and transacts in a range of hedge funds, alternative strategies, securities, indices and cash, and may utilise derivatives, to achieve its investment strategy in accordance with the provisions of its Constitution.

The Scheme did not have any employees during the year (2016: Nil).

There have been no significant changes to the activities of the Scheme during the year.

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

Results and review of operations

The result of the operations of the Scheme is disclosed in the Statement of Profit or Loss and Other Comprehensive Income. The result is affected by the performance of the markets to which the Scheme has exposure.

For details in relation to the Scheme's investment exposure and strategy, information can be obtained from the Information Memorandum ('IM') located on JANA's website at jana.com.au.

Distributions

There was no distribution for the year ended 30 June 2017.

Units on issue

Units on issue as at year end and movements during the year are shown in Statement of Changes in Net Assets Attributable to Unitholders.

The total assets of the Scheme are set out in the Statement of Financial Position. The basis for valuation of the Scheme's assets is disclosed in Note 1 to the financial statements.

State of affairs

During the year, the Constitution of the Scheme was amended to allow election into the Attribution Managed Investment Trust Regime when the Trustee has determined that it is in the best interests of the unitholders.

In the opinion of the Trustee, there were no other significant changes in the state of affairs of the Scheme that occurred during the year.

Likely developments

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

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

Auditor's independence

The Directors received a declaration of independence from the auditor of the Scheme, see Independent auditors' report on page 19.

Events subsequent to the balance date

There has not arisen in the interval between the year end and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Trustee, to significantly affect the operations of the Scheme, the result of those operations, or the state of affairs of the Scheme, in future financial years.

Interests of the Trustee

Units held by MLC Investments Limited and its related parties in the Scheme during the financial year ended 30 June 2017 are detailed in Note 7(g) to the financial statements.

Fees paid to the Trustee during the financial year ended 30 June 2017 are detailed in Note 7(e) to the financial statements.

Environmental regulation

The operations of the Scheme are not subject to any particular or significant environmental regulations under a Commonwealth, State or Territory law.

Indemnities and insurance premiums for Officers or Auditors

Indemnities

The Scheme has not indemnified or made a relevant agreement for indemnifying against a liability any person who is or has been an officer of the Trustee or an auditor of the Scheme during the year.

Insurance premiums

Premiums were paid by a related party of the Trustee in respect of contracts insuring Directors and officers of the Trustee for liability and legal expenses for the current financial period. Such insurance contracts insure against certain liabilities (subject to specific exclusions) for persons who are or have been Directors or executive officers of the Trustee.

Disclosure of the nature of the liabilities and the amount of premium is prohibited by confidentiality clauses of the contract of insurance.

Rounding

Amounts in the financial report and the Directors' report have been rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the Directors of MLC Investments Limited:

Director: CLARE KEATING

Signature: 

Dated at Sydney this 3rd November 2017

Low Correlation Strategy Trust
Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2017

| | Notes | 2017 \$'000 | 2016 \$'000 |
|--|-------|----------------|-----------------|
| Investment income | | | |
| Dividend and distribution income | 2 | 13,827 | 3,197 |
| Interest income | | 3,342 | 6,426 |
| Changes in the fair value of financial assets and liabilities at fair value through profit or loss | 10 | <u>64,627</u> | <u>(12,276)</u> |
| Total investment income | | <u>81,796</u> | <u>(2,653)</u> |
| Expenses | | | |
| Performance fees | | 585 | 1,043 |
| Investment management fees | 7(e) | 16,001 | 13,965 |
| Other expenses | | <u>6</u> | <u>383</u> |
| Total operating expenses | | <u>16,592</u> | <u>15,391</u> |
| Net operating profit/(loss) | | <u>65,204</u> | <u>(18,044)</u> |
| Financing costs | | | |
| Distributions | | <u>-</u> | <u>-</u> |
| Net profit/(loss) | | <u>65,204</u> | <u>(18,044)</u> |
| Other comprehensive income | | <u>-</u> | <u>-</u> |
| Change in net assets attributable to unitholders | | <u>65,204</u> | <u>(18,044)</u> |

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

Low Correlation Strategy Trust
Statement of Financial Position
As at 30 June 2017

| | Notes | 2017 \$'000 | 2016 \$'000 |
|---|-------|-------------------------|------------------|
| Assets | | | |
| Cash and cash equivalents | 9(b) | 180,957 | 227,157 |
| Receivables | 5 | 13,065 | 1,159 |
| Financial assets designated at fair value through profit or loss | 4 | 1,589,385 | 1,585,619 |
| Financial assets held for trading | 8(c) | <u>34,984</u> | <u>27,820</u> |
| Total assets | | <u>1,818,391</u> | <u>1,841,755</u> |
| Liabilities | | | |
| Accounts payable and accrued expenses | 6 | 1,365 | 1,143 |
| Financial liabilities held for trading | 8(c) | <u>19,439</u> | <u>16,237</u> |
| Total liabilities excluding net assets attributable to unitholders | | <u>20,804</u> | <u>17,380</u> |
| Net assets attributable to unitholders | | <u>1,797,587</u> | <u>1,824,375</u> |

