

## Appendix 4E

### Annual Financial Report For the year ended 30 June 2020

Name of entity

**Australian Governance & Ethical Index Fund**

ARSN	Reporting Period	Previous Corresponding Period
625 826 646	1 July 2019 to 30 June 2020	10 May 2018 to 30 June 2019

#### Results for announcement to the market

		30 June 2020
<b>Total net investment loss</b> ("revenue from ordinary activities")	Down by 150.6% to	(2,463,851)
<b>Net operating loss for the year</b> ("loss from ordinary activities after tax attributable to members")	Down by 153.6% to	(2,548,762)
<b>Total comprehensive loss</b> ("net loss for the period attributable to members")	Down by 153.6% to	(2,548,762)

#### Commentary on results

Refer to attached Annual Report and Financial Statements including the Chairman's Letter and Investment Manager's Report. Additional Appendix 4E disclosure requirements can be found in the notes to these financial statements.

#### Distributions

	Amount per security
<b>Interim distribution (paid on 3 February 2020)</b>	4.50 cents
<b>Final distribution (paid on 31 July 2020)</b>	4.95 cents
<b>Total Distribution</b>	9.45 cents

#### Final distribution dates:

Ex-distribution date: Monday, 29 June 2020  
Record date: Tuesday, 30 June 2020  
Payment date: Friday, 31 July 2020

There is a distribution reinvestment plan (**DRP**) in operation in respect of this distribution. The Fund currently operates a **DRP** under which unitholders may elect to have all or part of their distribution reinvested in new units.

#### Net tangible assets per unit

30/06/2020	\$1.72
30/06/2019	\$1.95

#### Earnings per unit

	30 June 2020	30 June 2019
Basic (loss)/earnings per unit	(13.77) cents	23.65 cents
Diluted (loss)/earnings per unit	(13.77) cents	23.65 cents

#### Financial Report

This report is based on the 30 June 2020 Annual Report and has been audited by KPMG.



**AUSTRALIAN  
GOVERNANCE & ETHICAL**  
Index Fund

ARSN 625 826 646

# ANNUAL REPORT

**For the year ended  
30 June 2020**

**RESPONSIBLE ENTITY:**

**WALSH & COMPANY**

INVESTMENTS LIMITED

(ACN 152 367 649 | AFSL 410 433)

**INVESTMENT MANAGER:**

WALSH & COMPANY ASSET  
MANAGEMENT PTY LIMITED

(ACN 159 902 708 | AFSL 450 257)

## **Australian Governance & Ethical Index Fund**

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**30 June 2020**

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**Australian Governance & Ethical Index Fund**  
**Chairman's letter**  
**30 June 2020**

Welcome to the Annual Report for the Australian Governance & Ethical Fund (**Fund** or **AGM**) for the financial period ending 30 June 2020 (**FY20**).

**Fund performance**

Despite the challenging and volatile economic backdrop caused by COVID-19, and a subdued outlook for the Australian economy, the Fund returned -7.3% on a net asset value (**NAV**) basis for FY20, outperforming the S&P/ASX 100 Accumulation Index (**Index**) by 0.6%.

**The impact of COVID-19 on the Fund**

The impact of COVID-19 restrictions will continue to be felt throughout 2020 and probably into 2021. For the time-being, we are in a period of great uncertainty. It is too early to understand or estimate the full impact of the restrictions, despite the significant support provided by central banks and government agencies that has helped to support the global economy to date. Through this period unemployment levels have risen dramatically and economic output has fallen.

Apart from the restrictions, significant uncertainty remains with respect to the longevity of the COVID-19 pandemic and its future impact on economies. Economic activity may remain subdued over the medium to longer term. We, like everyone else, are hopeful that one, or several, of the vaccines currently in stage three trials will prove effective. Pending broad deployment of an effective vaccine, or in the absence of any vaccine, we are also hopeful that there will be a continued positive transformation in business and consumer behaviour to accommodate ongoing safety restrictions, and thereby maintain global economies as effectively as is possible in these times. These factors, in concert with low interest rates and continued government support, should result in asset price support and an eventual resumption of broader economic activity.

**Capital management and distributions**

The Fund targets a cash distribution of 5.0% per annum based on Net Asset Value (**NAV**) (**Target Distribution**), paid semi-annually. Consistent with this, AGM announced distributions of 4.50 cents per ordinary unit for the period ending 31 December 2019 (Interim) and 4.95 cents per ordinary unit for the period ending 30 June 2020 (Final).

In keeping with the policy of the Fund's Responsible Entity, Walsh & Company Investments Limited, to manage the capital and trading liquidity of the Fund throughout the year, the Fund conducted a buyback of approximately 27.9% of total units.

