

Sandhurst Strategic Income Fund

ARSN 151 201 106

Annual Report 2023

The responsible entity and issuer of this product is Sandhurst Trustees Limited ABN 16 004 030 737 AFSL 237906
a subsidiary of Bendigo and Adelaide Bank Limited ABN 11 068 049 178 AFSL 237879

Sandhurst Trustees

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		Sandhurst Strategic Income Fund ARSN 151 201 106

Directors' Report

The directors of Sandhurst Trustees Limited (the Responsible Entity) present this report on the Sandhurst Strategic Income Fund (the Fund) for the year ended 30 June 2023.

Directors

The name of each person who has been a director of Sandhurst Trustees Limited during the financial year and to the date of this report are:

Jennifer Lynn Dawson	Chair (retired 1 July 2022)
Vicki Carter	Chair (appointed 1 July 2022)
Richard John Baker	
Alexandra Maris Tullio	
Luke Davidson	

Company Secretary

The name of the Company Secretary at the end of the financial year and at the date of this report is:

Susan Kamler	(appointed 23 January 2023)
Melissa Lovell	(resigned 23 January 2023)

Principal activities

The principal activity of the Fund during the year was the investment in a diversified portfolio of domestic interest bearing securities across a range of maturities.

The Fund did not have any employees during the year.

No significant change in the nature of these activities occurred during the year.

Managed investment scheme

The Fund is an Australian registered managed investment scheme, and was constituted on 27 May 2011. Sandhurst Trustees Limited, the Responsible Entity of the Fund, is incorporated and domiciled in Australia.

Net assets attributable to unitholders

Net assets attributable to unitholders are classified and disclosed as a liability in the Statement of Financial Position. Consequently, the Fund has recognised distributions to unitholders as a finance cost in the Statement of Comprehensive Income.

Review of Results and Operations

Results and distributions	2023	2022
	\$'000	\$'000
Net profit/(loss) attributable to unitholders (before finance costs)	1,279	(300)

Distributions to unitholders paid in respect of the financial year were:

	2023	2022
	\$'000	\$'000
Distributions paid and payable		
Class "A"	604	101
Class "B"	384	174
Distribution (cents per unit)		
Class "A"	2.50	0.37
Class "B"	2.87	0.72

Performance

The performance of the Fund during the period is summarised in the following table.

	1 year (%)	
	Class "A"	Class "B"
Growth return	0.73	0.73
Distribution return	2.48	2.83
Total return	3.21	3.56
Benchmark return	2.89	2.89

Environmental, social and governance (ESG)

The operations of the Fund are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory. There have been no known significant breaches of any other environmental requirements applicable to the Fund.

Directors' Report (continued)

Significant changes in state of affairs

No significant changes in the Fund's state of affairs occurred during the year.

Significant events after the balance date

There has been no matter or circumstance that has arisen since the end of the financial year that significantly affected, or may affect, the Fund's operation in future financial years, the results of those operations or the Fund's state of affairs in future financial years.

Likely developments and expected results

The investment strategy of the Fund will be maintained in accordance with the Fund's Constitution and investment objectives as detailed in the most recent Product Disclosure Statement.

Options

No options over units in the Fund were granted during or since the end of the year and there were no options outstanding at the date of this report.

Indemnities and insurance premiums for officers or directors

Under the Fund's constitution, the Responsible Entity, including its officers and employees, is indemnified out of the Fund's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Fund.

The Fund has not indemnified any auditor of the Fund.

During the financial year each director and officer of the Responsible Entity was insured against liability and legal expenses incurred in their respective capacities. This insures against certain liability (subject to specified exclusions) for persons who are or have been directors of the Responsible Entity or executive officers of the Responsible Entity.

The Responsible Entity has not provided any insurance to a related body corporate or to an auditor of the Responsible Entity.

Units on Issue

The movement in units on issue of the Fund for the year was as follows:

	2023	2022
	Units '000	Units '000
Units issued	2,269	10,357
Units redeemed	(14,922)	(22,141)
Units on issue as at 30 June	31,595	44,248
	2023	2022
	\$'000	\$'000
Value of total Fund assets as at 30 June	36,749	45,700

The basis for valuation of the Fund's assets is disclosed in Note 2 to the financial statements.

Interests of the Responsible Entity

The interests in the Funds held by the Responsible Entity at the end of the year are disclosed in Note 11 to the financial statements.

The following fees were paid to Sandhurst Trustees Limited and its associates out of the Fund during the financial year:

	2023	2022
	\$'000	\$'000
Management fees paid/payable to the Responsible Entity.	267	344

Directors' Report (continued)

Auditor's Independence Declaration

A copy of the auditor's independence declaration is set out on the following page.

