GMO SGM Major Markets Trust

ARSN 600 141 535

Annual report
For the financial year ended 30 June 2023

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Contents

Directors' report

The directors of GMO Australia Limited, the responsible entity ("Responsible Entity") of GMO SGM Major Markets Trust (the "Fund"), present their report together with the financial statements of the Fund for the financial year ended 30 June 2023.

Responsible Entity

GMO Australia Limited has been the Responsible Entity of the Fund since its registration in June 2014.

Principal activities

The Fund's investment objective is long-term total return. The Responsible Entity aims to produce a portfolio that seeks to outperform the Bloomberg Ausbond Bank Bill Index. The Fund plans to pursue its investment objective by taking long and short positions in a range of global equity, bond, commodity and currency markets using exchange-traded and over-the-counter ("OTC") derivatives, including futures, forward currency contracts, swaps and index options. The Fund may also make direct investments, including in equities and bonds. Investments held by the Fund are global in nature and may be denominated in a number of currencies.

The Fund did not have any employees during the financial year.

There were no significant changes in the nature of the Fund's activities during the financial year.

Directors

The following persons held office as directors of GMO Australia Limited during the financial year and since the end of the financial year and up to the date of this report, unless otherwise noted:

Mr Andrew Walker

Ms Carolyn Haley (resigned 31 December 2022)

Mr Gregory Pottle (Chairman)

Mr Jason Halliwell

Mr Zane Bernstein

Review and results of operations

During the financial year the Fund continued to invest in accordance with the investment objectives and guidelines as set out in the offering documents of the Fund and in accordance with the provisions of the Fund's constitution (the ″Constitution″).

Results

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

	Year ended	
	30 June 2023	30 June 2022
Operating profit/(loss) attributable to unitholders ($'000)	**5,996**	(6,176)
Distributions paid and payable ($'000)	**-**	-
Distribution (cents per unit)	**-**	-

There were no distributions declared for the year ended 30 June 2023 and 30 June 2022.

Directors' report (continued)

Unit redemption prices

The Fund's unit redemption prices (quoted ex-distribution where applicable) are shown as follows:

	2023 $	2022 $	2021 $	2020 $	2019 $
At 30 June	**1.05**	1.00	1.04	1.05	1.04

Significant changes in state of affairs

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

Matters subsequent to the end of the financial year

In the opinion of the directors, no matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect:

(i) the operations of the Fund in future financial years, or

(ii) the results of those operations in future financial years, or

(iii) the state of affairs of the Fund in future financial years.

Likely developments and expected results of operations

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

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

Russia's invasion of Ukraine beginning in February 2022 has had, and could continue to have, severe adverse effects on regional and global economic markets for securities and commodities. For example, in response to Russia's actions, various governments, including the member states within the European Union and the United States, issued a series of broad-ranging economic sanctions against Russia that, among other things (i) prohibit doing business with certain Russian companies, financial institutions and individuals (e.g., officials); (ii) the removal of Russian banks from the Society for Worldwide Interbank Financial Telecommunications (commonly referred to as "SWIFT"), the electronic banking network that connects banks globally; and (iii) restrict the Russian Central Bank from undermining the impact of the sanctions. In retaliation for the sanctions and other measures, Russia has imposed strict capital controls limiting the ability of foreigners to trade on the Moscow Stock Exchange and to sell, receive or deliver assets held in the custody of local Russian banks (such as equities of Russian companies and Rubles). These actions by the sanctioning countries have adversely affected (and similar actions in the future could adversely affect) the Russian economy and the value and liquidity of Russian securities. In particular, where a fund holds securities of a Russian issuer that is subject to blocking sanctions imposed by the U.S. Department of the Treasury's Office of Foreign Assets Control, those securities will be frozen and consequently unable to be sold or transferred. Moreover, the Russia/Ukraine conflict and related actions (such as those described above) have, and could continue to have, an adverse effect on global markets and liquidity, thereby negatively affecting the value of a fund's investments beyond any direct exposure to Russian issuers.

Directors' report (continued)

Further information on likely developments in the operations of the Fund and the expected results of those operations has not been included in this report because the Responsible Entity believes it would likely result in unreasonable prejudice to the Fund.

Indemnity and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regard to insurance coverage provided to either the officers of GMO Australia Limited or the auditors of the Fund.

In accordance with the Constitution of the Fund and the law, the officers of GMO Australia Limited are indemnified out of the assets of the Fund against losses incurred in the proper performance or exercise of any of their powers and duties in relation to the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

During the financial year, GMO Australia Limited's ultimate parent, Grantham, Mayo, Van Otterloo & Co. LLC ("GMO"), has paid an insurance premium in respect of a directors' and officers' liability insurance contract for the benefit of current and former directors and officers of GMO Australia Limited.

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

Fees paid to the Responsible Entity and its associates out of Fund property during the financial year are disclosed in note 15 of the financial statements.

No fees were paid out of the Fund's property to the directors of the Responsible Entity during the financial year.

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year is disclosed in note 15 of the financial statements.

Interests in the Fund

The changes in the number of units on issue in the Fund during the financial year and the number of units in the Fund on issue at the end of the financial year are disclosed in note 10 of the financial statements.

The value of the Fund's assets and liabilities is disclosed on the statement of financial position and is derived using the basis set out in note 2 of the financial statements.

Environmental regulation

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

Rounding of amounts to the nearest thousand dollars

The Fund is an entity of the kind referred to in Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 relating to the "rounding off" of amounts in the directors' report and financial statements. Amounts in the directors' report and financial statements have been rounded to the nearest thousand dollars unless otherwise indicated.

Directors' report (continued)

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.

Mr Andrew Walker
Director

Sydney
25 August 2023

Auditor's Independence Declaration

As lead auditor for the audit of GMO SGM Major Markets Trust for the year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

Joe Sheeran
Partner
PricewaterhouseCoopers

Sydney
25 August 2023

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Statement of comprehensive income

	Notes	Year ended 30 June 2023 $'000	30 June 2022 $'000
Investment income			
Interest income from financial assets at fair value through profit or loss		**1,843**	1,017
Interest income from financial assets at amortised cost		**472**	19
Net gains/(losses) on financial instruments at fair value through profit or loss	6	**4,934**	(5,019)
Other operating income		**37**	50
Total investment income/(loss)		**7,286**	(3,933)
Expenses			
Responsible Entity fees	15	**1,231**	2,162
Transaction costs		**59**	81
Total operating expenses		**1,290**	2,243
Profit/(loss) for the financial year	10	**5,996**	(6,176)
Other comprehensive income		**-**	-
Total comprehensive income/(loss) for the financial year		**5,996**	(6,176)

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

Statement of financial position

		As at	
		30 June 2023	30 June 2022
	Notes	**$'000**	$'000
Assets			
Cash and cash equivalents	12	**12,908**	6,976
Margin accounts		**7,047**	4,106
Receivables		**9**	9
Interest receivable		**279**	159
Financial assets at fair value through profit or loss	7, 9	**125,665**	102,003
Total assets		**145,908**	113,253
Liabilities			
Margin accounts		**2,119**	1,163
Payables		**430**	103
Redemption payable		**-**	250
Financial liabilities at fair value through profit or loss	8, 9	**2,907**	5,390
Total liabilities		**5,456**	6,906
Net assets attributable to unitholders - equity	10	**140,452**	106,347

