

Permal Absolute Return Trust

ARSN 127 064 546

Annual report

For the year ended 30 June 2017

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This annual report covers Permal Absolute Return Trust as an individual entity.

The Responsible Entity of Permal Absolute Return Trust is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975).

The Responsible Entity's registered office is:
Level 1, 575 Bourke Street,
Melbourne, VIC 3000.

Directors' report

The directors of Equity Trustees Limited, the Responsible Entity of Permal Absolute Return Trust (the "Fund"), present their report together with the financial statements of the Fund, for the year ended 30 June 2017.

Principal activities

The Fund invests in a strategically diversified portfolio of hedge funds via an investment in the EnTrustPermal Absolute Return Fund Australian dollar class (the "Underlying Fund") in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

The Fund did not have any employees during the year.

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

The various service providers for the Fund are detailed below:

Service	Provider
Responsible Entity	Equity Trustees Limited
Investment Manager	EnTrustPermal Ltd.
Custodian and Administrator	BNP Paribas Fund Services Australasia Pty Limited
Statutory Auditor	PricewaterhouseCoopers

Directors

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

Philip D Gentry	Chairman
Harvey H Kalman	
Martin G Walsh	(resigned 9 June 2017)
Geoffory R Rimmer	(resigned 4 October 2016)
Ian C Westley	(appointed 12 December 2016)

Review and results of operations

During the year, the Fund continued to invest its funds in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

The Fund's performance was 11.99% (net of fees) for the year ended 30 June 2017.

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

	Year ended	
	30 June 2017	30 June 2016
Operating profit/(loss) before finance costs attributable to unit holders (\$'000)	53,281	(72,906)
Class A		
Distributions paid and payable (\$'000)	32,683	229,162
Distributions (cents per unit)	20.84	40.55
Class B		
Distributions paid and payable (\$'000)	229	4,455
Distributions (cents per unit)	20.69	40.30

Directors' report (continued)

Significant changes in the state of affairs

Geoffory R Rimmer resigned as a director of Equity Trustees Limited on 4 October 2016.

Ian C Westley was appointed as a director of Equity Trustees Limited on 12 December 2016.

Martin G Walsh resigned as a director of Equity Trustees Limited on 9 June 2017.

In the opinion of the directors, there were no other 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

As at 30 June 2017, the directors of the Responsible Entity made the decision to terminate the Fund within 12 months of the date the Director's Declaration was executed, being 26 September 2017. Consequently, the directors of the Responsible Entity have determined that the going concern basis of preparation is no longer appropriate and the financial statements have been prepared on a liquidation basis.

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may have a significant effect on:

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

Indemnification and insurance of officers

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to the officers of Equity Trustees Limited. So long as the officers of Equity Trustees Limited act in accordance with the Fund's Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

Indemnification of auditor

The auditor of the Fund is in no way indemnified out of the assets of the Fund.

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

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

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

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

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 8 to the financial statements.

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

Environmental regulation

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

Rounding of amounts to the nearest thousand dollars

Amounts in the Directors' report have been rounded to the nearest thousand dollars in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, 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 5.

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

A handwritten signature in blue ink, appearing to read 'P.D. Gentry', with a stylized flourish at the end.

Philip D Gentry
Chairman

Melbourne
26 September 2017



Auditor's Independence Declaration

As lead auditor for the audit of Permal Absolute Return Trust for the year ended 30 June 2017, 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.

A handwritten signature in blue ink, appearing to read 'G. Sagonas'.

George Sagonas
Partner
PricewaterhouseCoopers

Melbourne
26 September 2017

Statement of comprehensive income

		Year ended	
		30 June	30 June
		2017	2016
	Note	\$'000	\$'000
Investment income			
Interest income		367	119
Net gains/(losses) on financial instruments held at fair value through profit or loss	5	<u>58,185</u>	<u>(62,415)</u>
Total investment income/(loss)		<u>58,552</u>	<u>(62,296)</u>
Expenses			
Responsible Entity fees	15	264	447
Management fees	15	4,795	9,961
Custody and administration fees		143	130
Other expenses		<u>69</u>	<u>72</u>
Total expenses		<u>5,271</u>	<u>10,610</u>
Operating profit/(loss)		<u>53,281</u>	<u>(72,906)</u>
Finance costs attributable to unit holders			
Distributions to unit holders	9	(32,912)	(233,617)
(Increase)/decrease in net assets attributable to unit holders	8	<u>(20,369)</u>	<u>306,523</u>
Profit/(loss) for the year		-	-
Other comprehensive income		-	-
Total comprehensive income for the year		<u>-</u>	<u>-</u>