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

Low Correlation Strategy Trust
Statement of Changes in Net Assets Attributable to Unitholders
For the year ended 30 June 2017

| | Class A | | Class B | |
|--|-------------------------|--------------------------------|-----------------------|--------------------------------|
| | \$'000 | Number of Units No. '000 | \$'000 | Number of Units No. '000 |
| Net assets attributable to unitholders | | | | |
| Balance at 30 June 2015 | 914,429 | 814,763 | 811,035 | 771,269 |
| Applications | 304,361 | 269,519 | 312,412 | 298,794 |
| Redemptions | (124,193) | (110,094) | (375,625) | (358,188) |
| Change in net assets attributable to unitholders | <u>(10,998)</u> | <u>-</u> | <u>(7,046)</u> | <u>-</u> |
| Balance at 30 June 2016 | 1,083,599 | 974,188 | 740,776 | 711,875 |
| Applications | 46,470 | 41,531 | 192,549 | 183,615 |
| Redemptions | (46,054) | (40,562) | (284,957) | (270,564) |
| Change in net assets attributable to unitholders | <u>40,455</u> | <u>-</u> | <u>24,749</u> | <u>-</u> |
| Balance at 30 June 2017 | <u>1,124,470</u> | <u>975,157</u> | <u>673,117</u> | <u>624,926</u> |

The above Statement of Changes in Net Assets Attributable to Unitholders is to be read in conjunction with the accompanying notes.

Low Correlation Strategy Trust
Statement of Cash Flows
For the year ended 30 June 2017

| | Notes | 2017 \$'000 | 2016 \$'000 |
|---|-------|------------------|------------------|
| Cash flows from operating activities | | | |
| Distribution/dividend income received | | 1,921 | 21,672 |
| Interest received | | 3,342 | 6,426 |
| Other income received | | - | 313 |
| Performance fees paid | | (38) | (1,043) |
| Investment management fees paid | | (16,326) | (15,370) |
| Payment of other expenses | | <u>(6)</u> | <u>(383)</u> |
| Net cash (used in)/provided by operating activities | 9(a) | <u>(11,107)</u> | <u>11,615</u> |
| Cash flows from investing activities | | | |
| Proceeds from sale of investments | | 537,815 | 436,767 |
| Purchases of investments | | <u>(480,661)</u> | <u>(619,377)</u> |
| Net cash provided by/(used in) investing activities | | <u>57,154</u> | <u>(182,610)</u> |
| Cash flows from financing activities | | | |
| Applications received | | 239,019 | 603,302 |
| Redemptions paid | | <u>(331,011)</u> | <u>(499,818)</u> |
| Net cash (used in)/provided by financing activities | | <u>(91,992)</u> | <u>103,484</u> |
| Net decrease in cash and cash equivalents | | (45,945) | (67,511) |
| Cash and cash equivalents at the beginning of the financial year | | 227,157 | 295,626 |
| Effect of exchange rate changes on the balances of foreign currencies | | <u>(255)</u> | <u>(958)</u> |
| Cash and cash equivalents at the end of the financial year | 9(b) | <u>180,957</u> | <u>227,157</u> |

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The financial report of the Scheme for the financial year ended 30 June 2017 was authorised for issue in accordance with a resolution of the Directors of the Trustee on 3 November 2017.

(a) Statement of compliance

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board ('AASB') and International Financial Reporting Standards ('IFRS'), as issued by the International Accounting Standards Board ('IASB').

(b) Basis of preparation

The Scheme's financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on the basis of historical costs, except for financial assets and financial liabilities designated at fair value through profit or loss and held for trading, that have been measured at fair value.

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, as they are expected to be recovered or settled within twelve months, except for financial assets and liabilities designated at fair value through profit or loss and net assets attributable to unitholders.

Where necessary, comparative information has been reclassified to achieve consistency in disclosure with current financial year amounts and other disclosures.

The financial statements are presented in Australian Dollars, and all values are rounded to the nearest thousand dollars except where otherwise indicated.