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

Statement of changes in equity

	Notes	Year ended 30 June 2023 $'000	30 June 2022 $'000
Total equity at the beginning of the financial year		**106,347**	471,005
Comprehensive income/(loss) for the financial year			
Profit/(loss) for the financial year		**5,996**	(6,176)
Other comprehensive income/(loss)		**-**	-
Total comprehensive income/(loss)		**5,996**	(6,176)
Transactions with unitholders			
Applications	10	**29,987**	3,314
Redemptions	10	**(1,878)**	(361,796)
Reinvestment of distributions	10	**-**	-
Distributions paid and payable	10	**-**	-
Total transactions with unitholders		**28,109**	(358,482)
Total equity at the end of the financial year		**140,452**	106,347

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

Statement of cash flows

	Notes	**Year ended 30 June 2023 $'000**	Year ended 30 June 2022 $'000
Cash flows from operating activities			
Proceeds from sale of financial instruments at fair value through profit or loss		**142,546**	244,898
Purchase of financial instruments at fair value through profit or loss		**(163,705)**	91,504
Interest received		**2,143**	203
Amount received from/(paid to) brokers for margin		**(1,985)**	9,490
Other income received/(paid)		**255**	84
Responsible Entity fees paid		**(1,214)**	(2,455)
Other expenses paid		**-**	(74)
Net cash inflow/(outflow) from operating activities	13	**(21,960)**	343,650
Cash flows from financing activities			
Proceeds from applications by unitholders	10	**29,987**	3,314
Payments for redemptions by unitholders	10	**(2,128)**	(361,562)
Distributions paid		**-**	(246)
Net cash inflow/(outflow) from financing activities		**27,859**	(358,494)
Net increase/(decrease) in cash and cash equivalents		**5,899**	(14,844)
Cash and cash equivalents at the beginning of the financial year		**6,976**	21,834
Effects of foreign currency exchange rate changes on cash and cash equivalents		**33**	(14)
Cash and cash equivalents at the end of the financial year	12	**12,908**	6,976
Non-cash financing activities		**-**	-

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

Contents of the notes to the financial statements

1 General information

These financial statements cover GMO SGM Major Markets Trust (the "Fund") as an individual entity. The Fund was registered in June 2014. The Fund will terminate on 2 December 2094 unless terminated earlier in accordance with the provisions of the Fund's constitution (the "Constitution").

The responsible entity of the Fund is GMO Australia Limited (the "Responsible Entity"). The Responsible Entity's registered office is Suite 43.02, Grosvenor Place, 225 George Street, Sydney NSW 2000. The financial statements are presented in the Australian currency.

The Fund's investment objective is long-term total return. The Responsible Entity aims to produce a portfolio that seeks to outperform the Bloomberg Ausbond Bank Bill Index. The Fund plans to pursue its investment objective by taking long and short positions in a range of global equity, bond, commodity and currency markets using exchange-traded and OTC derivatives, including futures, forward currency contracts, swaps and index options. The Fund may also make direct investments, including in equities and bonds. Investments held by the Fund are global in nature and may be denominated in a number of currencies.

The financial statements were authorised for issue by the directors of the Responsible Entity on 25 August 2023. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 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 in the following text.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Accounting Standards Board and the *Corporations Act 2001*. The Fund is a for-profit entity for the purpose of preparing the financial statements.

These financial statements are the only financial statements presented by the Fund.

Certain reclassifications may have been made to previously reported amounts to conform to current year presentation, which had no impact on reported net assets.

These financial statements are 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 are not distinguished between current and non-current. Substantially all balances are expected to be recovered or settled within 12 months, except certain tax reclaims, if any, and net assets attributable to unitholders.

The Fund manages financial assets and liabilities 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 the reporting date.

In the case of net assets attributable to unitholders, the units are redeemable on demand at the unitholder's option (see note 2(c)). 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.

(i) Compliance with International Financial Reporting Standards

The financial statements of the Fund also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(ii) New accounting standards and interpretations

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 Fund.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) New standards, amendments and interpretations effective after 1 July 2023 and have not been early adopted

A number of new accounting standards, amendments to accounting standards and interpretations have been published that are effective for annual periods beginning after 1 July 2023, and have not been early adopted in preparing these financial statements. These standards, amendments or interpretations are not expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

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

(i) Classification

Assets

The Fund classifies its investments based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Fund's portfolio of financial assets is managed and performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Responsible Entity evaluates the information about these financial assets on a fair value basis together with other related financial information.

The contractual cash flows for derivatives do not represent solely payments of principal and interest ("SPPI"). Consequently, these investments are measured at fair value through profit or loss.

The contractual cash flows for debt securities are SPPI, however they are neither held for collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, the debt securities are measured at fair value through profit or loss.

The Fund held debt securities of $96,386,000 at 30 June 2023 (30 June 2022: $98,949,000).

Liabilities

The Fund may participate in short selling. Short sales are held for trading and are consequently classified as financial liabilities at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

(ii) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the relevant contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date forward.

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

(iii) Repurchase agreements

The Fund may enter into repurchase agreements with banks and brokers. Under a repurchase agreement the Fund acquires a security for a relatively short period for cash and obtains a simultaneous commitment from the seller to repurchase the security at an agreed upon price and date. The Fund, through its custodian, takes possession of securities it acquired under the repurchase agreement. The value of the securities acquired may be less than the amount owed to the Fund by the seller. If the seller in a repurchase agreement transaction defaults or enters into insolvency proceedings and the value of the securities subject to the repurchase agreement is insufficient, the Fund's recovery of cash from the seller may be delayed and, even if the Fund is able to dispose of the securities, the Fund may incur a loss equal to the difference between the cash it paid and the value of the securities. As at 30 June 2023, the Fund had investments in repurchase agreements with Commonwealth Bank of Australia with a gross value of $23,991,000 and net value of $23,632,000 with related collateral. As at 30 June 2022, the Fund had no investments in repurchase agreements.

2 Summary of significant accounting policies (continued)

(b) Financial assets and liabilities at fair value through profit or loss (continued)

(iv) Measurement

Financial assets and liabilities at fair value through profit or loss

At initial recognition, the Fund measures financial assets and financial liabilities at fair value, where fair value is deemed to equal cost. Transaction costs of financial assets and liabilities 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 assets and financial liabilities 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 price used for both financial assets and financial liabilities held by the Fund is the last quoted price, with the exception of some derivative instruments (see note 9).

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 Fund 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.

Refer to note 5 for more information on how the fair values of financial instruments are determined.

(v) Offsetting financial instruments

Financial assets and liabilities will be 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. Financial assets and liabilities, if any, are not currently offset based on current master netting arrangements.

Refer to note 4 for further information.

(c) Net assets attributable to unitholders

Units are usually redeemable at the unitholders' option. Redemptions may be suspended by the Responsible Entity under certain circumstances as set out in the Constitution including, for example, where it is impractical to calculate the Fund's net asset value due to an emergency, or the closure of a relevant exchange.

