



2023

ANNUAL REPORT

Yarra Australian Smaller
Companies Fund

Yarra Australian Smaller Companies Fund

ARSN 642 665 263

Annual financial report - 30 June 2023



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Directors' report

The directors of Yarra Funds Management Limited (ABN: 63 005 885 567; AFSL: 230251), the responsible entity ("Responsible Entity") and the investment manager ("Investment Manager") of the Yarra Australian Smaller Companies Fund ("the Scheme"), present their report together with the annual financial report of the Scheme for the year ended 30 June 2023.

Principal activities

The Scheme primarily invests in a range of securities listed on the Australian Securities Exchange and cash. The Scheme can utilise derivative financial instruments, such as futures contracts, to gain or reduce market exposure. This is in accordance with the governing documents of the Scheme.

The Scheme did not have any employees during the year.

Directors

The following persons held office as directors of Yarra Funds Management Limited during the year or since the end of the year and up to the date of this report:

Priscilla Boreham	
Roy Keenan	
Jennifer Horrigan	
Vito D'Introno	(Resigned 1 May 2023)
Naomi Edwards	(Appointed 1 May 2023)
Edward Eason	(Appointed 1 May 2023)

Review and results of operations

There have been no significant changes to the operations of the Scheme since the previous financial year.

During the year, the Scheme continued to invest in accordance with target asset allocations as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

Results

	Year ended	
	30 June 2023 \$'000	30 June 2022 \$'000
Operating profit/(loss)	15,847	(16,868)
Distribution paid and payable	2,298	7,138
<i>Distributions - Class A</i>		
Distributions paid and payable	1,514	5,896
Distributions – cents per unit (CPU)	2.1017	8.9398
<i>Distributions – Ordinary Class</i>		
Distributions paid and payable	784	1,242
Distributions – cents per unit (CPU)	1.4761	6.7600

Recent geo-political uncertainty, including conflict, political uncertainty and related tensions, have significantly impacted financial markets, commodity prices and global trade. Whilst not directly impacted by any such events, the Scheme's assets have been subject to valuation movements as a result of market uncertainties. The Responsible Entity continues to monitor the effects of unfolding events and will continue to actively manage the Scheme's asset portfolio in response to relevant developments.

Directors' report (continued)

Significant changes in state of affairs

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

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2023, that has significantly affected or may significantly affect:

- (i) the operations of the Scheme in future financial years; or
- (ii) the results of those operations in future financial years; or
- (iii) the state of affairs of the Scheme in future financial years.

Likely developments and expected results of operations

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

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

Indemnification and insurance of the Responsible Entity, directors and auditors

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to the Responsible Entity, directors or the auditors of the Scheme. As long as the Responsible Entity acts in accordance with the Scheme's Constitution and the Law, the Responsible Entity remains fully indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditors of the Scheme are in no way indemnified out of the assets of the Scheme.

Fees paid to and interests held in the Scheme by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Scheme property during the year are disclosed in note 13.

No fees were paid out of Scheme property to the directors of the Responsible Entity during the year.

The interests in the Scheme held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 13.

Directors' report (continued)

Environmental regulation

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

Rounding

The Scheme is of a kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* issued by the Australian Securities and Investments Commission relating to the "rounding" of amounts in the directors' report and annual financial report. Amounts in the directors' report and annual financial report for the Scheme have been rounded to the nearest thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise stated.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 6.

This report is made in accordance with a resolution of the directors.



Roy Keenan
Director

Melbourne
25 September 2023

26 September 2023

The Board of Directors
Yarra Funds Management Limited as Responsible Entity for
Yarra Australian Smaller Companies Fund
Level 19, 101 Collins Street
Melbourne VIC 3000

Dear Directors,

Auditor's Independence Declaration - Yarra Australian Smaller Companies Fund

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Yarra Funds Management Limited, the Responsible Entity, regarding the annual financial report for the Yarra Australian Smaller Companies Fund.