Rounding

The amounts contained in the financial report and the Directors' Report have been rounded off under the option available to the Fund under ASIC Class Order 2016/191. The Fund is an entity to which the Class Order applies, and in accordance with that Class Order, amounts in the Directors' Report and the financial report have been rounded to the nearest thousand dollars (where rounding is appropriate).

Signed in accordance with a resolution of the board of directors:



Vicki Carter
Chair
Melbourne
18 September 2023



**Building a better
working world**

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Auditor's Independence Declaration to the Directors of Sandhurst Trustees Limited, as Responsible Entity for the Sandhurst Strategic Income Fund

As lead auditor for the audit of the financial report of Sandhurst Strategic Income Fund for the financial year ended 30 June 2023, I declare 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;
- b. No contraventions of any applicable code of professional conduct in relation to the audit; and
- c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink, appearing to be 'Hayley Watson', written in a cursive style.

Hayley Watson
Partner
Melbourne
18 September 2023

Statement of Comprehensive Income

For the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Income			
Interest income	3(a)	1,356	603
Dividend income	3(b)	55	29
Net gains/(losses) on financial instruments at fair value through profit or loss	12	173	(588)
		<u>1,584</u>	<u>44</u>
Expenses			
Management fees	11(c)	(267)	(344)
Administration fees		(38)	-
		<u>(305)</u>	<u>(344)</u>
Net profit/(loss) attributable to unitholders (before finance costs)			
		1,279	(300)
Finance costs			
Distributions to unitholders	3(c)	(988)	(275)
Change in Net Assets Attributable to Unitholders		<u>291</u>	<u>(575)</u>

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

	Note	2023 \$'000	2022 \$'000
Assets			
Cash and cash equivalents	4	10,891	1,231
Other receivables	5	119	97
Financial assets at fair value through profit and loss	6	25,239	36,872
Financial assets at amortised cost	6	500	7,500
Total Assets		36,749	45,700
Liabilities			
Other payables	7	66	124
Distribution payable	3(c)	288	57
Total liabilities (excluding Net Assets Attributable to Unitholders)		354	181
Net Assets (Liability) Attributable to Unitholders	8(b)	36,395	45,519

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

Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Opening balance		45,519	58,172
Net profit/(loss) attributable to unitholders (before finance costs)		1,279	(300)
Distribution to unitholders	3(c)	(988)	(275)
Application for units		2,337	3,901
Redemption of units		(11,752)	(15,979)
Closing balance	8(b)	36,395	45,519

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

Statement of Cash Flows

For the year ended 30 June 2023

	Note	2023 \$'000	2022 \$'000
Cash flows from operating activities			
Proceeds from the sale of financial instruments		43,587	83,136
Proceeds from maturity of term deposits		7,500	-
Purchase of financial instruments		(32,281)	(83,194)
Interest received		1,332	589
Dividend income received		55	30
GST received		22	25
Management fees paid		(306)	(380)
Administration fees paid		(38)	-
Net cash flows from operating activities	9(b)	19,871	206
Cash flows from financing activities			
Proceeds from applications by unitholders		2,041	3,760
Payments for redemptions by unitholders		(11,791)	(15,963)
Distributions paid to unitholders		(461)	(253)
Net cash (used in) financing activities		(10,211)	(12,456)
Net increase/(decrease) in cash and cash equivalents		9,660	(12,250)
Cash and cash equivalents at the beginning of the year		1,231	13,481
Cash and cash equivalents at the end of the year	9(a)	10,891	1,231

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

Notes to the Financial Statements

1. Corporate information

The financial report of the Fund for the year ended 30 June 2023 was authorised for issue in accordance with a resolution of the directors of the Responsible Entity on 18 September 2023.

The Fund is a Managed Investment Scheme, constituted on 27 May 2011. Sandhurst Trustees Limited, the Responsible Entity of the Fund, is incorporated and domiciled in Australia.

2. Summary of significant accounting policies

(a) *Basis of Preparation*

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared in accordance with the historical cost convention, except for the valuation of investments in financial assets, which have been measured at fair value.

The Statement of Financial Position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. Additional information regarding this are included in the relevant notes. The financial statements are prepared on a going concern basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Fund under ASIC Class Order 2016/191.

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

(b) *Statement of compliance*

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board.

(c) *Changes in Accounting Policies*

New and amended standards and interpretations

The Fund applied for the first-time certain standards and amendments, which are effective for the year ended 30 June 2023. The Fund has not early adopted any other standard, interpretation or amendment that has been issued but not yet effective.