**Positioning of the Fund**

We have continued to maintain a focus on the long term, and on those companies that exhibit the attributes we value most: diverse and capable board and management teams; well-aligned and structured incentive schemes; fair and equitable treatment of staff and customers; cognisance of the social and environmental impact of operations; and most importantly, an overarching commitment to transparency. While difficult to analyse and quantify, we believe these factors are critical to generating sustainable, long-term returns and accordingly, remain confident in our ability to identify leaders within each industry.

The Fund's performance was a result of our approach to capital management and governance frameworks – an expression of our commitment to identifying the best sustainable opportunities for investors. Since inception (July 2018), application of this investment approach has resulted in Fund outperformance of 0.9% p.a.

**Post 30 June announcement – Fund wind-up**

In the period following the end of financial year we have received notice from Walsh & Company Asset Management Pty Limited, the Fund's Investment Manager (**Investment Manager**), that following a review of its business, the Investment Manager has taken the decision to focus its investment management activities in markets where it has scale. As part of this decision, the Investment Manager has notified the Responsible Entity that, in accordance with the terms of the Investment Management Agreement (**IMA**), the Investment Manager is terminating the IMA and will cease to provide investment management services to the Fund (subject to the Investment Manager's remaining contractual obligations).

Consequently, and following an analysis of the various options we (the Responsible Entity) have available to us, we have determined that it is in the best interests of unitholders that the Fund is terminated and wound up. For further information on the winding up of the Fund please read the 25 August 2020 announcement made to the market.

**Australian Governance & Ethical Index Fund**  
**Chairman's letter**  
**30 June 2020**

While this outcome is disappointing, we would like to thank unitholders for their continued support and the Investment Manager for successful management of the Fund during their tenure.

A handwritten signature in black ink, appearing to read 'S. Nisbett', written in a cursive style.

Yours faithfully,

Stuart Nisbett

Independent Chairman of the Responsible Entity

**Australian Governance & Ethical Index Fund**  
**Investment manager's report**  
**30 June 2020**

The Australian Governance & Ethical Index Fund (**Fund**) returned -7.3% on a net tangible asset basis for the 2020 financial year (**FY20**) – a disappointing year marred by the widespread economic challenges of a global pandemic. While it is always disappointing to see equity markets decline, the Fund outperformed the broader S&P/ASX 100 Accumulation Index (**Index**) which returned -7.8%.

**Market review**

Domestic markets were dominated by the impact of COVID-19 in FY20, as the Index declined 7.8% for the full financial year – with the market experiencing a peak to trough fall of approximately 36% over a tumultuous four-week period between late February and March. Since the market bottom on March 23 the Index has recovered strongly, helped by improving investor sentiment following unprecedented financial support from global central banks, market optimism around both economic shut-down lengths and a COVID-19 vaccine, and a number of macro and stock-specific factors supporting the index-heavy mining companies.

While stock prices have been recovering, the economic backdrop looks particularly dour; the 10-year bond yield is now at record lows, while the subdued outlook for the economy has led to a reduction of the cash rate to a new all-time low of 0.25%. As we have seen globally through markets in Europe, Asia (notably Japan) and North America, reductions in interest rates from an already low base are likely to provide minimal support and stimulus to the economy. With interest rates now at the zero-bound, we are likely to see considerable fiscal and unconventional monetary policy support in future (noting the RBA has already commenced this with its yield control bond buying program). The key question is whether policy support can offset the market ramifications of a 'hard-stop' to business and economic activity as societies continue to juggle the health and economic implications of COVID-19.

**Sustainability in focus**

While COVID-19 dominated market rhetoric for the financial year, notable developments continue to be seen regarding government, investor, and market led initiatives associated with broader sustainability. This has been most evident within energy markets, with oil and gas majors continuing to come under immense investor pressure regarding climate change targets and transparency of environmental reporting. During the year over 50% of Woodside Petroleum's shareholders backed (voluntary) motions for the company to commit to hard targets to reduce its greenhouse gas emissions, provide greater disclosure around emissions of upcoming projects, and ensure its remuneration policy encourages executives to meet these. Similarly, more than 43% of Santos' shareholders backed a resolution for the company to set harder targets to curb emissions from its operations and the end consumers of its products.

As part of its post-COVID-19 stimulus package, the European Union announced a ~AUD1.2 trillion economic recovery plan centred on renewable energy, clean transport, smart energy and emissions reductions. These developments should be relatively unsurprising as evidence suggests sustainable infrastructure has clear economic benefits; it is widely accepted that solar and wind are today cheaper sources of new generation than fossil fuels for the majority of the world's population, while the labour intensity of building and installing renewable energy infrastructure results in the creation of nearly twice as many jobs compared to fossil fuel investments (on a dollar-for-dollar basis). Increasing policy directives and investor scrutiny is speeding the transformation of energy markets and poses significant stranded asset risk for those businesses with longer dated fossil fuel exposed revenue lines.