As lead audit partner for the audit of the annual financial report of the Yarra Australian Smaller Companies Fund for the financial year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours faithfully



DELOITTE TOUCHE TOHMATSU



Adam Kuziow
Partner
Chartered Accountants

Statement of comprehensive income

		Year ended	
		30 June 2023 \$'000	30 June 2022 \$'000
	Notes		
Investment income			
Interest income		129	-
Dividends/trust distributions		2,785	1,931
Net gains/(losses) on financial instruments at fair value through profit or loss	5	14,159	(17,798)
Total net investment income/(loss)		17,073	(15,867)
Expenses			
Responsible Entity's fees	13	1,123	831
Interest expense		-	1
Withholding tax expense		(57)	59
Transaction costs		163	110
Other expenses		(3)	-
Total expenses		1,226	1,001
Operating profit/(loss)		15,847	(16,868)
Finance costs attributable to unitholders			
Distributions to unitholders	4	(2,298)	(7,138)
(Increase)/decrease in net assets attributable to unitholders	3	(13,549)	24,006
Profit/(loss) for the year		-	-
Other comprehensive income for the year		-	-
Total comprehensive income/(loss) for the year		-	-

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

		As at	
		30 June	30 June
		2023	2022
	Notes	\$'000	\$'000
Assets			
Cash and cash equivalents	7	7,408	3,298
Applications receivable		146	111
Receivables		484	252
Margin accounts		489	119
Financial assets at fair value through profit or loss	6	151,159	79,169
Total assets		159,686	82,949
Liabilities			
Distributions payable	4	167	6,535
Redemptions payable		99	6
Payables		3,698	368
Total liabilities		3,964	6,909
Net assets attributable to unitholders – liability	3	155,722	76,040

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in equity

	Year ended	
	30 June 2023 \$'000	30 June 2022 \$'000
Notes		
Total equity at the beginning of the year	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
Total comprehensive income/(loss) for the year	-	-
Transactions with owners in their capacity as owners	-	-
Total equity at the end of the year	-	-

In accordance with AASB 132 *Financial Instruments: Presentation*, Unitholders' funds are classified as a liability and accordingly the Scheme has no equity for financial statement purposes. Further detail in this respect is included within note 3 to these financial statements.

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

	Notes	Year ended	
		30 June 2023 \$'000	30 June 2022 \$'000
Cash flows from operating activities			
Proceeds from sale of financial instruments at fair value through profit or loss		31,523	31,660
Purchase of financial instruments at fair value through profit or loss		(86,815)	(55,129)
Interest received		129	-
Dividend/trust distributions received		2,673	1,852
Other income received		60	-
Payment of expenses		(984)	(790)
Net cash inflow/(outflow) from operating activities	8(a)	(53,414)	(22,407)
Cash flows from financing activities			
Proceeds from applications by unitholders		70,660	22,316
Payments for redemptions by unitholders		(11,035)	(1,116)
Distributions paid		(2,101)	(334)
Net cash inflow/(outflow) from financing activities		57,524	20,866
Net increase/(decrease) in cash and cash equivalents		4,110	(1,541)
Cash and cash equivalents at the beginning of the year		3,298	4,839
Cash and cash equivalents at the end of the year	7	7,408	3,298
Non-cash financing activities	8(b)	6,566	4,458

The above statement of cash flows should be read in conjunction with the accompanying notes.

1 General information

The Scheme commenced on 31 August 2020. The Scheme will terminate on 30 August 2100 unless terminated earlier in accordance with the provisions of the Scheme's Constitution.

The Responsible Entity of the Scheme is Yarra Funds Management Limited. The Responsible Entity's registered office is Level 19, 101 Collins Street, Melbourne, Victoria 3000.

The purpose of the Scheme is to achieve medium-to-long term capital growth by investing in a diversified portfolio of smaller Australian companies. In doing so, the aim is to outperform the S&P/ASX Small Ordinaries Accumulation Index over rolling 3 year periods.

The annual financial report was authorised for issue by the directors on 25 September 2023. The directors of the Responsible Entity have the power to amend and reissue the annual financial report.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of this annual financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text.

(a) Basis of preparation

This general purpose annual report has been prepared on a going concern basis in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001* in Australia. Yarra Australian Smaller Companies Fund is a for-profit unit trust for the purpose of preparing the annual financial report.

The annual financial report was prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within twelve months, except for financial assets and liabilities at fair value through profit or loss and net assets attributable to unitholders. The Scheme manages financial assets at fair value through profit or loss based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within 12 months, however, an estimate of that amount cannot be determined as at balance date. In the case of net assets attributable to unitholders, the units are redeemed on demand at the unitholder's option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within 12 months cannot be reliably determined.