No amendment had an impact on the financial statements for the year ended 30 June 2023.

(d) *Financial instruments*

Classification

Financial assets

The Fund classifies its financial assets in the following measurement categories:

- those to be measured at fair value through profit or loss; and
- those to be measured at amortised cost

The Fund classifies its assets 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 Fund's policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

For equity securities and derivatives, the contractual cash flows of these instruments do not represent solely payments of principal and interest. Consequently, these investments are measured at fair value through profit or loss.

For debt securities, the contractual cash flows of these instruments represent solely payments of principal and interest, 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, these debt securities are measured at fair value through profit or loss.

For cash and cash equivalents and other receivables, these assets are held in order to collect the contractual cash flows. The contractual terms of these assets give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding. Consequently, these are measured at amortised cost.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

Financial liabilities

For financial liabilities that are not classified and measured at fair value through profit or loss, these are classified as financial liabilities at amortised cost (distributions payable and management fees payable).

Recognition and derecognition

The Fund 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.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liabilities are discharged.

Measurement

Financial instruments at fair value through profit or loss

At initial recognition, the Fund measures financial assets and financial liabilities at its fair value. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the statement of comprehensive income as part of management fee charged by the Responsible Entity.

Subsequent to initial recognition, all financial assets and 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 or liabilities at fair value through profit or loss' category are presented in the statement of comprehensive income in the period in which they arise. This also includes dividend expenses of short sales of securities, which have been classified at fair value through profit or loss. Interest earned on these instruments are recorded separately in interest revenue in the Statement of Comprehensive Income.

Financial instruments at amortised cost

For financial assets and financial liabilities at amortised cost, they are initially measured at fair value including directly attributable costs and are subsequently measured according to their classification using the effective interest method. Gains and losses are recognised in profit or loss when the assets and liabilities are derecognised, as well as through the amortisation process.

The effective interest method (EIR) is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating and recognising the interest income or interest expense in profit or loss over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of the financial asset or to the amortised cost of the financial liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instruments, but does not consider expected credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When an investment is disposed, the cumulative gain or loss, net of tax thereon, is recognised as realised gains and losses from the sale of financial instruments in the Statement of Comprehensive Income.

Impairment

At each reporting date, the Fund shall measure the loss allowance on financial assets at amortised cost (cash and cash equivalents and other 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 shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counter party, probability that the counter party will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that credit risk may have significantly increased. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. 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.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of Financial Position when the Fund has 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.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

As at the end of the reporting period, there are no financial assets or liabilities offset or with the right to offset in the Statement of Financial Position.

(e) Comparative revisions

Comparative information has been revised where appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. No changes to comparative information have been made.

(f) Income Tax

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

(g) Cash and cash equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents, in the Statement of Financial Position comprise cash on hand, demand deposits and short term deposits in banks with original maturities of three months or less which are subject to an insignificant risk of changes in value.

(h) Income

Income is recognised to the extent that it is probable that the economic benefits will flow to the Fund and the income can be reliably measured. The following specific recognition criteria must also be met before income is recognised.

(i) Dividend income

Dividend income are recognised as income when the right to receive the payment is established.

(ii) Interest income

Interest income from all interest bearing financial instruments are recognised on an accrual basis, using the effective interest rate method.

(iii) Investment income

Gains and losses on investments are calculated as the difference between the fair value at sale, or at the year end, and the fair value at the previous valuation point. This includes both realised gains and losses and unrealised gains and losses, but does not include interest or dividend income. These are included in the Statement of Comprehensive Income in the period they are incurred in accordance with the policies described in Note 2(d).

(i) Expenses

All expenses are recognised in the statement of Comprehensive Income on an accruals basis.

(j) Other receivables

Receivables are recognised and carried at the nominal amount, less provision for expected credit loss. Amounts are generally received within 30 days of being recorded as receivables. Outstanding other receivables are usually settled within three days.

(k) Distributions paid/payable

In accordance with the Fund's Constitutions, the Fund fully distributes its distributable income to unitholders. Distributions are payable at the end of each quarter. Such distributions are determined by reference to the taxable income of the Fund. Distributable income includes capital gains arising from the disposal of investments. Unrealised gains and losses on investments that are recognised as income are transferred to net assets attributable to unitholders and are not assessable and distributable until realised. Capital losses are not distributed to unitholders but are retained to be offset against any future realised capital gains. Distributions to unitholders are recognised in the Statement of Comprehensive Income as finance costs.

(l) Other payables

Fees, commissions and other expenses are carried at cost, which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Fund. Payables include outstanding settlements on the purchase of investments and management fees payable. The credit and payment terms are in line with market practice and is generally less than 30 days. Outstanding payables are usually settled within three days. Due to brokers represent payables for investments purchased that are unsettled at reporting date.