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

Statement of financial position

		30 June 2017 \$'000	As at 30 June 2016 \$'000
	Note		
Assets			
Cash and cash equivalents	10	10,626	8,757
Due from brokers - receivable for securities sold		-	821,041
Receivables	12	16	23
Financial assets held at fair value through profit or loss	6	171,476	-
Total assets		<u>182,118</u>	<u>829,821</u>
Liabilities			
Distributions payable		32,912	3,791
Payables	13	366	4,341
Total liabilities (excluding net assets attributable to unit holders)		<u>33,278</u>	<u>8,132</u>
Net assets attributable to unit holders - liability	8	<u>148,840</u>	<u>821,689</u>

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

Statement of changes in equity

	Year ended	
	30 June	30 June
	2017	2016
	\$'000	\$'000
Total equity at the beginning of the financial year		
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
Total comprehensive income	-	-
Transactions with owners in their capacity as owners	-	-
Total equity at the end of the financial year	-	-

Under Australian Accounting Standards, net assets attributable to unit holders are classified as a liability rather than equity. As a result, there was no equity at the start or end of the financial year.

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

Statement of cash flows

		Year ended	
		30 June 2017	30 June 2016
	Note	\$'000	\$'000
Cash flows from operating activities			
Proceeds from sale of financial instruments held at fair value through profit or loss		1,528,791	49,580
Purchase of financial instruments held at fair value through profit or loss		(821,041)	(2,960)
Interest income received		365	117
GST received		9	342
Responsible Entity fees paid		(267)	(491)
Management fees paid		(6,119)	(10,260)
Custody and administration fees paid		(147)	(69)
Other expenses paid		(32)	(72)
Net cash inflow/(outflow) from operating activities	11(a)	<u>701,559</u>	<u>36,187</u>
Cash flows from financing activities			
Proceeds from applications by unit holders		-	3,782
Payments for redemptions by unit holders		(695,899)	(38,345)
Distributions paid to unit holders		(3,791)	-
Net cash inflow/(outflow) from financing activities		<u>(699,690)</u>	<u>(34,563)</u>
Net increase/(decrease) in cash and cash equivalents		1,869	1,624
Cash and cash equivalents at the beginning of the year		<u>8,757</u>	<u>7,133</u>
Cash and cash equivalents at the end of the year	10	<u>10,626</u>	<u>8,757</u>
Non-cash operating and financial activities	11(b)	-	229,826

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

Notes to the financial statements

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1 General information

These financial statements cover Permal Absolute Return Trust (the "Fund") as an individual entity. The Fund is an Australian registered managed investment scheme which was constituted on 14 August 2007, and will terminate within 12 months of the date of the Directors' Declaration.

The Responsible Entity of the Fund is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975) (the "Responsible Entity"). The Responsible Entity's registered office is Level 1, 575 Bourke Street, Melbourne, VIC 3000. The financial statements are presented in the Australian currency unless otherwise noted.

The Fund invests in a strategically diversified portfolio of hedge funds via an investment in the EnTrustPermal Absolute Return Fund Australian dollar class (the "Underlying Fund") in accordance with the Product Disclosure Statement and the provisions of the Fund's Constitution.

The financial statements were authorised for issue by the directors on the date the Directors' declaration was signed. 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 Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* in Australia. The Fund is a for-profit entity for the purpose of preparing the financial statements.

As at 30 June 2017, the directors of the Responsible Entity made the decision to terminate the Fund within 12 months of the date the Director's Declaration was executed, being 26 September 2017. Consequently, the directors of the Responsible Entity have determined that the going concern basis of preparation is no longer appropriate and the financial statements have been prepared on a liquidation basis.

Assets have been written down to the lower of their carrying amount and net realisable value and additional liabilities have been recognised to the extent there is a present obligation at the balance sheet date. No adjustments have been made as a result of these account policies.

The 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 liquidation basis. Assets and liabilities are presented in decreasing order of liquidity. All investments from EnTrustPermal Absolute Return Fund Australian were redeemed on 3 July 2017. Investors were paid on 18 August 2017.