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

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

Units are classified as equity as they satisfy all of 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 Fund'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;

2 Summary of significant accounting policies (continued)

(c) Net assets attributable to unitholders (continued)

- Apart from the contractual obligation to redeem the units, 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 Fund, and it is not a contract settled in the Fund's own equity instruments; and

- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

(d) 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 and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and that are normally subject to an insignificant risk of changes in value.

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

(e) Margin accounts

Margin accounts are comprised of cash held as collateral for derivative and repurchase transactions. The deposits are held by the broker and are only available to meet margin calls. Margin account deposits are not included as a component of cash and cash equivalents.

(f) Investment income

Interest income from financial assets at amortised cost, if any, is generally recognised in the statement of comprehensive income using the effective interest method and includes interest from cash and cash equivalents. Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities. Other operating income primarily consists of gains and losses on assets and liabilities not designated as financial instruments at fair value through profit or loss on the statement of financial position.

(g) Expenses

With the exception of transaction costs, all expenses, including Responsible Entity fees, are recognised in profit or loss on an accruals basis. Transaction costs are booked as incurred.

(h) Income tax

The Fund intends to qualify and be operated as an Attribution Managed Investment Trust for Australian income tax purposes.

Under current law, the Fund is not subject to Australian income tax provided the taxable income of the Fund is distributed (either by cash or reinvestment) and/or attributed to unitholders.

Financial instruments at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the net gain will generally be distributed and/or attributed.

Realised net losses are not distributed or attributed to unitholders but are retained by the Fund to be offset against future realised gains, if any. Redemptions and/or purchases of a large number of units may limit the deductibility of certain losses.

2 Summary of significant accounting policies (continued)

(h) Income tax (continued)

Where the Fund incurs withholding tax imposed by certain countries on investment income and/or net gains, such amounts are generally recorded gross of withholding tax in profit or loss and any related foreign withholding tax is generally recorded as an expense. The benefits of foreign taxes paid may be passed through to unitholders. Taxes on non-Australian investment income are generally withheld in accordance with the applicable country's tax treaty with Australia. The Fund may be subject to taxation on net gains, repatriation proceeds and other transaction-based charges imposed by certain countries in which it invests.

(i) Distributions

In accordance with the Constitution, the Fund generally distributes its net income, gains, and foreign income tax offsets (as calculated using Australian tax principles), if any, adjusted for amounts determined by the Responsible Entity, which may include adjustments for prior year under or over distributions, to unitholders by cash or reinvestment. Distributions, if any, are recognised in the statement of changes in equity.

(j) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at financial year end exchange rates of assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Assets and liabilities in a foreign currency are translated using the exchange rates at the date when fair value was determined and marked-to-market daily. Translation differences on assets and liabilities carried at fair value are reported in the statement of comprehensive income on a net basis within net gains/(losses) on financial instruments at fair value through profit or loss.

(k) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the financial year. The due from brokers balance is held for collection and consequently measured at amortised cost.

These amounts are recognised initially at fair value and are subsequently measured at amortised cost. At each reporting date, the Fund measures the loss allowance on amounts due from brokers 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 Fund measures the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

2 Summary of significant accounting policies (continued)

(l) Receivables

Receivables may include amounts for interest and dividends. Dividends 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(f). Amounts are generally received within 30 days of being recorded as receivables.

These amounts are recognised initially at fair value and are subsequently measured at amortised cost. At each reporting date, the Fund measures the loss allowance on receivables 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 Fund measures the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

The amount of the impairment loss, if any, is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectable in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss. There were no material impaired receivables as at 30 June 2023 or 30 June 2022.

(m) Payables

Payables includes liabilities and accrued expenses owed by the Fund which are unpaid as at the end of the reporting period.

The Fund plans to distribute and/or attribute all of its taxable income to its unitholders each year. A separate distribution payable is recognised in the statement of financial position as at the end of each reporting period where a cash distribution amount, if any, remains unpaid as at the end of the reporting period.

(n) Applications and redemptions

Applications received for units in the Fund are recorded on the issue of units in the Fund. Redemptions from the Fund are recorded on the redemption of units in the Fund. There were no entry or exit transaction cost allowances on applications or redemptions during the financial years ended 30 June 2023 and 30 June 2022.

(o) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties, such as investment management fees, have been passed onto the Fund. The Fund is expected to qualify for Reduced Input Tax Credits (“RITC”) on certain expenses; hence Responsible Entity fees and other expenses have been recognised in the statement of comprehensive income inclusive of GST and net of any applicable RITC amounts. The net amount of GST recoverable from the Australian Taxation Office, if any, is included in receivables in the statement of financial position. Cash flows relating to GST are generally included in the statement of cash flows on a gross basis.

(p) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the current year and potentially the next financial year. Estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Certain financial instruments, for example, OTC derivatives or unquoted securities, may be fair valued using valuation techniques.

2 Summary of significant accounting policies (continued)

(p) Use of estimates (continued)

For certain other financial instruments, including amounts due from/to brokers, receivables and payables, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations may require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Refer to note 5 for further information on how fair value is calculated.

Refer to note 3 for more information on credit risk.

(q) Rounding of amounts

The Fund is an entity of the kind referred to in Australian Securities and Investments Commission Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, relating, to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that instrument, unless otherwise indicated.

3 Financial risk management

The Fund's activities expose it to a variety of financial risks including but not limited to: market risk (i.e. price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management program focuses on ensuring compliance with the Fund's offering documents. The Fund uses derivative financial instruments to, amongst other things, create and/or manage risk exposures.

The Responsible Entity stress tests the Fund on a regular basis using various measures.

The Responsible Entity also measures and monitors the Fund's exposure to a variety of risk factors, including common asset classes via market indices plus other factors including the currency carry trade.

The Fund's risk controls and reports are integral to the Fund's portfolio management processes and are reviewed by the portfolio management team regularly.

(a) Market risk

(i) Price risk

Price risk arises from investments held by the Fund for which prices in the future are uncertain. Where financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates.

The Fund's investment objective is long-term total return. The Responsible Entity aims to produce a portfolio that seeks to outperform the Bloomberg Ausbond Bank Bill Index. Over the 12 months to 30 June 2023 the realised standard deviation against the index was 7.1% per annum (2022: 6.4%).

The below stress test shows the impact on the Fund's net assets attributed to unitholders of a one-day movement of +/-10% in each of the below asset types with all other factors remaining unchanged. The 10% sensitivity factor has been chosen by the Responsible Entity to give an example of the possible changes in the net assets of the Fund under what may be considered abnormal market conditions. However, actual one day movement in these asset types may be greater or less than this due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests.

(a) USD moved by -/+ 10%; or

(b) All equity markets positions moved by -/+ 10%; or

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Price risk (continued)

(c) All bond markets positions moved by -/+ 10%; or

(d) All global commodity positions moved by -/+ 10%

The below stress test is based on the Fund's positions as at the specific dates shown. The Fund's positions, and therefore the impact on the Fund's net assets associated with the one-day movements outlined above, may vary materially from that shown below on any other particular date.