(c) Basis of consolidation

The Scheme is an investment entity under the definition in *AASB 10 Consolidated Financial Statements* and, as such, does not consolidate any entities subject to its control. Instead, interests in controlled entities are classified at fair value through profit or loss, and measured at fair value. The Scheme does not hold a controlling interest in any of its underlying investments and therefore is not required to provide additional disclosures.

(d) Unit prices

The unit price for the units of the Scheme is calculated as at the last day of the month for applications and the last day of a relevant quarter for redemptions or any other day deemed appropriate by the Trustee.

(e) Terms and conditions on units

Each unit issued confers upon the unitholders of the Scheme an equal interest in the Scheme, and is of equal value within the same class. A unit does not confer any interest in any particular asset or investment of the Scheme. Unitholders have various rights under the Constitution, including the right to:

- (i) have their units redeemed;
- (ii) receive income distributions;
- (iii) attend and vote at meetings of unitholders; and
- (iv) participate in the termination and winding up of the Scheme.

The rights, obligations and restrictions attached to any unit of the Scheme are identical in all respects.

(f) Financial assets and liabilities designated at fair value through profit or loss

The Scheme has classified all of its investments as designated at fair value through profit or loss except for derivatives which are held for trading for risk management purposes. Securities designated as at fair value through profit or loss are initially recognised at fair value.

Investments are valued at their fair value as at reporting date. Gains and losses arising from changes in the fair value of the financial assets designated at fair value through profit or loss are included in the Statement of Profit or Loss and Other Comprehensive Income in the period in which they arise.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Financial assets and liabilities held for trading

Derivative financial instruments are categorised for accounting purposes as held for trading, as the Scheme does not designate any derivatives as hedges in a hedging relationship. Derivatives are recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value with movements taken to the Statement of Profit or Loss and Other Comprehensive Income. Fair values are obtained from quoted market prices in active markets and valuation techniques, including discounted cash flow models and option pricing models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Financial assets and liabilities held for trading 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.

Foreign Exchange Forward Contracts

The value of a foreign exchange forward contract fluctuates with changes in currency exchange rates. The forward is marked to market daily.

(h) Fair value measurement

All assets and liabilities measured at fair value in the financial statements are categorised within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement in its entirety as detailed below:

Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

(i) Significant accounting judgements, estimates, or assumptions

The Scheme may make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements.

Estimates and assumptions

Estimates are continually evaluated and based on historical experience, available information and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Fair value of financial assets and liabilities designated at fair value through profit or loss

Fair value is the price that would be received from disposing of an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date.

The Scheme measures investments in financial assets and financial liabilities at fair value through profit or loss. Management applies judgement in selecting valuation techniques where there is no market price available for an instrument. Further details on the determination of fair values of financial instruments are set out in Note 8(g).

Fair value of financial assets and liabilities held for trading

The Scheme has assessed the impact of credit value adjustment to its derivative positions to comply with the requirements of AASB 13 *Fair Value Measurement*, and concluded that there are no adjustments to the valuation of derivatives.

Judgements

The Scheme meets the definition of an investment entity within AASB 10 *Consolidated Financial Statements* and therefore is required to measure its interest in controlled entities at fair value through profit or loss. The criteria which define an investment entity are as follows:

- (a) An entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- (b) An entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- (c) An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

(j) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise of cash at bank.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Receivables

Receivables may include amounts for interest, distributions, outstanding settlements and other income and are measured initially at fair value plus transaction costs. Amounts are generally received within 12 months of being recorded as receivable. Given the short-term nature of most receivables, the recoverable amount approximates fair value.

(l) Accounts payable and accrued expenses

Payables include outstanding settlements and accrued expenses owing by the Scheme which are unpaid as at balance date. They are measured initially at fair value plus transaction costs. Given the short-term nature of most payables, the nominal amount payable approximates fair value.

(m) Foreign currency transactions

Transactions during the year denominated in foreign currency have been translated at the exchange rate prevailing at the transaction date. Overseas investments and monetary items held, together with any accrued income, are translated at the exchange rate prevailing at year end.

Foreign currency transaction gains and losses on financial instruments classified as at fair value through profit or loss are included in the Statement of Profit or Loss and Other Comprehensive Income as part of the 'Changes in the fair value of financial assets and liabilities at fair value through profit or loss'.

(n) Income and expenses

Revenue is brought to account on an accrual basis except where otherwise stated.

Distribution income from unlisted managed investment schemes is recognised on the date the trust units are quoted ex distribution. Income from unlisted partnerships and unlisted equities are recognised when distributions or dividends are declared.

Changes in the fair value of investments are recognised as income and are determined as the difference between the fair value at year end or consideration received (if sold during the year) and the fair value as at the prior year end or cost (if the investment was acquired during the year).

Expenses are brought to account on an accrual basis.