(i) Compliance with International Financial Reporting Standards (IFRS)

The financial statements of the Fund also comply with IFRS as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the Fund

The amendments to AASB 107 *Statement of Cash Flows* have been early adopted. The Fund has elected to adopt the amendments made by AASB 2016-2 *Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107* early. This amendment requires disclosure of changes in liabilities arising from financing activities. The relevant information is provide in Note 8.

There are no other new standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2016 that have a material impact on the Fund.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) *New standards and interpretations not yet adopted*

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2017 reporting period and have not been early adopted by the Fund. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

- **AASB 9 *Financial Instruments*** (and applicable amendments) (effective from 1 January 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The standard is not applicable until 1 January 2018 but is available for early adoption. The directors do not expect this to have a significant impact on the recognition, classification and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not changed from the previous requirements, and the Fund does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Fund's investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Fund. The Fund has not yet decided when to adopt AASB 9.

- **AASB 15 *Revenue from Contracts with Customers*** (effective from 1 January 2018)

AASB 15 will replace AASB 118 *Revenue* which covers contracts for goods and services and AASB 111 *Construction Contracts* which covers construction contracts. AASB 15 is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The Fund's main sources of income are interest and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, the directors do not expect the adoption of AASB 15 to have a significant impact on the Fund's accounting policies or the amounts recognised in the financial statements. The Fund has not yet decided when to adopt AASB 15.

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

(b) Financial instruments

(i) *Classification*

The Fund's investments are classified as held at fair value through profit or loss. They comprise of:

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold. These are investments in unlisted unit trusts.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy as outlined in the Product Disclosure Statement. The Fund's policy is for the Investment Manager to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

(ii) *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.

(iii) *Measurement*

- ***Financial instruments held at fair value through profit or loss***

At initial recognition, the Fund measures a financial asset and a financial liability at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the statement of comprehensive income.

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

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) *Measurement (continued)*

For further details on how the fair value of financial instruments is determined please see Note 4 to the financial statements.

(iv) *Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is 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.

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.

(c) Net assets attributable to unit holders

Units are redeemable at the unit holders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unit holders. The units are classified as financial liabilities as the Fund is required to distribute its distributable income, in accordance with the Fund's Constitution.

The units can be put back to the Fund at any time for cash based on the redemption price.

The units are carried at the redemption amount that is payable at the reporting date if the holder exercises the right to put the units back to the Fund.

(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 which are 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, as trading of these securities represent the Fund's main income generating activity.

(e) Interest income

Interest income earned on cash and cash equivalents is recognised in the statement of comprehensive income on an accruals basis. Changes in fair value of financial instruments are recorded in accordance with the policies described in Note 2(b) to the financial statements.

(f) Expenses

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

(g) Income tax

Under current legislation, the Fund is not subject to income tax as unit holders are presently entitled to the income of the Fund. The benefits of any imputation credits and foreign tax paid are passed on to unit holders.

(h) Distributions

The Fund distributes its distributable income, in accordance with the Fund's Constitution, to unit holders by cash or reinvestment. The distributions are recognised in the statement of comprehensive income as finance costs attributable to unit holders.

(i) Increase/decrease in net assets attributable to unit holders

Income not distributed is included in net assets attributable to unit holders. Movements in net assets attributable to unit holders are recognised in the statement of comprehensive income as finance costs.

2 Summary of significant accounting policies (continued)

(j) Functional and presentation currency

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

(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 year end. Trades are recorded on trade date, and for equities normally settled within two business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter into bankruptcy or financial reorganisation and default in payments.

(l) Receivables

Receivables may include amounts for interest. Where applicable, interest is accrued on a daily basis. Amounts are generally received within 30 days of being recorded as receivables.

Collectability of receivables is reviewed on an ongoing basis. Receivables which are known to be uncollectable are written off by reducing the carrying amount directly. The amount of the impairment loss is recognised in the statement of comprehensive income within other expenses. Subsequent recoveries of amounts previously written off are credited against other expenses in the statement of comprehensive income.

(m) Payables

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

As the Fund has a contractual obligation to distribute its distributable income, a separate distribution payable is recognised in the statement of financial position as at the end of each reporting period where this amount remains unpaid as at the end of the reporting period.

Distributions declared effective 30 June in relation to unit holders who have previously elected to reinvest distributions are recognised as reinvested effective 30 June of the same financial year.