Stress Test	Carrying value ($'000)	Sensitivity impact (%)		Sensitivity impact ($'000)	
30 June 2023	**140,452**				
USD moved by -/+ 10%		**-1.7%**	**1.7%**	**(2,340)**	**2,340**
All equity markets positions moved by -/+ 10%		**-1.2%**	**1.2%**	**(1,753)**	**1,753**
All bond markets positions moved by -/+ 10%		**2.5%**	**-2.5%**	**3,482**	**(3,482)**
All global commodity positions moved by -/+ 10%		**0.8%**	**-0.8%**	**1,078**	**(1,078)**
30 June 2022	106,347				
USD moved by -/+ 10%		-0.0%*	+0.0%*	(35)	35
All equity markets positions moved by -/+ 10%		-1.8%	+1.8%	(1,911)	1,911
All bond markets positions moved by -/+ 10%		+0.9%	-0.9%	950	(950)
All global commodity positions moved by -/+ 10%		-0.8%	+0.8%	(874)	874

*For 30 June 2022 the sensitivity impact is 0.03% and rounds to 0.0.

(ii) Foreign exchange risk

Foreign exchange risk arises as the value of assets and liabilities denominated in currencies other than Australian dollars will fluctuate due to changes in exchange rates. The Responsible Entity monitors the exposure of all foreign currency denominated assets and liabilities. The risk is measured using the sensitivity analysis above.

The Fund does not designate any derivatives as hedges in a hedging relationship for accounting purposes and hence forward currency contracts are classified as at fair value through profit or loss.

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

The table below summarises the Fund's significant exposures that are denominated in a currency other than the Australian dollar.

30 June 2023	US Dollars A$'000	Swiss Franc A$'000	Euro A$'000	British Pounds A$'000	Other currencies A$'000
Financial assets					
Cash and cash equivalents	3,715	-	-	-	-
Margin accounts	5,857	-	327	122	741
Receivables	157	-	-	-	-
Financial assets at fair value through profit or loss	49,756	-	843	249	1,006
Total assets	59,485	-	1,170	371	1,747
Financial liabilities					
Payable for margin accounts	(1,886)	-	-	-	(91)
Financial liabilities at fair value through profit or loss	(1,276)	(277)	(92)	(219)	(1,046)
Total liabilities	(3,162)	(277)	(92)	(219)	(1,137)
Net assets attributable to unitholders - equity	56,323	(277)	1,078	152	610
Net increase/(decrease) in exposure from foreign currency forward contracts	(39,402)	(37,071)	23,749	14,976	(8,614)
Net exposure	16,921	(37,348)	24,827	15,128	(8,004)

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

30 June 2022	US Dollars A$'000	Japanese Yen A$'000	Canadian Dollars A$'000	British Pounds A$'000	Other currencies A$'000
Financial assets					
Cash and cash equivalents	2,701	-	-	-	-
Margin accounts	1,894	-	4	413	1,503
Receivables	62	-	-	-	-
Financial assets at fair value through profit or loss	51,442	106	21	281	54
Total assets	56,099	106	25	694	1,557
Financial liabilities					
Payable for margin accounts	(1,071)	(92)	-	-	-
Financial liabilities at fair value through profit or loss	(2,216)	(995)	(45)	(532)	(1,595)
Total liabilities	(3,287)	(1,087)	(45)	(532)	(1,595)
Net assets attributable to unitholders - equity	52,812	(981)	(20)	162	(38)
Net increase/(decrease) in exposure from foreign currency forward contracts	(47,676)	20,129	(6,038)	(6,128)	(3,712)
Net exposure	5,136	19,148	(6,058)	(5,966)	(3,750)

(iii) Interest rate risk

The Fund is exposed to interest rate risk on cash and cash equivalents, deposits held with brokers for margin and financial assets and liabilities at fair value through profit or loss.

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

The table below summarises the Fund's exposure to interest rate risks.

30 June 2023	Floating interest rate $'000	Fixed interest rate $'000	Non-interest bearing $'000	Total $'000
Financial assets				
Cash and cash equivalents	12,908	-	-	12,908
Margin accounts	7,047	-	-	7,047
Receivables	-	-	9	9
Interest receivable	-	-	279	279
Financial assets at fair value through profit or loss	67,056	53,771	4,838	125,665
Financial liabilities				
Payable for margin accounts	(2,119)	-	-	(2,119)
Payables	-	-	(430)	(430)
Financial liabilities at fair value through profit or loss	-	(4)	(2,903)	(2,907)
Total liabilities	84,892	53,767	1,793	140,452
Net increase/(decrease) in exposure from fixed interest rate futures (notional principal)	29,706	(29,706)	-	-
Net exposure	114,598	24,061	1,793	140,452

30 June 2022	Floating interest rate $'000	Fixed interest rate $'000	Non-interest bearing $'000	Total $'000
Financial assets				
Cash and cash equivalents	6,976	-	-	6,976
Margin accounts	4,106	-	-	4,106
Receivables	-	-	9	9
Interest receivable	-	-	159	159
Financial assets at fair value through profit or loss	76,611	22,684	2,708	102,003

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

30 June 2022	Floating interest rate $'000	Fixed interest rate $'000	Non-interest bearing $'000	Total $'000
Financial liabilities				
Payable for margin accounts	(1,163)	-	-	(1,163)
Payables	-	-	(103)	(103)
Redemption payable	-	-	(250)	(250)
Financial liabilities at fair value through profit or loss	-	(103)	(5,287)	(5,390)
Total liabilities	86,530	22,581	(2,764)	106,347
Net increase/(decrease) in exposure from fixed interest rate futures (notional principal)	9,201	(9,201)	-	-
Net exposure	95,731	13,380	(2,764)	106,347

An analysis of financial liabilities by maturity is provided in paragraph (c).

(b) Credit risk

The Fund is exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due.

Credit risk primarily arises from investments in debt securities and from trading derivative products. There is a risk that a loss may be sustained by the Fund as a result of the failure of the other party to a derivative (usually referred to as a "counterparty") to comply with the terms of the derivative contract. The Fund also may invest in derivatives that (i) do not require the counterparty to post collateral, (ii) require collateral but that do not provide for the Fund's security interest in it to be perfected, (iii) require significant upfront deposits unrelated to the derivatives' fundamental fair (or intrinsic) value, or (iv) do not require that collateral be regularly marked-to-market. When a counterparty's obligations are not fully secured by collateral, the Fund runs a greater risk of not being able to recover what it is owed if the counterparty defaults. Some derivatives transactions are required to be centrally cleared, and when the Fund is a party to a cleared derivatives transaction it is subject to the credit risk of the clearing house and the clearing member through which it holds its cleared position. Credit risk also arises from cash and cash equivalents held with financial institutions and amounts due from brokers. These assets are neither impaired nor past due as at the end of the reporting period. The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

At 30 June 2023 the Fund had exposure to counterparties with a credit rating of AA- or higher (30 June 2022: A- or higher). Management considers the probability of default to be low as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

Settlement of securities transactions

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

There were no significant concentrations of credit risk to counterparties at 30 June 2023 or 30 June 2022.

3 Financial risk management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous. The effect of liquidity risk is particularly pronounced when low trading volume, lack of a market maker, large size of position, or legal restrictions (including daily price fluctuation limits or ″circuit breakers″) limit or prevent the Fund from selling particular securities or unwinding derivative positions at desirable prices.