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

(m) **Net assets attributable to unitholders**

Non-distributable income is retained in net assets attributable to unitholders and may consist of unrealised changes in the net fair value of investments, accrued income not yet assessable, expenses provided or accrued for which are not yet deductible or net capital losses. Net capital gains on the realisation of any investments (including any adjustments for tax deferred income previously retained in net assets attributable to unitholders) and accrued income not yet assessable will be included in the determination of distributable income in the same year as it becomes assessable for tax. Movements in net assets attributable to unitholders are recognised in the Statement of Comprehensive Income as finance cost.

(n) **Unit Prices**

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

(o) **Terms and conditions on units**

The Fund offers more than one class of unit and the term used to describe this type of offering is called 'multi-class pricing'. An investor who applies directly for units in the Fund is defined as a "Direct Investor" and is issued with Class A units. While an investor who applies for units in the Fund through a master trust, wrap account or other investor directed portfolio service (collectively referred to as a Platform) is defined as a "Platform Investor" and is issued with Class B units.

Each unit issued confers upon the unitholder an equal interest in the Fund, but with different value as impacted by differences in the management fee rates. Class A units has a total management fee of 0.79% of its net asset value per annum while Class B units has 0.45% of its net asset value per annum.

A unit does not confer any particular asset or investment of the Fund. Unitholders have various rights under the Constitution and the *Corporations Act 2001 (cth)*, including the right to:

- have their units redeemed;
- receive income distributions;
- attend and vote at meetings of unitholders; and
- participate in the termination and winding up of the Fund.

The rights, obligations and restrictions attached to each unitholder are identical in all respects.

Redeemable units

Redeemable units are redeemable at the unitholders' option at anytime whilst the Fund is liquid for cash equal to a proportionate share of the Fund's net asset value (calculated in accordance with redemption requirements) and are classified as financial liabilities. The financial liability is disclosed on the Statement of Financial Position as 'Net Assets attributable to Unitholders (Liability)'. The units are classified as financial liabilities due to the fact that, in addition to the contractual obligation to pay cash to unitholders' upon redemption, the Fund also has compulsory distribution clauses in the Fund's Constitutions.

The liabilities arising from the redeemable units are carried at the redemption amount being the net asset value calculated in accordance with redemption requirements. The Fund's net asset value per unit is calculated by dividing the net assets attributable to unitholders (calculated in accordance with redemption requirements) by the number of units on issue.

This valuation of net assets is different from the Australian Accounting Standards valuation requirements. The difference between the two valuations is presented in Note 8(b) as 'Adjustment from sell-market prices to bid-market prices'.

(p) **Goods and services tax (GST)**

Income, expenses and assets, with the exception of receivables and payables, are recognised net of the amount of GST to the extent that the GST is recoverable from the taxation authority. Where GST is not recoverable, it is recognised as part of the cost of acquisition of the asset or part of the expense item as applicable.

Expenses incurred by the Fund are recognised net of the amount of GST which is able to be recovered from the Australian Taxation Office (ATO). Reduced input tax credits (RITC) recoverable by the Fund from the ATO are recognised as receivables in the Statement of Financial Position.

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

Notes to the Financial Statements (continued)

2. Summary of significant accounting policies (continued)

(q) Significant accounting judgments and estimates

The preparation of the Fund's financial statements does not require management to make any significant judgments, estimates and assumptions, except for the following, that affect the amounts recognised in the financial statements. The significant accounting policies have been consistently applied in the current financial year and the comparative period, unless otherwise stated. Where necessary, comparative information has been re-presented to be consistent with current period disclosures.

(i) Fair value of financial instruments.

The fair value of financial assets and financial liabilities recorded in the Statement of Financial Position is derived from both active markets and valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable. For financial instruments quoted in an active market (level 1 in the fair value hierarchy), the market price at measurement date provides the most reliable evidence of fair value. When fair value is based on an observable market price (level 2 in the fair value hierarchy), the quoted price at the measurement date provides the most reliable input.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

- a) quoted prices for similar assets or liabilities in active markets.
- b) quoted prices for identical or similar assets or liabilities in markets that are not active.
- c) inputs other than quoted prices that are observable for the asset or liability, for example:
 - i) interest rates and yield curves observable at commonly quoted intervals;
 - ii) implied volatilities; and
 - iii) credit spreads.
- d) market-corroborated inputs.

Level 3 inputs are unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that relevant observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. An entity develops unobservable inputs using the best information available in the circumstances, which might include the entity's own data, taking into account all information about market participant assumptions that is reasonably available.