The Trustee is entitled to receive management fees for the provision of management services to the Scheme, which is included in investment management fees. The Trustee is entitled to be reimbursed, under the Scheme's Constitution, for certain expenses incurred in administering the Scheme. The fees paid/payable to the Trustee are shown in Note 7(e).

Investment management fees from underlying investment managers represent fees paid for managing the investments of the Scheme and are recognised on an accruals basis.

Performance fees from the underlying investment managers are borne by the Scheme.

Other expenses include government duties and bank interest expense.

(o) Transfers to/from net assets attributable to unitholders

Unrealised gains and losses arising on movements in the fair value of assets, unrealised foreign currency movements on other assets, accrued distributions and interest not yet payable to the Scheme are transferred to net assets attributable to unitholders. They are included in the determination of distributable income when assessable for taxation purposes. The taxable portion of realised capital gains is included in distributable income (net of any realised capital losses) by transfer from net assets attributable to unitholders. Non assessable income and net capital losses carried forward are also reflected as movements against components of net assets attributable to unitholders for the current financial year.

(p) Taxation

Under current legislation the Scheme is not subject to income tax as unitholders are presently entitled to the taxable income (including assessable realised net capital gains), which is distributed each year.

The unit price is based upon fair values of underlying assets and thus may include a share of unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed.

Net realised capital losses are not distributed to unitholders, but are retained to be offset against any future realised capital gains. Where realised assessable capital gains exceed realised capital losses, the excess is distributed to unitholders as assessable income for taxation purposes.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Distributions to unitholders

The income of the Scheme is calculated and distributed on an annual basis effective the last day of June. It may also be calculated on other dates as determined by the Trustee. All income distributions are reinvested.

Undistributed income/(loss) includes income earned and expenses not yet paid as at the distribution day on 30 June 2017 and realised capital losses which are retained to offset future realised capital gains. These are not distributed but held for distributions in future periods.

Distributable income does not include unrealised gains and losses arising on movements in the fair value of investments; as such, unrealised gains and losses are transferred to net assets attributable to unitholders and are not assessable or distributable until realised.

Distributions are expressed as cents per unit for the distribution period.

(r) Goods and services tax

Investment management fees and other expenses are recognised net of the amount of goods and services tax ('GST') recoverable from the Australian Taxation Office ('ATO') as a reduced input tax credit ('RITC').

Creditors and accruals are stated with the amounts of GST included.

The net amount of GST recoverable from the ATO is included in payables in the Statement of Financial Position.

(s) Derecognition of financial instruments

The derecognition of financial instruments takes place when the Scheme no longer controls the contractual rights of a 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.

(t) Capital management

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

The Trustee monitors the level of applications and redemptions relative to the liquid assets in the Scheme.

In order to maintain or adjust the capital structure, the Trustee may return capital to unitholders. The Scheme does not have any externally imposed capital requirements.

(u) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are classified as financial liabilities due to mandatory distributions. The units can be put back to the Scheme for cash as stipulated in the Scheme's IM based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the Dealing Unit Price) at the end of the reporting period if unitholders exercised their right to put the units back to the Scheme.

(v) Application of accounting standards

Changes in Accounting Policy

Since 1 July 2016, the Scheme has adopted the following Australian Accounting Standard:

AASB 2015-2 Amendments to Australian Accounting Standards - Disclosure initiative: AASB 101 Presentation of Financial Statements
These amendments clarify the materiality requirements in AASB 101. These amendments also clarify that specific line items in the Statement of Profit or Loss and Other Comprehensive Income and the Statement of Financial Position may be disaggregated and that the entity has flexibility as to the order in which it presents the notes to the financial statements. These amendments did not impact the Scheme's financial position or performance and became effective for the annual periods beginning on or after 1 January 2016 and therefore applied to the Scheme from 1 July 2016.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Application of accounting standards (continued)

Australian Accounting Standards issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Scheme for the annual reporting period ended 30 June 2017. The impact of these standards and interpretations has been assessed, to the extent applicable to the Scheme and are discussed below.

AASB 9 Financial Instruments

This standard makes changes to the way financial assets are classified for the purpose of determining their measurement basis. AASB 9 applies to annual reporting periods beginning on or after 1 January 2018 and will therefore apply to the Scheme from 1 July 2018. The Scheme does not intend to early adopt AASB 9 as permitted by the standard. The application of the standard is not expected to change the measurement basis of any of the Scheme's current financial instruments.