The Fund may be exposed to daily cash redemptions of redeemable units. It therefore primarily holds investments that are traded in an active market and that can be readily realised.

The Fund may invest in derivative contracts traded over the counter, which are not traded in an organised market and which may be illiquid. As a result, the Fund may not be able to quickly liquidate its investment in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer or counterparty.

Units are redeemed on demand subject to the terms of the Constitution. However, the Responsible Entity does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term. As at 30 June 2023, no single unitholder held more than 75% (2022: 93%) of the Fund's redeemable units.

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

As at 30 June 2023	**Less than 1 month $'000**	**1-6 months $'000**	**6-12 months $'000**	**1-2 years $'000**	**No stated maturity $'000**
Payable for margin accounts	**2,119**	-	-	-	-
Payables	**430**	-	-	-	-
Net assets attributable to unitholders	**140,452**	-	-	-	-
Total contractual undiscounted cash flows	**143,001**	-	-	-	-

As at 30 June 2022	Less than 1 month $'000	1-6 months $'000	6-12 months $'000	1-2 years $'000	No stated maturity $'000
Payable for margin accounts	1,163	-	-	-	-
Payables	103	-	-	-	-
Redemption payable	250	-	-	-	-
Net assets attributable to unitholders	106,347	-	-	-	-
Total contractual undiscounted cash flows	107,863	-	-	-	-

The table below summarises the Fund's gain or loss on net derivative financial instruments for which the contractual maturities are considered to be essential to an understanding of the timing of cash flows based on the Fund's investment strategies as at the financial year end.

3 Financial risk management (continued)

(c) Liquidity risk (continued)

As at 30 June 2023	**Less than 1 month $'000**	**1-6 months $'000**	**6-12 months $'000**	**Over 12 months $'000**	**No stated maturity $'000**
Net derivatives					
Forward currency contracts	**395**	**489**	**-**	**-**	**-**
Australian share price index futures	**-**	**40**	**-**	**-**	**-**
International share price index futures	**308**	**(1,626)**	**-**	**-**	**-**
Australian interest rate futures	**-**	**5**	**-**	**-**	**-**
International interest rate futures	**-**	**441**	**-**	**-**	**-**
International commodity futures	**(10)**	**2,106**	**-**	**-**	**-**
Index total return swaps	**-**	**20**	**213**	**-**	**-**
	693	**1,475**	**213**	**-**	**-**

As at 30 June 2022	Less than 1 month $'000	1-6 months $'000	6-12 months $'000	Over 12 months $'000	No stated maturity $'000
Net derivatives					
Forward currency contracts	(278)	(656)	-	-	-
Australian share price index futures	-	20	-	-	-
International share price index futures	(804)	(155)	-	-	-
Australian interest rate futures	-	(7)	-	-	-
International interest rate futures	-	250	-	-	-
International commodity futures	8	(432)	-	-	-
Index total return swaps	-	-	(282)	-	-
	(1,074)	(980)	(282)	-	-

(d) Other risks

Investing in managed funds involves many risks. The value of an interest in the Fund changes with the value of the Fund's investments. Many factors can affect this value, and investors may lose money by investing in the Fund. The risks of investing in the Fund depend on, among other factors, the types of investments in its portfolio and the investment strategies employed on its behalf, each of which may change over time. An investment in the Fund, by itself, generally does not provide a complete investment program but rather is intended to serve as part of an investor's overall investment program. The Fund will be exposed to risks through its direct investment in a given asset or asset class or indirectly by investing in an underlying fund or by investing in derivatives and/or synthetic instruments.

Russia's invasion of Ukraine beginning in February 2022 has had, and could continue to have, severe adverse effects on regional and global economic markets for securities and commodities. For example, in response to Russia's actions, various governments, including the member states within the European Union and the United States, issued a series of broad-ranging economic sanctions against Russia that, among other things (i) prohibit doing business with certain Russian companies, financial institutions and individuals (e.g., officials); (ii) the removal of Russian banks from the Society for Worldwide Interbank Financial Telecommunications (commonly referred to as "SWIFT"), the electronic banking network that connects banks globally; and (iii) restrict the Russian Central Bank from undermining the impact of the sanctions. In

3 Financial risk management (continued)

(d) Other risks (continued)

retaliation for the sanctions and other measures, Russia has imposed strict capital controls limiting the ability of foreigners to trade on the Moscow Stock Exchange and to sell, receive or deliver assets held in the custody of local Russian banks (such as equities of Russian companies and Rubles). These actions by the sanctioning countries have adversely affected (and similar actions in the future could adversely affect) the Russian economy and the value and liquidity of Russian securities. In particular, where a fund holds securities of a Russian issuer that is subject to blocking sanctions imposed by the U.S. Department of the Treasury's Office of Foreign Assets Control, those securities will be frozen and consequently unable to be sold or transferred. Moreover, the Russia/Ukraine conflict and related actions (such as those described above) have, and could continue to have, an adverse effect on global markets and liquidity, thereby negatively affecting the value of a fund's investments beyond any direct exposure to Russian issuers.

The Fund may be exposed to other risks, including those associated with the use of derivatives as described in note 9.

4 Offsetting financial assets and financial liabilities

Financial assets and liabilities will be 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. Financial assets and liabilities are not currently offset based on current master netting arrangements.

The Fund is party to International Swaps and Derivatives Association, Inc. Master Agreements ("ISDA Agreements") or other similar types of agreements (collectively, "Master Agreements") that generally govern the terms of some OTC derivative transactions. Under the terms of some of these arrangements, where certain credit or termination events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements will be terminated. Because no such event has occurred, the Fund does not presently have a legally enforceable right of set-off and these amounts have not been offset in the statement of financial position, but have been presented separately in the table below. The Master Agreements may include collateral posting terms and netting provisions that apply in the event of a default and/or termination event. Upon the occurrence of such an event, including the bankruptcy or insolvency of the counterparty, the Master Agreements may permit the non-defaulting party to calculate a single net payment to close out applicable transactions. However, there is no guarantee that the terms of a Master Agreement will be enforceable; for example, when bankruptcy or insolvency laws impose restrictions on or prohibitions against the right of offset. Additionally, the netting and close out provisions of a Master Agreement may not extend to the obligations of the counterparty's affiliates or across varying types of transactions. Termination events may also include a decline in the net assets of the Fund below a certain level over a specified period of time and may entitle a counterparty to elect to terminate early with respect to some or all the transactions under the Master Agreement with that counterparty. Such an election by one or more of the counterparties could have a material adverse impact on the Fund's operations.