**Stranded asset risk**

The risk of stranded assets is beginning to modify the behaviour of some of the world's largest companies as they continue to shift their portfolios away from fossil fuels. Energy giant Royal Dutch Shell, consistent with its drive to diversify into electricity markets, acquired Australian utility company ERM Power, German battery manufacturer Sonnen (including its manufacturing plant in South Australia), and a 49% stake in solar farm developer ESCO Pacific (which is developing a 120MW solar farm in Central Queensland) during the last 18 months. Spanish energy giant Repsol became the first oil and gas company to pledge a target of net-zero emissions by 2050 – in the process announcing a ~US\$5.3 billion asset write-down – as they aligned their energy demand forecasts with the Paris Agreement.

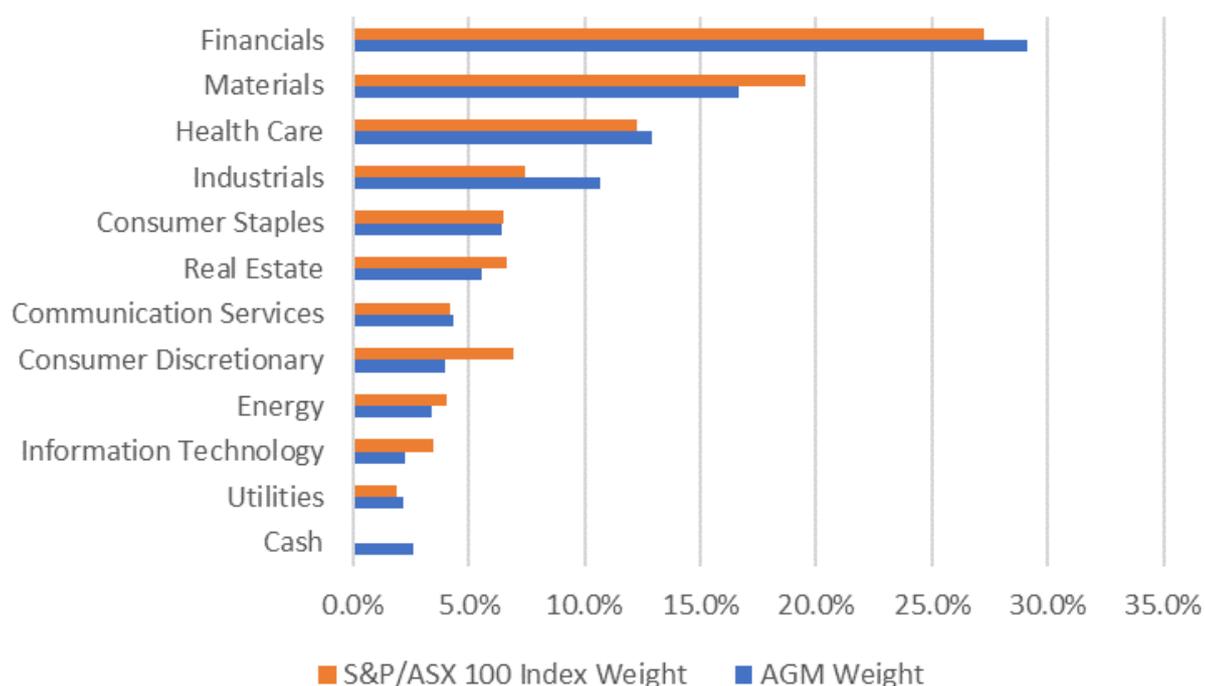
Closer to home, BHP is reported to be planning an exit from its thermal coal assets which includes a stake in Colombian giant Cerrejón, where the CEO has publicly stated that the thermal coal industry is in terminal decline. Commonwealth Bank also announced (following pressure from activist group Market Forces) that it will reduce its thermal coal mining and coal-fired power generation loan book with a view to completely exiting the sector by 2030.

**Australian Governance & Ethical Index Fund**  
**Investment manager's report**  
**30 June 2020**

While many corporates are looking to exit and divest fossil fuel exposure, other corporates face greater difficulties with carbon exposure, notably through downstream exposure with end customers. In the mining industry (particularly steel and metallurgical coal), this presents a long-term challenge given customer emissions can be ~20-40x higher than direct emissions from operations. During the year, BHP became the first major resources company to commit to reducing customer emissions with a US\$400m investment in reducing 'Scope 3' emissions. Subsequently, Rio Tinto has established a joint-venture with China's Baowu Steel to explore reducing steel emissions. These initiatives continue to demonstrate that climate change issues are having a material impact on companies' corporate strategies.