AASB 15 Revenue from Contracts with Customers

This standard requires an entity to measure revenue from contracts with customers at the amount of consideration to which the entity expects to be entitled in exchange for transferring promised goods or services. AASB 15 applies to annual reporting periods beginning on or after 1 January 2018 and will therefore apply to the Scheme from 1 July 2018. The Scheme does not intend to early adopt AASB 15 as permitted by the standard. The application of the standard is still being assessed, but it is expected that it will have no significant changes to the Scheme's current financial instruments.

NOTE 2 - DIVIDEND AND DISTRIBUTION INCOME

| | 2017 | 2016 |
|---|---------------|--------------|
| | \$'000 | \$'000 |
| Dividend/Scheme distribution income: | | |
| Unlisted investment funds | <u>13,827</u> | <u>3,197</u> |
| | <u>13,827</u> | <u>3,197</u> |

NOTE 3 - AUDITOR'S REMUNERATION

| | 2017 | 2016 |
|---|--------------|--------------|
| | \$ | \$ |
| Total amount paid or due and payable to Ernst & Young: | | |
| Audit of financial reports | 7,866 | 7,750 |
| Other assurance engagements | <u>2,000</u> | <u>2,000</u> |
| | <u>9,866</u> | <u>9,750</u> |

Auditor's remuneration for the Scheme has been paid by the Trustee. Other assurance engagements consist of compliance plan audit and specified procedures performed on the direct investments of the Scheme.

NOTE 4 - FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2017 | 2016 |
|---|------------------|------------------|
| | \$'000 | \$'000 |
| Unlisted investment funds | <u>1,589,385</u> | <u>1,585,619</u> |
| Total financial assets designated at fair value through profit or loss | <u>1,589,385</u> | <u>1,585,619</u> |

NOTE 5 - RECEIVABLES

| | 2017 | 2016 |
|--------------------------|---------------|--------------|
| | \$'000 | \$'000 |
| Distribution receivables | <u>13,065</u> | <u>1,159</u> |
| | <u>13,065</u> | <u>1,159</u> |

NOTE 6 - ACCOUNTS PAYABLE & ACCRUED EXPENSES

| | 2017 | 2016 |
|---|--------------|--------------|
| | \$'000 | \$'000 |
| Investment management fees payable - external | 856 | 1,143 |
| Performance fees payable | <u>509</u> | <u>-</u> |
| | <u>1,365</u> | <u>1,143</u> |

NOTE 7 - RELATED PARTIES

(a) Trustee

The Trustee of the Scheme is MLC Investments Limited ABN 30 002 641 661, whose immediate holding company is National Wealth Management Services Limited ABN 97 071 514 264 and the ultimate parent company is National Australia Bank Limited ABN 12 004 044 937.

The Trustee is incorporated and domiciled in Australia.

(b) Key management personnel

Directors

The names of the persons who were Directors of MLC Investments Limited at any time during the financial year were as follows:

| Name | Appointment / Resignation Date |
|-----------------|--|
| S C Birkenleigh | Appointed 9 September 2015 / Resigned 3 October 2016 |
| J G Duffield | Appointed 24 August 2011 |
| P Gupta | Appointed 1 September 2012 |
| C M Keating | Appointed 5 December 2016 |
| G J Mulcahy | Appointed 7 July 2014 |
| K A Watt | Appointed 5 December 2016 |

In addition to the Directors noted above, the Trustee is considered to be a key management personnel of the Scheme.

Key management personnel are paid by a related party of the Trustee. Payments made from the Scheme to the Trustee do not include any amounts directly attributable to key management personnel remuneration.

(c) Other related party transactions with the Scheme

From time to time, the Directors of MLC Investments Limited or their Director related entities may invest in or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme investors.

(d) Amounts payable to the Trustee

There are no amounts payable to MLC Investments Limited by the Scheme at balance sheet date (2016: Nil).

(e) Management fees

The management fees payable to the Trustee have been calculated in accordance with the Scheme's Constitution. Total fees paid and payable are as follows:

| | 2017 | 2016 |
|-----------------|------------------|-----------|
| | \$ | \$ |
| Management fees | 9,172,040 | 9,138,044 |

NOTE 7 - RELATED PARTIES (continued)

(f) Related party investments

The Scheme did not hold any shares in National Australia Bank Limited or units in other managed investment schemes operated by the Trustee or its related parties at year end.

Cash and cash equivalents in the Statement of Financial Position for the Scheme are held with the National Australia Bank Limited.

NAB Asset Servicing is the custodian for the directly held investments of the Scheme.