(n) Applications and redemptions

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

(o) Goods and services tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as management, administration and custodian services where applicable, have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 55%. Hence fees for these services and any other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Amounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are 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 and next financial year. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For more information on how fair value is calculated refer to Note 4 to the financial statements.

2 Summary of significant accounting policies (continued)

(q) Rounding of amounts

The Fund is an entity of a kind referred to in *ASIC 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 off to the nearest thousand dollars, unless otherwise indicated.

(r) Comparative revisions

Comparative information has been revised when appropriate to enhance comparability. Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Financial risk management

The Fund's activities expose it to a variety of financial risks including market risk (which incorporates price risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Constitution, the Product Disclosure Statement and the investment guidelines of the Fund and seeks to maximise the returns derived for the level of risk to which the Fund is exposed to and seeks to minimise potential adverse effects on the Funds' financial performance.

All securities investments present a risk of loss of capital.

The investments of the Fund, and associated risks, are managed by a specialist Investment Manager, EnTrustPermal Ltd. under an Investment Management Agreement (IMA) approved by the Responsible Entity and containing the investment strategy and guidelines of the Fund, consistent with those stated in the Product Disclosure Statement.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of market risk and ratings analysis for credit risk.

(a) Market risk

(i) Price risk

The Fund is exposed to price risk on equity securities. Price risk arises from investments held by the Fund for which prices in the future are uncertain.

The Fund is exposed to price risk through its investment in the Underlying Fund as prices for that investment are uncertain. These investments are classified on the statement of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Underlying Fund manages its price risk by investing in a diversified pool of underlying hedge funds across various different strategies.

The table in Note 3(b) summarises the sensitivity of the Fund's assets and liabilities to price risk. The analysis is based on the assumption that the markets in which the Fund invests move by +/-10%.

(ii) Interest rate risk

Interest rate risk management is undertaken by maintaining as close to a fully invested position as possible thus limiting the exposure of the Fund to interest rate risk.

3 Financial risk management (continued)

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unit holders to market risks. The reasonably possible movements in the risk variables have been determined based on management's best estimates, having regard to a number of factors, including historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market movements resulting from changes in the performance of and/or correlation between the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables should not be used to predict future variations in the risk variables.

	Impact on operating profit/net assets attributable to unit holders	
	Price risk	
	-10%	+10%
	\$'000	\$'000
As at 30 June 2017	(17,148)	17,148
As at 30 June 2016	-	-

(c) Credit risk

The Fund is exposed to credit risk, which is the risk that a counterparty will be unable to pay its obligations in full when they fall due, causing a financial loss to the Fund.

The main concentration of credit risk, to which the Fund is exposed, arises from the Fund's investment in a single Underlying Fund. The Underlying Fund invests into a master fund (EnTrustPermal Absolute Master Fund Limited). The master fund minimises its exposure to credit risk by investing in a number of different investment funds with different investment strategies and a range of counterparties. The Investment Manager monitors the master fund's exposure to the investment funds and their counterparty exposure on a monthly basis.

(d) 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 Fund's main source of liquidity risk is the requirement to fund unit holder redemptions. If a unit holder wished to redeem, a mandatory 99 day notification period applies. The Underlying Fund has the ability to borrow up to 25% of the net assets under management in the short term to fund settlement of redemptions. In addition, the Underlying Fund has a gating provision allowing it to suspend or pro rate redemptions in excess of 25% of net assets under management on any dealing day.

The Investment Manager monitors the liquidity risk of the Underlying Fund on a monthly basis by performing liquidity analysis of the funds of the Underlying Fund. The Underlying Fund's overall liquidity risks are monitored on a monthly basis by the Investment Manager.

In order to manage the Fund's overall liquidity, the Responsible Entity has the discretion to reject an application for units and to defer or adjust redemption of units if the exercise of such discretion is in the best interests of unit holders. The Fund did not reject or withhold any redemptions during 2017 and 2016.

3 Financial risk management (continued)

(d) Liquidity risk (continued)

Maturities of non-derivative financial liabilities

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Units are redeemed on demand at the unit holder's option. 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.