(r) Capital Management

The Responsible Entity manages its net assets attributable to unitholders as capital; not withstanding net asset attributable to unitholders is classified as a liability. The amount of net asset attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders. The Responsible Entity monitors the level of daily applications and redemptions relative to the liquid assets in the Fund.

3. Income and distribution to unitholders

	2023 \$'000	2022 \$'000
(a) Interest income		
Interest income	1,356	603
(b) Dividend income		
Dividend income	55	29
(c) Distributions to unitholders		
Distributions to unitholders	988	275

Notes to the Financial Statements (continued)

3. Income and distribution to unitholders (continued)

	2023		2022	
	\$'000	CPU*	\$'000	CPU*
Class A				
Interim distributions paid				
30 September	102	0.39	29	0.10
31 December	134	0.54	42	0.15
31 March	185	0.78	5	0.02
Final distribution payable				
30 June	183	0.78	25	0.10
Distributions to unitholders	<u>604</u>	<u>2.50</u>	<u>101</u>	<u>0.37</u>
Class B				
Interim distributions paid				
30 September	74	0.49	53	0.20
31 December	89	0.63	65	0.25
31 March	116	0.87	24	0.10
Final distribution payable				
30 June	105	0.88	32	0.17
Distributions to unitholders	<u>384</u>	<u>2.87</u>	<u>174</u>	<u>0.72</u>

* Denotes Cents Per Unit

4. Cash and cash equivalents

	2023	2022
	\$'000	\$'000
Cash at bank	162	50
11AM call deposits	6,729	681
Short-term deposits less than 3 months	4,000	500
	<u>10,891</u>	<u>1,231</u>

5. Other receivables

	2023	2022
	\$'000	\$'000
Interest receivable	115	91
GST receivable	4	6
	<u>119</u>	<u>97</u>

Refer to Note 2(j) for terms and conditions of other receivables.

6. Financial assets

	2023	2022
	\$'000	\$'000
Financial assets at fair value through profit or loss		
Exchange traded futures	4	-
Money market securities	-	3,960
Corporate bonds	13,396	15,881
Asset-backed securities	11,839	17,031
	<u>25,239</u>	<u>36,872</u>
Financial assets at amortised cost		
Term deposits	500	7,500
	<u>500</u>	<u>7,500</u>

Notes to the Financial Statements (continued)

6. Financial assets (continued)

Fair value of financial instruments

The fair value of financial assets at amortised cost approximates its carrying value as at 30 June 2023.

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

Level 1 fair value measurements are those instruments valued based on quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements are those instruments valued based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements are those instruments valued based on inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss				
As at 30 June 2023				
Exchange traded futures	4	-	-	4
Corporate bonds	1,273	12,123	-	13,396
Asset-backed securities	-	-	11,839	11,839
	<u>1,277</u>	<u>12,123</u>	<u>11,839</u>	<u>25,239</u>
As at 30 June 2022				
Money market securities	-	3,960	-	3,960
Corporate bonds	1,366	14,515	-	15,881
Asset-backed securities	-	-	17,031	17,031
	<u>1,366</u>	<u>18,475</u>	<u>17,031</u>	<u>36,872</u>

Valuation technique

Unlisted debt securities and treasury bills

Unlisted debt and treasury bills includes money market securities, corporate bonds, subordinate notes and asset-backed securities. The Fund invests in unlisted debt securities and treasury bills and in the absence of a quoted price in an active market, they are valued using observable inputs such as recently executed transaction prices in securities of the issuer or comparable issuers and yield curves. Adjustments are made to the valuations when necessary to recognise differences in the instrument's terms. To the extent that the significant inputs are observable, the Fund categorises these investments as Level 2. Where inputs are unobservable, the Fund categorises investments as Level 3.

The Fund recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between levels during the year ended 30 June 2023.

Level 3 reconciliation

The following table shows a reconciliation of all movements in the fair value of items categorised within level 3 between the beginning and the end of the year:

	2023 \$'000	2022 \$'000
Starting balance	17,031	12,369
Transfers into Level 3	-	6,442
Purchases	6,500	5,359
Sales	(11,653)	(6,961)
Fair value gain/(loss)	(39)	(178)
Ending Balance	11,839	17,031

Sensitivity analysis

For Level 3 Asset-backed securities (ABS's), the unobservable pricing input is broker quotes. If the input was to change +/- 5% the impact on the value of these Asset backed securities would be approximately +/- \$591,976.