(g) Unitholder investing activities

Details of holdings in the Scheme by MLC Investments Limited and its related parties or other schemes managed by MLC Investments Limited and its related parties are set out below. Fair value of investment amounts are based on latest available valuation as at year end.

| | Number of units held No. | Interest held in the Scheme % | Fair value of investments \$ | Distributions paid/payable \$ |
|---|--------------------------------|-------------------------------------|------------------------------------|-------------------------------------|
| 2017 | | | | |
| MLC Super Fund | 853,767,893 | 53.29 | 957,955,678 | - |
| Masterkey Unit Trusts | 94,025,891 | 6.03 | 108,422,783 | - |
| WM Pool Trusts | 370,633,132 | 23.78 | 427,383,088 | - |
| National Investment Trust Balanced Fund | 1,703,230 | 0.11 | 1,964,022 | - |
| MLC Investment Trusts | 4,204,723 | 0.27 | 4,848,534 | - |
| JANA Investment Trusts | 49,732,437 | 2.98 | 53,567,551 | - |
| MLC Investments Limited | 947,902 | 0.06 | 1,021,000 | - |
| | | | | |
| 2016 | | | | |
| MLC Super Fund | 933,979,839 | 55.32 | 1,009,195,056 | - |
| Masterkey Unit Trusts* | 82,829,508 | 5.05 | 92,143,769 | - |
| WM Pool Trusts* | 345,165,157 | 21.05 | 383,979,325 | - |
| National Investment Trust Balanced Fund | 1,982,691 | 0.12 | 2,205,647 | - |
| JANA Investment Trusts* | 56,267,784 | 3.21 | 58,541,318 | - |
| MLC Investments Limited | 948,009 | 0.05 | 986,321 | - |
| MLC Limited | 24,021,781 | 1.47 | 26,723,054 | - |

*In the prior year, Masterkey Unit Trusts was reported separately as MLC Masterkey Unit Trust Balanced Portfolio, MLC Masterkey Unit Trust Conservative Growth Fund, MLC Masterkey Unit Trust Share Portfolio and MLC Masterkey Unit Trust Share Portfolio. The WM Pool Trusts was reported separately as WM Pool - LTAR Part 1 Trust, WM Pool - Equities Trust No. 59, WM Pool - Global Equities Trust No. 1, WM Pool - LTAR Part 1 NS Trust, WM Pool - Equities Trust No. 58, WM Pool - Equities Trust No. 48 and MLC Horizon 7 Trust. The JANA Investment Trusts was separately reported as JANA Tailored Trust No. 2 and JANA Moderate Trust.

NOTE 8 - FINANCIAL RISK MANAGEMENT

(a) Financial Risk Management Objectives, Policies and Processes

The Scheme's activities expose it to a variety of financial risks: credit risk, market risk (including currency risk, interest rate risk, equity and other price risk), liquidity and cash flow risk. The Scheme's overall risk management programme is aligned to the investment strategy of the Scheme as detailed in its Constitution and IM. It focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Scheme's financial performance. The Trustee monitors the risk management framework, which is performed internally and reported on a quarterly basis. The Scheme may use derivative financial instruments to moderate certain risk exposures.

NOTE 8 - FINANCIAL RISK MANAGEMENT (continued)

(b) Credit Risk

The Scheme takes on exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered minimal, as delivery of securities sold is only made once the broker has received payment. Payment is made on a purchase once the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

The Scheme restricts its exposure to credit losses on trading derivative instruments by entering into master netting arrangements with counterparties (approved brokers). The credit risk associated with contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, there is the opportunity to settle outstanding amounts on a net basis.

Excluding cash, there was no significant concentrations of credit risk to counterparties in the Scheme as at 30 June 2017 (2016: Nil).

(c) Financial Assets and Liabilities Held for Trading

Financial assets and financial liabilities are presented on a gross basis in the Statement of Financial Position as there is not an enforceable legal right to offset the recognised amounts. In the normal course of business, the Scheme also enters into various master netting agreements or other similar arrangements that do not meet the criteria for offsetting in the Statement of Financial Position but still allow for the related amounts to be set off in certain circumstances, such as default on contracts.

Offsetting Financial Assets and Financial Liabilities

| | 2017 | | | 2016 | | |
|------------------------------------|-----------------------------|-----------------|------------|-----------------------------|-----------------|------------|
| | Amounts not offset | | Net amount | Amounts not offset | | Net amount |
| | Other financial instruments | Cash collateral | | Other financial instruments | Cash collateral | |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Financial assets | | | | | | |
| Foreign exchange forward contracts | 34,984 | - | 34,984 | 27,820 | - | 27,820 |
| Closing balance | 34,984 | - | 34,984 | 27,820 | - | 27,820 |
| Financial liabilities | | | | | | |
| Foreign exchange forward contracts | (19,439) | - | (19,439) | (16,237) | - | (16,237) |
| Closing balance | (19,439) | - | (19,439) | (16,237) | - | (16,237) |

(d) Market Risk

(i) Currency Risk

Currency risk is the risk that the fair value of future cash flows of the financial instrument will fluctuate due to changes in foreign exchange rates.