Compliance with International Financial Reporting Standards

The annual financial report of the Scheme also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(b) Financial instruments

(i) Classification

The Scheme's investments are classified as at fair value through profit or loss.

These are investments in equity securities, listed unit trusts and futures.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Recognition/derecognition

The Scheme recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date. Classification and measurement of securities is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Scheme has transferred substantially all risks and rewards of ownership.

(iii) Measurement

At initial recognition, the Scheme measures financial instruments at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the financial instruments at fair value through profit or loss are presented in the statement of comprehensive income within 'net gains/(losses) on financial instruments at fair value through profit or loss' in the period in which they arise.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Scheme is the last traded price and the quoted market price for financial liabilities is the current asking price.

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Scheme recognises the difference in the statement of comprehensive income to reflect a change in factors, including time, that market participants would consider in setting a price.

Further details on how the fair values of financial instruments are determined are disclosed in note 11.

(iv) 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.

(c) Investment income

Interest income is recognised on a time apportioned basis using the effective interest method. It mainly includes interest income from cash and cash equivalents and on fixed income securities at fair value through profit or loss.

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense. The Scheme currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the statement of comprehensive income.

Trust distributions are recognised on an entitlements basis.

(d) Expenses

All expenses are recognised in the statement of comprehensive income on an accruals basis.

2 Summary of significant accounting policies (continued)

(e) Distributions

The Scheme distributes its distributable income adjusted for amounts determined by the Responsible Entity in accordance with the Scheme's Constitution, to unitholders in the form of cash or via the issuance of units upon a reinvestment of distributions. The distributions are recognised as finance costs attributable to unitholders in the statement of comprehensive income. Distributions paid are included in cash flows from financing activities in the statement of cash flows.

(f) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Where relevant, bank overdrafts are shown as liabilities in the statement of financial position.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Scheme's main income generating activity.

(g) Margin accounts

Margin accounts comprise cash held as collateral for derivative transactions. The cash is held by the broker and is only available to meet margin calls.

(h) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(c) above. Amounts are generally received within 30 days of being recorded as receivables.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Scheme shall measure the loss allowance on amounts due from broker at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Scheme shall measure the loss allowance at an amount equal to 12-month expected credit losses.

(i) Payables

Payables include liabilities and accrued expenses owing by the Scheme which are unpaid as at the end of the reporting period.

Trades are recorded on trade date, and normally settled in line with market conventions. Purchases of financial instruments that are unsettled at the end of each reporting period are included in payables.

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately on the statement of financial position when unitholders are presently entitled to the distributable income.

(j) Net assets attributable to unitholders

The units in the Scheme represent puttable financial instruments and are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders.

The units can be put back to the Scheme at any time for cash based on the redemption price, which is equal to a proportionate share of the Scheme's net asset value attributable to the unitholders.

The units are carried at the redemption amount that is payable at the statement of financial position date if the unitholder exercises the right to put the unit back to the Scheme. This amount represents the expected cash flows on redemption of these units.

2 Summary of significant accounting policies (continued)

(j) Net assets attributable to unitholders (continued)

Units are classified as equity when they satisfy the following criteria under AASB 132 *Financial instruments: Presentation*:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Scheme's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Scheme, and it is not a contract settled in the Scheme's own equity instruments; and
- the total expected cash flows attributed to the puttable financial instrument over the life are based substantially on the profit or loss.

The units in the Scheme does not satisfy these requirements, and consequently net assets attributable to unitholders are classified as financial liabilities. Units in the Scheme can generally be redeemed at any time for cash equal to a proportionate share of the Scheme's net asset values, subject to restrictions on withdrawals as disclosed in the governing documents.

(k) Applications and redemptions

Applications received for units in the Scheme are recorded net of any entry fees payable where applicable, prior to the issue of units in the Scheme. Redemptions from the Scheme are recorded gross of any exit fees payable where applicable, after the cancellation of units redeemed.

(l) Goods and Services Tax ("GST")

Revenues, expenses and assets are recognised net of amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the assets or as part of the expense.

With respect to disclosures in the statement of financial position, payables are stated with the amount of GST included, while the net amount of GST recoverable from the ATO is included as a receivable.

Cash flows relating to GST are included in the statement of cash flows on a gross basis.