The tables below present the Fund's derivative assets and liabilities net of amounts that may be available for offset under the Master Agreements by the terms of the agreement and net of related collateral received or pledged by the Fund as at 30 June 2023 and 30 June 2022:

4 Offsetting financial assets and financial liabilities (continued)

Financial assets	**Effects of offsetting on the statement of financial position**			**Related amounts not offset**		
	Gross amounts of financial assets	**Gross amounts set off in the statement of financial position**	**Net amount of financial assets presented in the statement of financial position**	**Amounts subject to master netting arrangements**	**Collateral received***	**Net Amount**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
30 June 2023						
Derivative financial instruments	**5,288**	**-**	**5,288**	**(2,528)**	**(45)**	**2,715**
Total	**5,288**	**-**	**5,288**	**(2,528)**	**(45)**	**2,715**
30 June 2022						
Derivative financial instruments	3,054	-	3,054	(2,670)	-	384
Total	3,054	-	3,054	(2,670)	-	384

Financial liabilities	**Effects of offsetting on the statement of financial position**			**Related amounts not offset**		
	Gross amounts of financial liabilities	**Gross amounts set off in the statement of financial position**	**Net amount of financial liabilities presented in the statement of financial position**	**Amounts subject to master netting arrangements**	**Collateral pledged***	**Net amount**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
30 June 2023						
Derivative financial instruments	**2,907**	**-**	**2,907**	**(2,528)**	**(191)**	**188**
Total	**2,907**	**-**	**2,907**	**(2,528)**	**(191)**	**188**
30 June 2022						
Derivative financial instruments	5,390	-	5,390	(2,670)	(1,356)	1,364
Total	5,390	-	5,390	(2,670)	(1,356)	1,364

*In some instances, the actual collateral received and/or pledged may be more than the amount shown.

5 Fair value measurement

The Fund 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) (see note 7 and 8)
- Derivative financial instruments (see note 9).

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

AASB 13 requires disclosure of fair value measurements by level of the following fair value hierarchy:

(a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);

(b) inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (level 2); and

(c) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

(i) Fair value in an active market (level 1)

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

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

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.

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

The fair value of financial assets and liabilities that are not traded in an active market is determined using various valuation techniques. These techniques may include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, quotes received from market makers of a particular security, industry standard derivative pricing models or any other valuation technique that the Responsible Entity believes provides a reliable estimate of the fair value of the particular asset or liability.

Some of the inputs used in valuation techniques may not be market observable and are therefore estimated based on assumptions made by the Responsible Entity. In addition, the output from any valuation technique 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 Fund holds.

5 Fair value measurement (continued)

(iii) Recognised fair value measurements

The tables below set out the Fund's direct financial assets and liabilities (by class) 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:				
Derivatives*	**3,052**	**2,236**	**-**	**5,288**
Debt securities	**-**	**96,386**	**-**	**96,386**
Repurchase agreements	**-**	**23,991**	**-**	**23,991**
Total	**3,052**	**122,613**	**-**	**125,665**
Financial liabilities at fair value through profit or loss:				
Derivatives*	**1,788**	**1,119**	**-**	**2,907**
Total	**1,788**	**1,119**	**-**	**2,907**

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:				
Derivatives*	1,868	1,186	-	3,054
Debt securities	-	98,949	-	98,949
Total	1,868	100,135	-	102,003
Financial liabilities at fair value through profit or loss:				
Derivatives*	2,988	2,402	-	5,390
Total	2,988	2,402	-	5,390

*The tables above are based on market values or unrealised appreciation/(depreciation) rather than the notional amounts of derivatives.

Because of the uncertainty inherent in pricing, and in particular financial assets and liabilities for which the fair value is determined using valuation techniques, the value determined for a particular security may be materially different from the value realised upon its sale.

"Quoted price" typically means the bid price for securities held long and the ask price for securities sold short. If a market quotation for a security does not involve a bid or an ask, the "quoted price" may be the price provided by a market participant or other third-party pricing source in accordance with the market practice for that security. If an updated quote for a security is not available by the time that the Fund calculates its net asset value on any business day, the Fund will generally use a quoted price from a prior day to value that security.

In the case of derivatives, prices determined by a model may reflect an estimate of the average of bid and ask prices, regardless of whether the Fund has a long position or a short position.

5 Fair value measurement (continued)

(iv) Transfers between levels

There were no transfers between levels in the fair value hierarchy in 2023 and 2022.

(v) Movement in level 3 instruments

There were no investments classified as level 3 within the Fund as at 30 June 2023 and 30 June 2022.

(vi) Valuation processes

Portfolio reviews are undertaken regularly to identify securities that potentially may not be actively traded or have stale security pricing. This process identifies securities which possibly could be regarded as being level 3 securities. Any changes in allocation to or from level 3 are analysed at the end of each reporting period.

(vii) Fair value of financial instruments not carried at fair value

The carrying value of trade receivables and trade payables are assumed to approximate their fair values.

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

Net gains/(losses) recognised in relation to financial assets and financial liabilities at fair value through profit or loss:

	Year Ended	
	30 June 2023	30 June 2022
	$'000	$'000
Financial assets		
Net gain/(loss) on financial assets at fair value through profit or loss	**40,804**	(57,768)
Financial liabilities		
Net gain/(loss) on financial liabilities at fair value through profit or loss	**(35,870)**	52,749
Total net gains/(losses) on financial instruments at fair value through profit or loss	**4,934**	(5,019)

7 Financial assets at fair value through profit or loss

	As at	
	30 June 2023	30 June 2022
	Fair value	Fair value
	$'000	$'000
Financial assets at fair value through profit or loss		
Derivatives:		
Forward currency contracts	**1,684**	504
Australian share price index futures	**40**	20
International share price index futures	**456**	1,494
Australian interest rate futures	**5**	-
International interest rate futures	**445**	346
International commodity futures	**2,106**	8
Index total return swaps	**552**	682
Government bonds	**46,611**	98,949
Australian money market securities	**49,775**	-
Repurchase agreements	**23,991**	-
Total financial assets at fair value through profit or loss	**125,665**	102,003

As at 30 June 2023 $13,029,000 (2022: $7,700,000) of U.S. government bonds was pledged as collateral for derivative purposes.

An overview of the risk exposures relating to financial assets at fair value through profit or loss is included in note 3.

8 Financial liabilities at fair value through profit or loss

	As at	
	30 June 2023	30 June 2022
	Fair value	Fair value
	$'000	$'000
Financial liabilities at fair value through profit or loss		
Derivatives:		
Forward currency contracts	**800**	1,438
International share price index futures	**1,774**	2,453
Australian interest rate futures	**-**	7
International interest rate futures	**4**	96
International commodity futures	**10**	432
Index total return swaps	**319**	964
Total financial liabilities at fair value through profit or loss	**2,907**	5,390

An overview of the risk exposure relating to financial liabilities at fair value through profit or loss is included in note 3.

9 Derivative financial instruments

Derivatives are financial contracts whose value depends on, or is derived from, the value of underlying assets, reference rates, or indices that are used to increase, decrease or adjust elements of the investment exposure of the Fund's portfolio. Derivatives may relate to securities, interest rates, currencies, currency exchange rates, inflation rates, commodities and indices and may include futures contracts, forward currency contracts, swap contracts, reverse repurchase agreements, and other exchange-traded and OTC contracts.

Derivatives are considered to be part of the investment process of the Fund. The use of derivatives is an essential part of the Fund's portfolio management. This section describes the use of derivatives by the Fund.

The Fund invests in a range of global equity, bond, currency, and commodity markets using exchange traded futures and forward currency contracts as well as making other investments.