	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
As at 30 June 2017					
Distributions payable	32,912	-	-	-	32,912
Payables	366	-	-	-	366
Net assets attributable to unit holders					
- liability	-	148,840	-	-	148,840
Contractual cash flows	33,278	148,840	-	-	182,118
	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
As at 30 June 2016					
Distributions payable	3,791	-	-	-	3,791
Payables	4,341	-	-	-	4,341
Net assets attributable to unit holders					
- liability	-	821,689	-	-	821,689
Contractual cash flows	8,132	821,689	-	-	829,821

4 Fair value measurement

The Fund measures and recognises financial assets and liabilities held at fair value through profit or loss on a recurring basis.

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

AASB 13 *Fair Value Measurement* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The Fund values its investments in accordance with the accounting policies set out in Note 2 to the financial statements.

For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

(a) Fair value in an inactive or unquoted market (level 2)

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

Investments in unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such funds. The Fund may make adjustments to the value based on considerations such as: liquidity of the Investee Fund or its underlying investments, the value date of the net asset value provided, or any restrictions on redemptions and the basis of accounting.

4 Fair value measurement (continued)

(b) Recognised fair value measurements

The table below presents the Fund's financial assets and liabilities measured and recognised at fair value as at 30 June 2017.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
As at 30 June 2017				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Australian unlisted trusts	-	171,476	-	171,476
Total financial assets	-	171,476	-	171,476

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
As at 30 June 2016				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Australian unlisted trusts	-	-	-	-
Total financial assets	-	-	-	-

(c) Transfer between levels

Management's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels in the fair value hierarchy at the end of the reporting period.

(d) Financial instruments not carried at fair value

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

Net assets attributable to unit holders' carrying value differ from its fair value (deemed to be redemption price for individual units) due to differences in valuation inputs. This difference is not material in the current or prior reporting year.

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

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

	Year ended	
	30 June 2017 \$'000	30 June 2016 \$'000
Financial assets		
Net gain/(loss) on financial assets designated at fair value through profit or loss	58,185	(62,415)
Net gains/(losses) on financial assets held at fair value through profit or loss	58,185	(62,415)
Net realised gain/(loss) on financial assets held at fair value through profit or loss	37,779	(62,415)
Net unrealised gain/(loss) on financial assets held at fair value through profit or loss	20,406	-
Net gains/(losses) on financial assets held at fair value through profit or loss	58,185	(62,415)
Total net gains/(losses) on financial instruments held at fair value through profit or loss	58,185	(62,415)

6 Financial assets held at fair value through profit or loss

	30 June 2017 \$'000	As at	30 June 2016 \$'000
Designated at fair value through profit or loss			
Australian unlisted trusts	<u>171,476</u>		-
Total designated at fair value through profit or loss	<u>171,476</u>		-
Total financial assets held at fair value through profit or loss	<u>171,476</u>		-

7 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual arrangements.

The Fund considers all investments in managed investment schemes to be structured entities. The Fund invests in related managed funds for the purpose of capital appreciation and or earning investment income.

An interest in a structured entity is any form of contractual or non-contractual involvement which creates variability in returns arising from the performance of the entity for the Fund. Such interests include holdings of units in unit trusts.

The exposure to investments in unrelated managed funds are disclosed in the following table:

Name	Fair value of investment		Interest held	
	30 June 2017 \$'000	30 June 2016 \$'000	30 June 2017 %	30 June 2016 %
Permal Absolute Return Fund (Australian dollar class)	171,476	-	34	-

The fair value of the investee funds is included in financial assets held at fair value through profit or loss in the statement of financial position.

The Fund's maximum exposure to loss from its interest in investee funds is equal to the fair value of its investments in the investee funds as there are no off-balance sheet exposures relating to any of the investee funds. Once the Fund has disposed of its units in an investee funds, it ceases to be exposed to any risk from that investee funds.

During the year ended 30 June 2017, total gains/losses incurred on investments in the Schemes were \$58,185,358 (30 June 2016:(\$62,415,065)). There was no distribution income for the year ended 30 June 2017 (30 June 2016: nil).