(m) Foreign currency translation

Functional and presentation currency

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

(n) Use of judgements and estimates

The preparation of the financial report in conformity with Australian Accounting Standards requires the Responsible Entity to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from the judgements and estimates made and assumptions applied.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

2 Summary of significant accounting policies (continued)

(n) Use of judgements and estimates (continued)

In the process of preparing the financial report of the Scheme and in the application of the Scheme's accounting policies, the Responsible Entity is of the opinion that there are no areas of significant estimation uncertainty or material judgement that have been exercised and is expected to have a significant effect on the amounts recognised within the financial report.

(o) Income tax

Under current legislation, the Scheme is not subject to income tax provided it attributes the entirety of its taxable income to its unitholders.

The benefit of imputation credits and foreign tax paid is passed on to unitholders.

(p) New accounting standards and interpretations

(i) New and amended standards adopted by the Scheme

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2022 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

(ii) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2023 and have not been early adopted in preparing this annual financial report. These new standards, amendments to standards and interpretations are not expected to have a material impact on the future annual financial report of the Scheme.

(q) Rounding

The Scheme is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding" of amounts in the directors' report and annual financial report. Amounts in the directors' report and annual financial report for the Scheme have been rounded to the nearest thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise stated.

3 Net assets attributable to unitholders

Under AASB 132 Financial instruments: Presentation, puttable financial instruments that meet the definition of equity are to be classified as equity where certain strict criteria are met. As the Scheme has a multi-class structure with non-identical features, its units do not meet the definition of equity. As such, the Scheme's units have been classified as a financial liability.

Movements in the number of units and net assets attributable to unitholders during the year were as follows:

	30 June 2023 No. of units (000)	30 June 2022 No. of units (000)	As at 30 June 2023 \$'000	30 June 2022 \$'000
Class A				
Opening balance	66,032	60,517	61,430	74,278
Applications	931	2,194	987	2,739
Redemptions	(647)	(276)	(683)	(346)
Units issued upon reinvestment of distributions	6,773	3,597	6,454	4,459
Increase/(decrease) in net assets attributable to unitholders	-	-	10,198	(19,700)
Closing balance	73,089	66,032	78,386	61,430

3 Net assets attributable to unitholders (continued)

	30 June 2023 No. of units (000)	30 June 2022 No. of units (000)	As at 30 June 2023 \$'000	30 June 2022 \$'000
Ordinary Class				
Opening balance	18,630	5	14,610	5
Applications	84,357	19,444	69,708	19,687
Redemptions	(12,237)	(819)	(10,446)	(776)
Units issued upon reinvestment of distributions	140	-	113	-
Increase/(decrease) in net assets attributable to unitholders	-	-	3,351	(4,306)
Closing balance	90,890	18,630	77,336	14,610
Total net assets attributable to unitholders			155,722	76,040

As stipulated within the Scheme's Constitution, each unit represents a right to an individual share in the Scheme and does not extend to a right to the underlying assets of the Scheme. For the year ended 30 June 2023, there were two separate classes of units and each unit has the same rights attaching to it as all other units in the same class of the Scheme. Unitholders of Class A and Ordinary Class units are both entitled to be notified of any general meetings regarding the Scheme, voting rights and distributions. The difference between the classes of units relate to fees as outlined in the Product Disclosure Statement and Additional Information Booklet.

Capital risk management

The amount of net assets attributable to unitholders can change significantly on a daily basis as the Scheme is subject to daily applications and redemptions at the discretion of unitholders.

Applications and redemptions are reviewed relative to the liquidity of the Scheme's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Scheme's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

4 Distributions to unitholders

The distributions paid and payable for the year were as follows:

	30 June 2023 \$'000	30 June 2023 CPU	Year ended 30 June 2022 \$'000	30 June 2022 CPU
Class A				
Distribution paid - September	569	0.7962	131	0.2010
Distribution paid - December	542	0.7517	396	0.6074
Distribution paid - March	310	0.4267	-	-
Distribution payable - June	93	0.1271	5,369	8.1314
	1,514	2.1017	5,896	8.9398

4 Distributions to unitholders (continued)

	Year ended			
	30 June 2023 \$'000	30 June 2023 CPU	30 June 2022 \$'000	30 June 2022 CPU
Ordinary Class				
Distribution paid - September	154	0.5293	8	0.0644
Distribution paid - December	358	0.5983	68	0.4368
Distribution paid - March	198	0.2672	-	-
Distribution payable - June	74	0.0813	1,166	6.2588
	<u>784</u>	<u>1.4761</u>	<u>1,242</u>	<u>6.7600</u>
Total distributions	<u>2,298</u>		<u>7,138</u>	