The Fund may use derivatives to gain long and/or short investment exposure to global equities, bonds, currencies, commodities, or other assets. In particular, the Fund may use exchange traded futures and forward foreign exchange contracts to gain exposure to a range of global equity, bond, currency, and commodity markets. The Fund also may use currency derivatives (including forward currency contracts, futures contracts, swap contracts and options) to gain exposure to a given currency.

The Fund may use derivatives in an attempt to adjust its investment exposures. The Fund also may use currency derivatives in an attempt to reduce (which may result in a reduction below zero) some aspect of the currency exposure in its portfolio. For these purposes the Fund may use an instrument denominated in a different currency that the Responsible Entity believes is highly correlated with the relevant currency.

The Fund may use derivatives in an attempt to adjust elements of its investment exposures to individual commodities, various securities, sectors, markets, indices and currencies without actually having to sell existing investments or make new direct investments. For example, if the Fund holds a large proportion of a certain type of security or commodity and the Responsible Entity believes that another security or commodity will outperform such security or commodity, the Fund might use a short futures contract on an appropriate index (to synthetically "sell" a portion of the Fund's portfolio) in combination with a long futures contract on another index (to synthetically "buy" exposure to that index). In adjusting its investment exposure, the Fund also may use currency derivatives in an attempt to adjust its currency exposure, seeking currency exposure that is different (in some cases, significantly different) from the currencies in which its equities and fixed income instruments are traded.

As a result of its derivative positions, the Fund will typically have gross investment exposures in excess of its net assets (i.e., the Fund will be leveraged) and therefore is subject to heightened risk of loss. The Fund's performance can depend substantially, if not primarily, on the performance of assets or indices underlying its derivatives even though it does not own those assets or indices.

Certain derivatives transactions that may be used by the Fund are required to be transacted through a central clearing organisation. The Fund holds cleared derivatives transactions, if any, through clearing members, who are members of derivatives clearing houses. Certain other derivatives, including futures and certain options, are transacted on exchanges. The Fund holds exchange-traded derivatives through clearing brokers that are typically members of the exchanges. In contrast to bilateral derivatives transactions, following a period of advance notice to the Fund, clearing brokers generally can require termination of existing cleared or exchange-traded derivatives transactions at any time and increases in margin above the margin that it required at the beginning of a transaction. Clearing houses and exchanges also have broad rights to increase margin requirements for existing transactions and to terminate transactions. Any such increase or termination could interfere with the ability of the Fund to pursue its investment strategy. Also, the Fund is subject to execution risk if it enters into a derivatives transaction that is required to be cleared (or that the Responsible Entity expects to be cleared), and no clearing member is willing or able to clear the transaction on the Fund's behalf. In that case, the transaction might have to be terminated, and the Fund could lose some or all of the benefit of any increase in the value of the transaction after the time of the transaction.

The use of derivatives involves risks that are in addition to, and potentially greater than, the risks associated with investing directly in securities and other more traditional assets. Investors should refer to the offering documents for the Fund for detail of the risks inherent in investing in the Fund.

9 Derivative financial instruments (continued)

Forward currency contracts

The Fund may enter into forward currency contracts, including forward cross currency contracts. A forward currency contract is an agreement between two parties to buy and sell a currency at a set price, on a future date (or to pay or receive the amount of the change in relative values of the two currencies). The market price of a forward currency contract fluctuates with changes in forward currency exchange rates. The value of each of the Fund's forward currency contracts are marked-to-market daily using rates supplied by a quotation service and changes in value are recorded by the Fund as unrealised gains or losses. Realised gains or losses on the contracts are equal to the difference between the value of the contract at the time it was opened and the value at the time it was settled.

These contracts involve market risk in excess of the unrealised gain or loss. Forward currency contracts expose the Fund to the market risk of unfavourable movements in currency values and the risk that the counterparty will be unable or unwilling to meet the terms of the contracts. Most forward currency contracts are collateralised.

Futures contracts

The Fund may purchase and sell futures contracts. A futures contract is a contract that obligates the holder to buy or sell an asset at a predetermined delivery price at a specified time in the future. Some futures contracts are net settled. Upon entering into a futures contract, the Fund is required to deposit cash, U.S. government and agency obligations or other liquid assets with the futures clearing broker in accordance with the initial margin requirements of the broker or exchange. Futures contracts are generally valued at the settlement price established at the close of business each day by the board of trade or exchange on which they are traded. The value of the Fund's futures contracts is marked-to-market daily and an appropriate payable or receivable for the change in value ("variation margin") is recorded by the Fund. The payable or receivable is settled on the following business day. Gains or losses are recognised but not accounted for as realised until the contracts expire or are closed. Futures contracts involve, to varying degrees, risk of loss in excess of the variation margin. Under some circumstances, futures exchanges may establish daily limits on the amount that the price of a futures contract can vary from the previous day's settlement price, thereby effectively preventing liquidation of unfavourable positions. Futures contracts expose the Fund to the risk that it may not be able to enter into a closing transaction due to an illiquid market.

Swaps

A total return swap is an agreement between two parties to exchange their obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period. One party makes payments on a set rate in exchange for receiving the total return on a reference asset or index. Swap legs will be settled on a net basis with the counterparty.

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The Fund's directly held derivative financial instruments as at year end were as follows:

		Fair values	
30 June 2023	**Contract/ notional $'000**	**Assets $'000**	**Liabilities $'000**
Forward currency contracts	**191,792**	**1,684**	**800**
Australian share price index futures	**6,225**	**40**	**-**
International share price index futures	**171,429**	**456**	**1,774**
Australian interest rate futures	**500**	**5**	**-**
International interest rate futures	**31,116**	**445**	**4**
International commodity futures	**30,404**	**2,106**	**10**
Index total return swaps	**33,673**	**552**	**319**
	465,139	**5,288**	**2,907**

9 Derivative financial instruments (continued)

Swaps (continued)

30 June 2022	Contract/ notional $'000	Fair values Assets $'000	Fair values Liabilities $'000
Forward currency contracts	137,411	504	1,438
Australian share price index futures	343	20	-
International share price index futures	95,706	1,494	2,453
Australian interest rate futures	3,300	-	7
International interest rate futures	20,407	346	96
International commodity futures	9,219	8	432
Index total return swaps	21,445	682	964
	287,831	3,054	5,390

As at 30 June 2023, the Fund had gross contract/notional cost for futures as set out in the table above with the corresponding assets and liabilities shown at fair value.

As at 30 June 2023, the Fund held its foreign currency exposure with a gross notional value of $191,792,000 (2022: $137,411,000) comprising of buy $72,715,000 (2022: $46,993,000) and sale $119,077,000 (2022: $90,418,000) resulting in a net exposure of $(46,362,000) (2022: $(43,425,000)).

As at 30 June 2023, the Fund held its international share price index futures exposure with a gross notional value of $171,429,000 (2022: $95,706,000) comprising of buy $90,885,000 (2022: $58,001,000) and sale $80,544,000 (2022: $37,705,000) resulting in a net exposure of $10,341,000 (2022: $20,296,000).