8 Net assets attributable to unit holders

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

	Year ended		Year ended	
	30 June 2017 Units '000	30 June 2017 \$'000	30 June 2016 Units '000	30 June 2016 \$'000
Class A				
Opening balance	788,144	800,291	591,649	918,795
Redemptions	(631,310)	(682,007)	(26,553)	(37,670)
Units issued upon reinvestment of distributions	-	-	223,048	229,159
Increase/(decrease) in net assets attributable to unit holders	-	20,369	-	(309,993)
Closing balance	156,834	138,653	788,144	800,291
Class B				
Opening balance	11,710	21,398	10,399	16,045
Applications	-	-	2,970	4,572
Redemptions	(10,601)	(11,211)	(2,312)	(3,356)
Units issued upon reinvestment of distributions	-	-	653	667
Increase/(decrease) in net assets attributable to unit holders	-	-	-	3,470
Closing balance	1,109	10,187	11,710	21,398
Total net assets attributable to unit holders		148,840		821,689

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right in the underlying assets of the Fund.

There are 2 separate classes of units. Each unit within the same class has the same rights as all other units within that class. Except for the differing treatment of performance fees, the 2 different classes have the same preferences and restrictions.

The Fund is expected to terminate within 12 months of the date the Director's report was executed. Investors were paid on 18 August 2017.

Capital risk management

The Fund considers its net assets attributable to unit holders as capital, notwithstanding that net assets attributable to unit holders are classified as a liability. The amount of net assets attributable to unit holders can change significantly on a monthly basis as the Fund is subject to monthly applications and redemptions at the discretion of unit holders.

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

9 Distributions to unit holders

The distributions declared for the year were as follows:

	Year ended		Year ended	
	30 June 2017 \$'000	30 June 2017 CPU	30 June 2016 \$'000	30 June 2016 CPU
Distributions - Class A				
June	32,683	20.84	229,162	40.55
Distributions - Class B				
June	229	20.69	4,455	40.30
Total distributions	32,912		233,617	

10 Cash and cash equivalents

	As at	
	30 June	30 June
	2017	2016
	\$'000	\$'000
Cash at bank	<u>10,626</u>	<u>8,757</u>
Total cash and cash equivalents	<u>10,626</u>	<u>8,757</u>

These accounts are earning interest at a floating interest rate between 0.00% and 1.00% as at 30 June 2017 (2016: 0.00% and 1.50%).

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

	Year ended	
	30 June	30 June
	2017	2016
	\$'000	\$'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Profit/(loss) for the year	-	-
Increase/(decrease) in net assets attributable to unit holders	20,369	(306,523)
Distributions to unit holders	32,912	233,617
Proceeds from sale of financial instruments held at fair value through profit or loss	1,528,791	49,580
Purchase of financial instruments held at fair value through profit or loss	(821,041)	(2,960)
Net (gains)/losses on financial instruments held at fair value through profit or loss	(58,185)	62,415
Net change in receivables	7	340
Net change in payables	(1,294)	(282)
Net cash inflow from operating activities	<u>701,559</u>	<u>36,187</u>
(b) Non-cash operating and financing activities		
During the year, the following distribution payments to unit holders were satisfied by the issue of units under the distribution reinvestment plan	-	229,826
Total non-cash operating and financing activities	<u>-</u>	<u>229,826</u>

As described in Note 2(i), income not distributed is included in net assets attributable to unit holders. The change in this amount for the year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

12 Receivables

	As at	
	30 June	30 June
	2017	2016
	\$'000	\$'000
Interest receivable	9	7
GST receivable	7	16
Total receivables	<u>16</u>	<u>23</u>

13 Payables

	As at	
	30 June	30 June
	2017	2016
	\$'000	\$'000
Investment management fees payable	194	1,518
Responsible Entity fees payable	31	34
Custody and administration fees payable	104	108
Redemptions payable	-	2,681
Other expenses payable	37	-
Total payables	366	4,341

14 Remuneration of auditor

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

	Year ended	
	30 June	30 June
	2017	2016
	\$	\$
PricewaterhouseCoopers Australian Firm		
<i>Audit services</i>		
Audit of financial statements	14,140	11,657
Audit of compliance plan	3,700	3,628
Total remuneration for audit services	17,840	15,285
<i>Taxation services</i>		
Tax compliance services	10,049	9,852
Total remuneration for taxation services	10,049	9,852
Total remuneration of PricewaterhouseCoopers Australian Firm	27,889	25,137

15 Related party transactions

Responsible Entity

The Responsible Entity of Permal Absolute Return Trust is Equity Trustees Limited (ABN 46 004 031 298) (AFSL 240975). Accordingly, transactions with entities related to the Responsible Entity are disclosed below.