5 Net gains/(losses) on financial instruments at fair value through profit or loss

	Year ended	
	30 June 2023 \$'000	30 June 2022 \$'000
Financial assets		
Net gains/(losses) on financial assets at fair value through profit or loss	14,159	(17,798)
Total net gains/(losses) on financial instruments at fair value through profit or loss	<u>14,159</u>	<u>(17,798)</u>

6 Financial assets at fair value through profit or loss

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
Financial assets at fair value through profit or loss		
Futures	9	20
Listed equity securities	137,272	72,232
Listed unit trusts	13,878	6,917
Total financial assets at fair value through profit or loss	<u>151,159</u>	<u>79,169</u>

An overview of the risk exposures and fair value measurements relating to financial assets at fair value through profit or loss is included in notes 10 and 11.

7 Cash and cash equivalents

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
Cash at bank	<u>7,408</u>	<u>3,298</u>

8 Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities

	Year ended	
	30 June 2023 \$'000	30 June 2022 \$'000
(a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities		
Profit/(loss) for the year	15,847	(16,868)
Proceeds from sale of financial instruments at fair value through profit and loss	31,523	31,660
Purchase of financial instruments at fair value through profit or loss	(86,815)	(55,129)
Net (gains)/losses on financial instruments at fair value through profit or loss	(14,159)	17,798
Transaction costs	163	110
Trust distributions reinvested	-	(25)
Net change in receivables	(121)	12
Net change in payables	148	35
Net cash inflow/(outflow) from operating activities	(53,414)	(22,407)
(b) Non-cash financing activities		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	6,566	4,458

9 Derivative financial instruments

In the normal course of business the Scheme enters into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variables.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include many different instruments such as forwards, futures and options. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Scheme's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Underlying Scheme against a fluctuation in market values or to reduce volatility;
- a substitution for trading of physical securities;
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Scheme.

9 Derivative financial instruments (continued)

The Scheme holds the following derivative instrument:

Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

The Scheme's derivative financial instruments at year-ended are detailed below:

30 June 2023

	Contract/ notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
Futures	2,864	9	-

30 June 2022

	Contract/ notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
Futures	1,938	20	-

10 Financial risk management

The Scheme's assets principally consist of listed equity securities, listed unit trusts and futures. It holds these investments in accordance with its investment strategy.

The Scheme's investment activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Scheme uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of price, interest rate and foreign exchange risk.

The possible movements in the risk variables presented in the below sensitivity analysis have been determined based on management's best estimate, having regard for a number of factors, including historical changes in security prices. However, actual movements in these risk variables may be more or less significant and historic variations are not a definitive indicator of future variations in the risk variables.

The Board of Directors of the Responsible Entity has overall responsibility for the establishment and oversight of the Scheme's risk management framework. The Scheme's overall risk management program focuses on ensuring compliance with the Scheme's Investment Guidelines and seeks to maximise the returns derived for the level of risk to which the Scheme is exposed.

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Scheme's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Price risk

The Scheme is exposed to price risk from listed equity securities and listed units in managed investment schemes. This arises from investments held by the Scheme for which prices in the future are uncertain. These investments are classified on the statement of financial position as at fair value through profit or loss.

10 Financial risk management (continued)

(a) Market risk (continued)

(i) Price risk (continued)

The Investment Manager mitigates this price risk through diversification and a careful selection of securities and other financial instruments within specified limits in the Investment Guidelines. A minimum of 80% of the Scheme was invested in securities listed on the Australian Securities Exchange and up to 20% of the Scheme may be invested in cash. The Scheme aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over rolling 3 year periods.

The Scheme's performance with reference to the S&P/ASX Small Ordinaries Accumulation Index is reported to the Board of Directors of the Responsible Entity on a regular basis.

Summarised sensitivity analysis

The following table summarises the sensitivity of the Scheme's operating profit/(loss) and net assets attributable to unitholders to price risk. The possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market movements resulting from changes in the performance of and/or correlation between the performances of the economies, markets and securities in which the Scheme invests. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

	Impact on operating profit/(loss)/Net assets attributable to unitholders	
	Price risk	
	-15% \$'000	+15% \$'000
30 June 2023	(22,673)	22,673
30 June 2022	(11,872)	11,872

In determining the impact of an increase/decrease in net assets attributable to unitholders arising from market risk, the Responsible Entity has considered prior period and expected future movements of the portfolio information in order to determine a reasonably possible shift in assumptions.