10 Net assets attributable to unitholders

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

	As at			
	30 June 2023 No.'000	30 June 2022 No.'000	**30 June 2023 $'000**	30 June 2022 $'000
Opening balance	**106,447**	454,100	**106,347**	471,005
Applications	**29,516**	3,195	**29,987**	3,314
Redemptions	**(1,880)**	(350,848)	**(1,878)**	(361,796)
Profit/(loss) for the financial year	**-**	-	**5,996**	(6,176)
Closing balance	**134,083**	106,447	**140,452**	106,347

There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

Capital risk management

The Fund considers its net assets attributable to unitholders as capital. The amount of net assets attributable to unitholders can change significantly on a daily basis because, among other reasons, the Fund may be subject to daily applications and redemptions at the discretion of unitholders.

10 Net assets attributable to unitholders (continued)

Capital risk management (continued)

Applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets by the Responsible Entity. Under the terms of the Constitution, the Responsible Entity has the discretion to reject an application for units and to suspend redemption of units in certain circumstances including, for example, where it is impractical to calculate the Fund's net asset value due to an emergency, or the closure of a relevant exchange.

11 Distributions to unitholders

There were no distributions declared by the Fund for the years ended 30 June 2023 and 30 June 2022.

12 Cash and cash equivalents

	As at	
	30 June 2023	30 June 2022
	$'000	$'000
Cash at bank - domestic	**254**	845
Cash at bank - international	**3,715**	2,701
11 am deposits	**8,939**	3,430
	12,908	6,976

(a) Cash at bank - domestic

These accounts had a floating interest rate of 0.42% as at 30 June 2023 (2022: 0.00%).

(b) Cash at bank - international

These accounts had a floating interest rate of 1.52% as at 30 June 2023 (2022: 0.00%).

(c) 11am deposits

These accounts had a floating interest rate of between 3.85% and 3.95% as at 30 June 2023 (2022: between 0.70% and 0.75%).

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

	Year ended	
	30 June 2023	30 June 2022
	$'000	$'000
Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Profit/(loss) for the financial year	**5,996**	(6,176)
Net (gains)/losses on financial instruments at fair value through profit or loss	**(4,934)**	5,019
Proceeds from sale of financial instruments at fair value through profit or loss	**142,546**	244,898
Purchase of financial instruments at fair value through profit or loss	**(163,705)**	91,504
Net change in receivables and other assets	**(120)**	741
Net change in payables and other liabilities	**327**	(286)
Net interest bought/(sold)	**(52)**	(1,554)
Amount received from/(paid to) brokers for margin accounts	**(1,985)**	9,490
Exchange rate change on cash and cash equivalents	**(33)**	14
Net cash inflow/(outflow) from operating activities	**(21,960)**	343,650

Income not distributed is included in net assets attributable to unitholders. The change in this amount each financial year (as reported above) represents a non-cash financing cost as it is not settled in cash until such time as the distribution is paid.

14 Remuneration of auditors

During the financial year the following fees (excluding GST) were paid or payable for services provided by the auditor of the Fund:

	Year ended	
	30 June 2023	30 June 2022
	$	$
Auditors of the Fund - PwC and related network firms		
Audit and review of financial reports	**32,714**	30,844
Other assurance services		
Audit of compliance plan	**6,638**	7,734

Audit fees were paid by the Responsible Entity on behalf of the Fund.

15 Related party transactions

Responsible Entity

The Responsible Entity of the Fund is GMO Australia Limited.

15 Related party transactions (continued)

Key management personnel

(a) Directors

Key management personnel include persons who were directors of GMO Australia Limited at any time during the financial year, or up to the date of this report (unless otherwise noted), as follows:

Mr Andrew Walker

Ms Carolyn Haley (resigned 31 December 2022)

Mr Gregory Pottle (Chairman)

Mr Jason Halliwell

Mr Zane Bernstein

(b) Other key management personnel

Mr Sean Gleason – Member, Grantham, Mayo, Van Otterloo & Co. LLC and Senior Portfolio Manager.

Mr Vikram Mundkur – Member, Grantham, Mayo, Van Otterloo & Co. LLC.

There were no other persons with responsibility for strategic planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year.

Key management personnel unitholdings

The key management personnel of GMO Australia Limited held units in the Fund as follows:

30 June 2023

Unitholder	**Number of units held opening (Units)**	**Number of units held closing (Units)**	**Fair value of investment ($)**	**Interest held (%)**	**Number of units acquired (Units)**	**Number of units disposed (Units)**	**Distributions paid/payable by the Fund ($)**
Key management personnel	**234,136**	**234,136**	**245,257**	**0.17%**	**-**	**-**	**-**

30 June 2022

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Fair value of investment ($)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/payable by the Fund ($)
Key management personnel	234,136	234,136	233,925	0.22	-	-	-

Key management personnel compensation

Key management personnel are paid by an entity related to GMO Australia Limited and are not paid directly from the Fund.

Key management personnel loan disclosures

The Fund 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.

15 Related party transactions (continued)

Other transactions within the Fund

No key management personnel have entered into a material contract with the Fund since the end of the previous financial year and there were no material contracts involving directors' interests existing at financial year end.

Responsible Entity fees and other transactions

Under the terms of the Constitution, the Responsible Entity is entitled to receive management fees calculated by reference to the daily net assets of the Fund. The management fee is currently 1.00% (2022: 1.00%) plus GST per annum.

All expenses in connection with the preparation of accounting records and the maintenance of the unit register have been fully borne by the Responsible Entity.

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

	Year ended	
	30 June 2023	30 June 2022
	$	$
Management fees for the financial year paid and payable by the Fund to the Responsible Entity and related entities inclusive of GST and net of any applicable input tax credits	**1,231,213**	2,162,297
Aggregate amounts payable to the Responsible Entity and related entities at the end of the reporting period	**113,401**	95,745

Related party scheme's unitholdings

Other than noted above, the only other related party to the Fund as defined by AASB 124 is GMO Multi-Asset Trust, which held units in the Fund as follows (30 June 2022: Nil):

30 June 2023

Unitholder	Number of units held opening (Units)	Number of units held closing (Units)	Fair value of investment ($)	Interest held (%)	Number of units acquired (Units)	Number of units disposed (Units)	Distributions paid/payable by the Fund ($)
GMO Multi-Asset Trust	**-**	**28,793,842**	**30,161,549**	**21.47**	**28,793,842**	**-**	**-**

Investments

The Fund did not hold any investment in GMO Australia Limited or its related parties during the financial year (2022: Nil).

16 Events occurring after the reporting period

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

17 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and 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 financial statements and notes set out on pages 7 to 39 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its performance for the financial year ended on that date,

(b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable, and

(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.

Mr Andrew Walker
Director

Sydney
25 August 2023

Independent auditor's report

To the unitholders of GMO SGM Major Markets Trust

Our opinion

In our opinion:

The accompanying financial report of GMO SGM Major Markets Trust (the Fund) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2023
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the Directors' declaration.

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

Independence

We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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.

Other information

The Directors of GMO Australia Limited, as the Responsible Entity of the Fund are responsible for the other information. The other information comprises the information included in the annual 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 accordingly we do not express any form of assurance conclusion thereon through our opinion on the financial report.

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 on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the financial report

The Directors of the Responsible Entity of the Fund 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 Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the financial report.

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

PricewaterhouseCoopers

PricewaterhouseCoopers

Joe Sheeran

Joe Sheeran
Partner

Sydney
25 August 2023