Notes to the Financial Statements (continued)

7. Other payables

	2023 \$'000	2022 \$'000
Management fees payable	66	85
Redemption Payable	-	39
	<u>66</u>	<u>124</u>

Refer to Note 2(l) for terms and conditions of other payables.

8. Net assets attributable to unitholders

	Class "A" '000	Class "B" '000	Units Total '000
(a) Units on issue			
As at 30 June 2023			
Balance at the beginning of the year	26,085	18,163	44,248
Applications			
- Cash	666	1,314	1,980
- Reinvested distributions	273	16	289
Redemptions	<u>(3,669)</u>	<u>(11,253)</u>	<u>(14,922)</u>
Balance at the end of the year	<u>23,355</u>	<u>8,240</u>	<u>31,595</u>
As at 30 June 2022			
Balance at the beginning of the year	29,463	26,569	56,032
Applications			
- Cash	895	9,363	10,258
- Reinvested distributions	90	9	99
Redemptions	<u>(4,363)</u>	<u>(17,778)</u>	<u>(22,141)</u>
Balance at the end of the year	<u>26,085</u>	<u>18,163</u>	<u>44,248</u>

	2023 \$'000	2022 \$'000
(b) Reconciliation of net assets attributable to unitholders		
Net assets attributable to unitholders (calculated in accordance with redemption requirements)	36,389	45,533
Adjustment from sell-market prices to bid-markets prices	6	(14)
Net assets attributable to unitholders (calculated in accordance with Australian Accounting Standards)	<u>36,395</u>	<u>45,519</u>

9. Notes to the Statement of Cash Flows

	2023 \$'000	2022 \$'000
(a) Reconciliation of cash		
Cash at bank	162	50
11AM call deposits	6,729	681
Short-term deposits less than 3 months	<u>4,000</u>	<u>500</u>
	<u>10,891</u>	<u>1,231</u>
(b) Reconciliation of change in net assets attributable to unitholders to net cash flows from operating activities		
Change in net assets attributable to unitholders	291	(575)
Adjustments for:		
Distributions to unitholders	988	275
Unrealised Gains/(losses) on investments	(173)	588
Proceeds from the sale of financial instruments	43,587	83,136
Proceeds from maturity of term deposits	7,500	-
Purchases of financial instruments	(32,281)	(83,194)
(Increase)/decrease in interest receivable	(24)	12
Decrease in GST receivables	2	-
(Decrease) in management fees payable	(19)	(36)
Net cash provided by operating activities	<u>19,871</u>	<u>206</u>
(c) Non-cash financing activities		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	<u>296</u>	<u>98</u>

Notes to the Financial Statements (continued)

10. Financial risk management objectives and policies

(a) Financial risk management objectives, policies and processes

Risks arising from holding financial instruments are inherent in the Funds activities, and are managed through a process of ongoing identification, measurement and monitoring. The Fund is exposed to interest rate risk, market risk, liquidity risk and credit risk. Financial instruments of the Fund comprise investments in financial assets for the purpose of generating a return on the investment for unitholders.

The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments.

The risks are measured using a method that reflects the expected impact on the results and the net assets attributable to unitholders of the Fund from reasonably possible changes in the relevant risk variables. Information about these risk exposures at the reporting date, measured on this basis, is discussed below. Information about the total fair value of financial instruments exposed to risk, as well as compliance with established investment mandate limits, is also monitored by the Responsible Entity. These mandate limits reflects the investment strategy and market environment of the Fund, as well as the level of risk the Fund is willing to accept, with additional emphasis on selected industries.

This information is prepared and reported to relevant parties within the Responsible Entity on a regular basis as deemed appropriate.

(b) Credit Risk

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

With respect to credit risk arising from the financial assets of the Funds, the Fund exposure to credit risk arises from the default of the counterparty, with the current exposure equal to the fair value of these instruments as disclosed in the Statement of Financial Position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date. The Fund minimises credit risk by investing in an approved list of debt securities whilst excluding direct investment in commodities, foreign currency and physical property. Credit risk is monitored, in an effort to identify any potential defaults before they occur.

Financial assets subject to AASB 9's impairment requirements

The Fund determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 30 June 2023 and 30 June 2022, cash and cash equivalents and other receivables are held with counterparties with a credit rating of BBB- or higher and are either callable on demand or due to be settled within 1 week. Management consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

The Fund holds no collateral as security or any other credit enhancements. The Fund invests in domestic interest bearing securities with at least investment grade credit rating as rated by S&P, Moody's or Fitch. There have been no historical defaults. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired.

(c) Liquidity Risk

Liquidity risk is the risk that the Fund will encounter difficulty in realising assets or otherwise raising funds to meet commitments associated with financial instruments. The Fund manages liquidity risk by investing a portion of total assets in cash and other short-term interest bearing securities that ordinarily can be readily converted into cash and also performs liquidity modelling and forecasting.