(ii) Foreign exchange risk

In accordance with the Scheme's Investment Guidelines, the Scheme may not enter into transactions denominated in currencies other than Australian dollars. The Scheme therefore does not have any exposure to currency risk on financial instruments, receivables and liabilities. The functional currency of the Scheme is Australian dollars.

(iii) Interest rate risk

The Scheme's Investment Guidelines permit it to hold a 20% maximum in cash and cash equivalents, therefore the majority of the Scheme's financial assets and liabilities are non-interest bearing. Any excess cash and cash equivalents are invested at short-term market interest rates.

10 Financial risk management (continued)

(c) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Scheme.

Credit risk is controlled by restricting investments to high quality counterparties. The creditworthiness of all counterparties to the Scheme's list of investments is regularly reviewed. Credit risk primarily arises from investments in debt securities and from trading derivative products. Other credit risk arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. The Scheme is not permitted to invest in debt securities, however up to 20% of the value of the Scheme can be held in cash and cash equivalents. No assets of the Scheme were impaired at 30 June 2023 or 30 June 2022, and as a result credit risk is not considered to be a significant risk to the Scheme. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

(i) Settlement of securities transactions

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

(ii) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of A-1 or higher as determined by Standard & Poor's (S&P) (2022: A-1).

In accordance with the Scheme's policy, the Scheme's cash position is monitored on a daily basis.

(iii) Other

The clearing and depository operations for the Scheme's security and derivatives transactions are mainly concentrated with one counterparty, Citigroup Pty Ltd. Citigroup Pty Ltd is a member of a major securities exchange, and at 30 June 2023 had a credit rating of A (S&P) and A3 (Moody's) (2022: A (S&P) and A3 (Moody's)). At 30 June 2023, substantially all cash and cash equivalents, balances due from broker and investments are held in custody by Citigroup Pty Ltd.

(d) Liquidity risk

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

The Scheme is exposed to daily redemptions of redeemable units. The Scheme therefore primarily holds investments that are traded in an active market and can be readily disposed. The Scheme's listed securities are considered readily realisable, as they are listed on the Australian Securities Exchange.

Investments in unlisted unit trusts expose the Scheme to the risk that the Responsible Entity or Investment Manager of those trusts may be unable to fulfill the redemption requests within the timeframe requested by the Scheme.

The Scheme maintains adequate liquidity to pay withdrawals and distributions within the timeframes outlined in the Constitution. This is achieved by retaining sufficient liquid assets or access to other forms of liquidity to cover immediate liquidity requirements.

All financial liabilities of the Scheme have contractual maturities of less than 12 months.

11 Fair value measurements

The Scheme measures and recognises the following assets and liabilities at fair value on a recurring basis:

- Financial assets / liabilities at fair value through profit or loss (FVTPL).

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

(a) Fair value hierarchy

Classification of financial assets and financial liabilities

The Scheme classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgment by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

(i) Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Scheme values its investments in accordance with the accounting policies set out in note 2. For the majority of its investments, the Scheme relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Scheme is the last traded price; the appropriate quoted market price for financial liabilities is the current asking price. When the Scheme holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

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

11 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

(ii) Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Scheme would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. A forward contract is valued at the forward rate and the fair value of an option contract is determined by applying the Black Scholes option valuation model.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such trusts.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Scheme holds.

Recognised fair value measurements

The table below sets out the Scheme's financial assets and liabilities measured at fair value according to the fair value hierarchy at 30 June 2023 and 30 June 2022:

As at 30 June 2023

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Futures	9	-	-	9
Listed equity securities	137,272	-	-	137,272
Listed unit trusts	13,878	-	-	13,878
Total financial assets at fair value through profit or loss	151,159	-	-	151,159

As at 30 June 2022

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
Futures	20	-	-	20
Listed equity securities	72,232	-	-	72,232
Listed unit trusts	6,917	-	-	6,917
Total financial assets at fair value through profit or loss	79,169	-	-	79,169

11 Fair value measurements (continued)

(a) Fair value hierarchy (continued)

Recognised fair value measurements (continued)

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include listed equity securities, listed unit trusts and futures.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within level 2. These include unlisted unit trusts. As level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

There were no transfers between levels for recurring fair value measurements during the year ended 30 June 2023.