The Scheme is exposed to foreign currency risk as a result of investments in financial instruments denominated in foreign currencies. The Scheme may enter into foreign currency contracts designed to either hedge some or all of this exposure, or alternatively increase exposure to preferred foreign currencies.

The reasonably possible change in currency rates as disclosed in this note are based on an analysis of the past 10 year volatility in various relevant exchange rates.

NOTE 8 - FINANCIAL RISK MANAGEMENT (continued)

(d) Market Risk (continued)

(i) Currency Risk (continued)

The following table summarises the Scheme's direct exposure to foreign currency risk on their monetary assets and liabilities net of any applied foreign currency hedges at 30 June 2017. The analysis calculates the effect on the Statement of Profit or Loss and Other Comprehensive Income of the reasonably possible change in currency rate against the Australian dollar with all other variables held constant.

| Currency | 2017 | | | | 2016 | | | |
|----------|-------------------------|------|---|-----|-------------------------|-------|---|---------|
| | Change in currency rate | | Effect on net profit attributable to unitholders \$'000 | | Change in currency rate | | Effect on net profit attributable to unitholders \$'000 | |
| | + | - | + | - | + | - | + | - |
| USD | 12 % | -8 % | (236) | 157 | 12 % | -10 % | 3,528 | (2,940) |
| Total | | | (236) | 157 | | | 3,528 | (2,940) |

(ii) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments.

There was no significant direct interest rate risk in the Scheme as at 30 June 2017 (2016: Nil).

(iii) Equity and Other Price Risk

Equity and other price risk is the risk that the fair value of equities and unit prices decrease as a result of changes in market prices, whether those changes are caused by factors specific to the individual stock or factors affecting all instruments in the market.

To mitigate the impact of equity and other price risk the investment process ensures there is diversification of equity exposures within the Scheme. The IM monitors equity and other price risk for both the unlisted investment funds and the Scheme.

Changes in price as disclosed in this note are based on an analysis of the historical monthly price movements of the unlisted equity investments held by the Scheme at financial reporting date. These represent what is considered to be a reasonably possible change rather than extreme fluctuations that may occur from time to time. As such, actual future market movement may differ.

The effect on the Statement of Profit or Loss and Other Comprehensive Income due to reasonably possible changes in market prices, with all other variables held constant are indicated in the following table:

| Category | 2017 | | | | 2016 | | | |
|---------------------------|-----------------|------|---|----------|-----------------|------|---|----------|
| | Change in price | | Effect on net profit attributable to unitholders \$'000 | | Change in price | | Effect on net profit attributable to unitholders \$'000 | |
| | + | - | + | - | + | - | + | - |
| Unlisted investment funds | 4 % | -4 % | 63,575 | (63,575) | 4 % | -6 % | 63,304 | (91,560) |
| Total | | | 63,575 | (63,575) | | | 63,304 | (91,560) |

(e) Liquidity and Cash Flow Risk

Net assets attributable to unitholders are repayable subject to conditions as stated in the IM. Under the IM, the Trustee may, from time to time, reject applications (in whole or in part), impose conditions or restrictions on redemptions, or invest in cash in accordance with the Scheme's investment strategies and with the conditions surrounding its investments. In addition, the Scheme's policy is to maintain sufficient cash and cash equivalents to meet normal operating requirements.

In accordance with the Scheme's policies, the Scheme's cash flows are managed by the Investment Manager, NAB Asset Management Services Limited (formerly named JANA Corporate Investment Services Limited).

The Scheme's liabilities are expected to be settled within less than one month, except for underlying investment management performance fees which are settled annually.

NOTE 8 - FINANCIAL RISK MANAGEMENT (continued)

(f) Derivatives

The Scheme's derivative financial instruments are susceptible to market price risk arising from uncertainties about future prices of the instruments.