Maturity analysis for financial liabilities

Financial liabilities of the Fund comprise other payables, distributions payable and net assets attributable to unitholders. Other payables and distributions payable have no contractual maturities but are typically settled within 30 days.

The table below summarises the maturity profile of the Fund's financial liabilities based on contractual undiscounted cash flows.

The analysis into relevant maturity groupings is based on the remaining period at the end of the reporting period to the contractual maturity date.

Notes to the Financial Statements (continued)

10. Financial risk management objectives and policies (continued)

(c) Liquidity Risk (continued)

	Less than 3 months \$'000	3 to 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
As at 30 June 2023						
Financial liabilities						
Other payables	66	-	-	-	-	66
Distribution payable	288	-	-	-	-	288
Net assets attributable to unitholders	36,395	-	-	-	-	36,395
	36,749	-	-	-	-	36,749
As at 30 June 2022						
Financial liabilities						
Other payables	124	-	-	-	-	124
Distribution payable	57	-	-	-	-	57
Net assets attributable to unitholders	45,519	-	-	-	-	45,519
	45,700	-	-	-	-	45,700

(d) Market Risk

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

(e) Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of interest bearing financial instruments. The Fund have established limits on investments in interest bearing asset classes, which are monitored monthly with Bloomberg AusBond Bank Bill Index as the funds' performance benchmark. The Fund regularly monitors the impact of changes in interest rates on the underlying portfolios and considers the impact of any rate changes prior to making investment decisions.

The tables below summarise those assets and liabilities with exposure to interest rate risk:

	Floating Interest rate \$'000	Fixed Interest rate \$'000	Non-interest bearing \$'000	Total \$'000
30 June 2023				
Assets				
Cash	10,891	-	-	10,891
Receivables	-	-	119	119
Financial assets at fair value through profit or loss	24,241	998	-	25,239
Financial assets at amortised cost	-	500	-	500
Total assets	35,132	1,498	119	36,749
Liabilities				
Distributions payable	-	-	288	288
Other payables	-	-	66	66
Total liabilities	-	-	354	354
Net Exposure / Net assets attributable to unitholders (equity)	35,132	1,498	(235)	36,395
30 June 2022				
Assets				
Cash	1,231	-	-	1,231
Receivables	-	-	97	97
Financial assets at fair value through profit or loss	36,872	-	-	36,872
Financial assets at amortised cost	-	7,500	-	7,500
Total assets	38,103	7,500	97	45,700
Liabilities				
Distributions payable	-	-	57	57
Other payables	-	-	124	124
Total liabilities	-	-	181	181
Net Exposure / Net assets attributable to unitholders (equity)	38,103	7,500	(84)	45,519

Notes to the Financial Statements (continued)

10. Financial risk management objectives and policies (continued)

(e) Interest Rate Risk (continued)

The following table demonstrates the sensitivity of the Fund's profit/(loss) for the year to a reasonably possible change in interest rates, with all other variables held constant.

The sensitivity of the profit/(loss) for the year is the effect of the assumed changes in interest rates on:

- The net interest income for one year, based on the financial assets held at the balance date; and
- Changes in fair value of investments for the year, based on revaluing fixed rate financial assets at balance date.

Market Index	Change in interest rate		Sensitivity of interest income		Sensitivity of changes in fair value of investments	
	Increase/Decrease %	Increase/Decrease %	Increase/Decrease \$'000	Increase/Decrease \$'000	Increase/Decrease \$'000	Increase/Decrease \$'000
30 June 2023						
Bloomberg Ausbond Bank Bill Index AUD	0.2	(0.2)	(66)	66	(50)	50
30 June 2022						
Bloomberg Ausbond Bank Bill Index AUD	0.2	(0.2)	(79)	79	(89)	89

Accounting assumptions - Variability of interest rates

The reasonable possible movements in the Bloomberg Ausbond Bank Bill Index have been based on the volatility of change in this index over the last 5 years. This analysis is an estimate only, as actual movements in this index may be greater or less than anticipated due to a number of factors, including unusually larger market shocks resulting from changes in the performance of the markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

11. Related party disclosures

(a) Responsible Entity

The Responsible Entity of the Fund is Sandhurst Trustees Limited (Sandhurst).

The controlling entity of Sandhurst is Bendigo and Adelaide Bank Limited (ABN 11 068 049 178).

(b) Details of Key Management Personnel

Sandhurst Trustees Limited, the Responsible Entity of the Fund, is considered to be Key Management Personnel with the authority for the strategic direction and management of the Fund.