(b) Disclosed fair values

For all financial instruments other than those measured at fair value their carrying value approximates fair value.

(c) Valuation techniques used to derive level 2 and level 3 fair values

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Valuation techniques used to value financial instruments include:

- The use of quoted market prices or dealer quotes for similar instruments where available.
- The use of redemption values for investments in other unlisted unit trusts as reported by the Investment Manager of such trusts.
- The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include use of recent arm's length market transaction, historical transaction values, reference to the current fair value of a substantially similar other instrument that provide a reliable estimate of prices obtained in active market transactions.

12 Remuneration of auditors

During the year the following fees were paid or payable by the Responsible Entity for services provided by the auditor of the Scheme:

	Year ended	
	30 June 2023	30 June 2022
	\$	\$
<i>Audit and other assurance services</i>		
Audit and review of financial statements	12,265	11,440
Other assurance services	4,675	3,630
Total remuneration for audit and other assurance services	16,940	15,070
Total remuneration*	16,940	15,070

* The fees disclosed above are GST inclusive.

13 Related party transactions

Key management personnel unitholdings

At 30 June 2023 no key management personnel held units in the Scheme (2022: Nil).

Key management personnel compensation

The directors of the Responsible Entity have been paid by a related party of the Responsible Entity. Payments made from the Scheme to the Responsible Entity do not include any amounts directly attributable to the compensation of key management personnel.

Key management personnel loan disclosures

The Scheme has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period.

Other transactions with key management personnel

No key management personnel have entered into a material contract with the Scheme during the financial year and there were no material contracts involving key management personnel's interests existing at year end.

Responsible Entity's fees and other transactions

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Scheme and the Responsible Entity were as follows:

	30 June 2023 \$	30 June 2022 \$
Responsible Entity's fees* earned	1,123,458	830,745
Responsible Entity's fees* payable	356,054	207,657

* Includes amounts paid to the Responsible Entity for third party expenses it has incurred, for which it is entitled to be reimbursed

Related party unitholdings

Holdings in the Scheme by the Responsible Entity or other related parties:

2023							
Unitholder	No. of units held opening (Units)	No. of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	No. of units acquired (Units)	No. of units disposed (Units)	Distributions paid/payable by the Fund (\$)
Yarra Capital Management Services Pty Ltd	1,360,866	1,692,681	1,815,401	1.03	979,175	647,360	32,320
2022							
Unitholder	No. of units held opening (Units)	No. of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	No. of units acquired (Units)	No. of units disposed (Units)	Distributions paid/payable by the Fund (\$)
Yarra Capital Management Services Pty Ltd	821,572	1,360,866	1,282,480	1.61	814,797	275,503	117,307

14 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Scheme disclosed in the statement of financial position as at 30 June 2023 or on the results and cash flows of the Scheme for the year ended on that date.

15 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2023 and 30 June 2022.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the annual financial report and notes set out on pages 7 to 26 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2023 and of its performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.
- (c) Note 2(a) confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Roy Keenan
Director

Melbourne
25 September 2023

Independent Auditor's Report to the Unitholders of Yarra Australian Smaller Companies Fund

Opinion

We have audited the financial report of the Yarra Australian Smaller Companies Fund (the "Scheme") which comprises the statement of financial position as at 30 June 2023, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the annual financial report, including material accounting policy information and other explanatory information, and the Directors' declaration.

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

- Giving a true and fair view of the Scheme's financial position as at 30 June 2023 and of its financial performance for the year then ended; and
- Complying with Australian Accounting Standards and the Corporations Regulations 2001.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Scheme in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards) (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 confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Yarra Funds Management Limited (the "Responsible Entity"), would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors of the Responsible Entity (the "directors") are responsible for the other information. The other information comprises the information included in the Directors' report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Scheme to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Scheme or to cease operations, or has 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 judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme'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 Scheme'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 Scheme to cease to continue as a going concern.
- Evaluate the overall presentation, structure, and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

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

A handwritten signature in black ink that reads "Deloitte Touche Tohmatsu".

DELOITTE TOUCHE TOHMATSU

A handwritten signature in black ink that appears to read "Kuziow".

Adam Kuziow
Partner
Chartered Accountants

Melbourne, 26 September 2023