As at 30 June 2017, the overall direct market exposures were as follows:

| | 30 June 2017 | | 30 June 2016 | |
|--|-----------------------------|---------------|-----------------------------|---------------|
| | Contract/Notional amount | Fair value | Contract/Notional amount | Fair value |
| | \$'000 | \$'000 | \$'000 | \$'000 |
| Derivative instruments held for trading | | | | |
| - Forward foreign exchange contracts | <u>17,039</u> | <u>15,545</u> | <u>16,283</u> | <u>11,583</u> |
| Total | <u>17,039</u> | <u>15,545</u> | <u>16,283</u> | <u>11,583</u> |

(g) Fair value of Financial Instruments

The Scheme's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table details how the fair values of these financial assets and financial liabilities, other than Level 1, are determined in particular, the valuation techniques applied where valuation techniques involve the use of non-market observable inputs.

| Financial assets/(financial liabilities) | Fair Value Hierarchy | Valuation Techniques |
|---|----------------------|---|
| Unlisted investment funds (e.g. unlisted managed investment schemes, partnerships and other securities) | 2 | Valued at redemption price as established by the trustee/fund manager of the underlying trust/entity. |
| Foreign exchange forward contracts | 2 | Valued based on observable market data i.e. broker quoted prices |

| Financial Instruments | 2017 | | | 2016 | | |
|------------------------------------|---------|-----------|---------|---------|-----------|---------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Unlisted investment funds | - | 1,589,385 | - | - | 1,585,619 | - |
| Foreign exchange forward contracts | - | 15,545 | - | - | 11,583 | - |
| Total | - | 1,604,930 | - | - | 1,597,202 | - |

There have been no movements into or out of Level 2 and Level 3 for the year ended 30 June 2017 and 30 June 2016.

NOTE 9 - NOTES TO THE STATEMENT OF CASH FLOWS

| | 2017 | 2016 |
|--|-----------------|---------------|
| | \$'000 | \$'000 |
| (a) Reconciliation of operating profit to net cash flows from operating activities | | |
| Net operating profit/(loss) | 65,204 | (18,044) |
| Changes in the fair value of financial assets and liabilities at fair value through profit or loss | (64,627) | 12,276 |
| Income reinvested | - | (971) |
| <i>Changes in the assets and liabilities during the financial year:</i> | | |
| (Increase)/decrease in distribution receivables | (11,906) | 19,446 |
| Decrease in other receivables | - | 313 |
| Increase in performance fees payable | 509 | - |
| Decrease in amounts owing to Investment Manager | (287) | (1,405) |
| Net cash (used in)/provided by operating activities | (11,107) | 11,615 |

(b) Cash and Cash equivalents

For the purposes of the Statement of Cash Flows, cash includes cash at bank and futures margin. Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

| | | |
|--------------|----------------|----------------|
| Cash at bank | <u>180,957</u> | <u>227,157</u> |
| | <u>180,957</u> | <u>227,157</u> |

(c) Non-cash financing and investing activities

| | | |
|---|----------|---------------|
| Distributions to unitholders reinvested | <u>-</u> | <u>13,471</u> |
| | <u>-</u> | <u>13,471</u> |

NOTE 10 - CHANGES IN THE FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2017 | 2016 |
|---|---------------|-----------------|
| | \$'000 | \$'000 |
| Net changes in the fair value of financial assets and liabilities through profit or loss: | | |
| Held for trading | 46,992 | (19,253) |
| Designated at fair value through profit or loss | 17,635 | 6,977 |
| | <u>64,627</u> | <u>(12,276)</u> |

NOTE 11 - EVENTS OCCURRING AFTER THE BALANCE DATE

There has not arisen in the interval between the year end and the date of this report any other item, transaction or event of a material and unusual nature likely, in the opinion of the Trustee, to significantly affect the operations of the Scheme, the result of those operations, or the state of affairs of the Scheme, in future financial years.

NOTE 12 - COMMITMENTS AND CONTINGENT LIABILITIES

The Scheme has no known commitments or contingent liabilities as at 30 June 2017 (2016: Nil).

Directors' declaration

In the opinion of the Directors of MLC Investments Limited, the Trustee of the Scheme:

The financial statements and notes set out on pages 3 to 17 are prepared in accordance with the requirements under the Scheme's Constitution, including:

- (a) giving a true and fair view of the financial position of the Scheme as at 30 June 2017 and its performance for the year ended on that date;
- (b) complying with Australian Accounting Standards;
- (c) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable; and
- (d) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

This declaration is made in accordance with a resolution of the Directors.

Director: CLAIRE KEATING

Signature: 

Dated at Sydney this 3rd November 2017

Independent Auditor's Report to the Unitholders of Low Correlation Strategy Trust

Opinion

We have audited the financial report of Low Correlation Strategy Trust, (the 'Scheme'), which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, notes to the financial statement, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report presents fairly, in all material respects, the financial position of the Scheme as at 30 June 2017, and its financial performance and its cash flows for the year then ended in accordance with Australian Accounting Standards.

Basis for Opinion

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

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

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

The directors are responsible for the other information. The other information is the directors' report accompanying the financial 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 and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and for such internal control as the directors determine is necessary to enable the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error.

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

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

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



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

Ernst & Young

Darren Handley-Greaves
Partner
Sydney
3 November 2017