	2023 Units	2022 Units
(c) Fees and other related party transactions		
The amount of units held by the Responsible Entity in the Fund	5,235,799	5,235,799
	2023 \$'000	2022 \$'000
Management fees paid/payable to Sandhurst Trustees Limited as the Responsible Entity in accordance with the provisions of the Fund's Constitution		
Management fees expensed	267	344
Management fees payable	66	85

The Responsible Entity is entitled to receive a total management fee of 0.79% of the net asset value of Class A and 0.45% of the net asset value of Class B (inclusive of GST, net of reduced input tax credits available to the Fund).

The Fund has not made or given, guaranteed or secured, directly or indirectly, any loans, shares, options and other equity holdings to the directors or their personally-related entities at any time during the reporting year.

Cash at Bank of \$75,879 (2022: \$49,876) and term deposits of \$nil (2022: \$1,500,000) are held with Bendigo and Adelaide Bank Limited, the parent entity of Sandhurst Trustees Limited as Responsible Entity of the Fund.

Notes to the Financial Statements (continued)

11. Related party disclosures (continued)

(d) Investments

Details of investments held in the Fund by other fund's, of which Sandhurst Trustees Limited is also the Responsible Entity are set out below:

	Units held '000	Fair value of units \$'000	Interest held (%)	Units purchased '000	Units sold '000	Distribution received or receivable \$'000
30 June 2023						
Bendigo Defensive Wholesale Fund	6	6	0.02%	-	(827)	-
Bendigo Conservative Wholesale Fund	2,861	2,961	8.15%	-	(2,381)	88
Bendigo Balanced Wholesale Fund	1,252	1,296	3.57%	-	(1,213)	49
Bendigo Growth Wholesale Fund	857	887	2.44%	-	(243)	26
30 June 2022						
Bendigo Defensive Wholesale Fund	833	856	1.88%	-	(726)	9
Bendigo Conservative Wholesale Fund	5,242	5,386	11.85%	-	(3,879)	57
Bendigo Balanced Wholesale Fund	2,465	2,533	5.57%	-	(3,643)	37
Bendigo Growth Wholesale Fund	1,100	1,130	2.49%	483	(728)	10

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

	2023 \$'000	2022 \$'000
Unrealised gains/(losses) during the year	161	(575)
Realised gains/(losses) during the year	12	(13)
	<u>173</u>	<u>(588)</u>

13. Segment information

The Fund operates in one business segment, being investment management. The Fund also operates from one geographic location, being Australia, from where its investing activities are managed, and all securities invested are listed in Australia. The Fund primarily invests in a diversified portfolio of domestic interest bearing securities across a range of maturities.

14. Auditor's remuneration

	2023 \$'000	2022 \$'000
Fees of the year due to Ernst & Young for:		
- an audit and review of the financial report of the Fund	15	12
- compliance plan audit	6	6
	<u>21</u>	<u>18</u>

15. Contingent asset and liabilities and commitments

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

16. Events after the reporting date

Since 30 June 2023 there has not been any matter or circumstances not otherwise dealt with in the financial report that has significantly affected or may significantly affect the Fund.

Responsible Entity's declaration to the Unitholders of the Sandhurst Strategic Income Fund

The directors of the Responsible Entity declare that:

- (a) the financial statements and notes of the Fund are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of the Fund as at 30 June 2023 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations), the Fund's Constitutions and the *Corporations Act 2001*;
- (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.
- (c) the financial statements are in accordance with the provisions of the Fund's Constitution; and
- (d) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.

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



Vicki Carter
Chair
Melbourne
18 September 2023



**Building a better
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Independent Auditor's Report to the Unitholders of Sandhurst Strategic Income Fund

Opinion

We have audited the financial report of Sandhurst Strategic Income Fund (the Fund), which comprises the statement of financial position as at 30 June 2023, the statement of comprehensive income, statement of changes in net assets attributable to unitholders and statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the declaration to unitholders.

In our opinion, the accompanying financial report of 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 ended on that date; and
- b) 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 Fund 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

The directors of Sandhurst Trustees Limited, as the responsible entity of the Fund are responsible for the other information. The other information is the directors' report accompanying the financial report.

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

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

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

Responsibilities of the Directors for the Financial Report

The directors of Sandhurst Trustees Limited, as the responsible entity, 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 Fund's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the 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 this financial report.

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

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



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- 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 'Ernst & Young' in a cursive style.

Ernst & Young

A handwritten signature in black ink that reads 'Hayley Watson' in a cursive style.

Hayley Watson
Partner
Melbourne
18 September 2023

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