The Responsible Entity has contracted services to EnTrustPermal Ltd., to act as Investment Manager and BNP Paribas Fund Services Australasia Pty Limited to act as Custodian and Administrator for the Fund. The contracts are on normal commercial terms and conditions.

(a) Key management personnel

(i) Directors

Key management personnel includes persons who were directors of Equity Trustees Limited at any time during or since the end of the financial year and up to the date of this report:

Philip D Gentry	Chairman
Harvey H Kalman	
Martin G Walsh	(resigned 9 June 2017)
Geoffory R Rimmer	(resigned 4 October 2016)
Ian C Westley	(appointed 12 December 2016)

15 Related party transactions (continued)

(ii) Other key management personnel

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

(b) Transactions with key management personnel

There were no transactions with key management personnel during the reporting period.

(c) Key management personnel unit holdings

Key management personnel did not hold units in the Fund as at 30 June 2017 (30 June 2016: nil).

(d) Key management personnel compensation

Key management personnel are paid by EQT Services Pty Ltd. Payments made from the Fund to Equity Trustees Limited do not include any amounts directly attributable to the compensation of key management personnel.

(e) Key management personnel loans

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

(f) Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial year and there were no material contracts involving key management personnel's interests existing at year end.

(g) Responsible Entity and Investment Manager's fees and other transactions

Under the terms of the Fund's Constitution and the current Product Disclosure Statement for the Fund, the Responsible Entity and the Investment Manager are entitled to receive management fees.

The Investment Manager is also entitled to a performance fee.

The transactions during the year and amounts payable at year end between the Fund, the Responsible Entity and the Investment Manager were as follows:

	Year ended	
	30 June 2017	30 June 2016
	\$	\$
Investment management fees for the year	4,794,373	9,961,447
Responsible Entity fees for the year	263,766	446,736
Performance fees for the year	1,037	99
Total amounts payable to the Investment Manager at year end	193,923	1,518,416
Total amounts payable to the Responsible Entity at year end	30,533	33,900

The investment management and the Responsible Entity fees are paid directly by the Fund.

There is a performance fee for Class A units paid by the unit holders.

(h) Related party unit holdings

Parties related to the Fund (including Equity Trustees Limited, its related parties and other schemes managed by Equity Trustees Limited and the Investment Manager) held no units in the Fund as at 30 June 2017 (30 June 2016: nil).

(i) Investments

The Fund did not hold any investments in Equity Trustees Limited or its related parties during the year (2016: nil).

16 Events occurring after the reporting period

As at 30 June 2017, the directors of the Responsible Entity made the decision to terminate the Fund within 12 months of the date the Director's Declaration was executed, being 26 September 2017. Consequently, the directors of the Responsible Entity have determined that the going concern basis of preparation is no longer appropriate and the financial statements have been prepared on a liquidation basis.

No other significant events have occurred since the end of the year which would impact on the financial position of the Fund as disclosed in the statement of financial position as at 30 June 2017 or on the results and cash flows of the Fund for the year ended on that date.

17 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2017 (2016: nil).

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 6 to 24 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2017 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.
- (c) Note 2(a) confirms that the financial statements also 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 of Equity Trustees Limited.



Philip D Gentry
Chairman

Melbourne
26 September 2017



Independent auditor's report

To the unitholders of Permal Absolute Return Trust

Our opinion

In our opinion:

The accompanying financial report of Permal Absolute Return 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 2017 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 2017
- 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 a summary of significant accounting policies
- the declaration of the directors of Equity Trustees Limited (the Responsible Entity).

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 and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.



Emphasis of matter - going concern no longer appropriate

We draw attention to Note 2(a) in the financial report, which discusses the directors' intention to wind up the Fund within 12 months of the date of the Directors' declaration. As a result, the financial report has been prepared on a liquidation basis and not on a going concern basis. Our opinion is not modified in respect of this matter.

Other information

The Directors of the Responsible Entity are responsible for the other information. The other information obtained at the date of this auditor's report comprises the Directors' report included in the annual report, 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.

In connection with our audit of the financial report, our responsibility is to read the other information identified above 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 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 of the Responsible Entity 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 *Corporations Act 2001* and for such internal control as the directors of the Responsible Entity 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 of the Responsible Entity 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 of the Responsible Entity 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.

A handwritten signature in blue ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'George Sagonas'.

George Sagonas
Partner

Melbourne
26 September 2017