**Portfolio positioning**

*AGM sector exposure relative to benchmark*



*AGM's largest positions relative to benchmark*

**Top 10 overweight**

- ANZ Banking Group Ltd
- APA Group
- CSL Limited
- Macquarie Group Ltd
- National Australia Bank Ltd
- Newcrest Mining Ltd
- Oz Minerals Ltd
- Qube Holdings Ltd
- Rio Tinto Ltd
- Virgin Money UK Plc

**Top 10 underweight**

- Afterpay Ltd
- AGL Energy Ltd
- Amcor Plc
- Aristocrat Leisure
- BHP Group Ltd
- Fortescue Metals Group
- Goodman Group
- Origin Energy Ltd
- Sonic Healthcare Ltd
- Westpac Banking Corporation

Note: Companies listed alphabetically

**Australian Governance & Ethical Index Fund**  
**Investment manager's report**  
**30 June 2020**

As at 30 June 2020 the portfolio was invested in 72 companies and held 2.6% cash.

**Positive relative performance amid volatile markets**

The Fund returned -7.3% on a net tangible asset basis for the 2020 financial year, outperforming the broader S&P/ASX 100 Accumulation Index which returned -7.8%.

Significant contributors to relative performance included overweight positions in Healthcare giant CSL (+35%) and retailers JB Hi-fi (+73%) and Wesfarmers (+29%) – beneficiaries of the COVID-19 pandemic, subsequent economic lock downs and targeted stimulus measures. The Fund's position in Rio Tinto (+2%) also benefited performance, with iron ore prices benefitting from supply disruptions to key competitor Vale.

While historically we have had a preference for Rio Tinto due to its lack of fossil fuel exposure and its lower-emissions aluminium business, recent revelations regarding its mining operations at Juukan Gorge have led us to review the position. Post balance date we elected to reduce the position materially, with an intention to further monitor developments and accountability practices.

The exclusion of Westpac Group (-35%) also benefited performance, with the company attracting significant criticism following AUSTRAC proceedings for breaches of the Anti-Money Laundering and Counter Terrorism Financing Act. While key executives announced their departures, the initial response presented poorly on the internal culture, accountability and oversight inherent within the organisation. We continue to anticipate the regulatory response (which remains outstanding) will be considerable, and note a number of key government banking contracts may be at risk in the long-term.

Key detractors from performance included overweight positions in European exposed businesses Unibail-Rodamco-Westfield (-55%) and Virgin Money UK (-52%), with each business facing significant uncertainty amidst the economic consequences of deteriorating European economic activity. The exclusion of 'buy now pay later' giant Afterpay (+143%) and iron ore miner Fortescue Metals (+71%) also negatively impacted relative performance.

**Australian Governance & Ethical Index Fund**  
**Corporate governance statement**  
**30 June 2020**

Australian Governance & Ethical Index Fund (**Fund**) is a listed managed investment scheme whose units are traded on the Australian Securities Exchange (**ASX**). The Fund has no employees, and its day-to-day functions and investment activities are managed by Walsh & Company Investments Limited (**Responsible Entity**) and Walsh & Company Asset Management Pty Limited (**Investment Manager**), respectively, in accordance with management agreements.

The directors of the Responsible Entity (**Board**) and the Investment Manager's directors and senior management recognise the importance of good corporate governance. The Fund's corporate governance charter, which incorporates the Fund's policies referred to below (**Corporate Governance Charter**), is designed to ensure the effective management and operation of the Fund and will remain under regular review. The Corporate Governance Charter is available on the Fund's website [governanceandethicalfund.com.au](http://governanceandethicalfund.com.au).

A description of the Fund's adopted practices in respect of the eight Principles and Recommendations from the Third Edition of the ASX *Corporate Governance Principles and Recommendations* (**ASX Recommendations**) are set out below. All these practices, unless otherwise stated, were in place for the entire year.

## **1. Lay solid foundations for management and oversight**

### ***Board roles and responsibilities***

The Board is responsible for the overall operation, strategic direction, leadership and integrity of the Fund. This involves undertaking the following functions:

- providing and implementing the Fund's strategic direction;
- reviewing and overseeing the operation of systems of risk management ensuring that the significant risks facing the Fund are identified, that appropriate control, monitoring and reporting mechanisms are in place and that risk is appropriately dealt with;
- overseeing the integrity of the Fund's accounting and corporate reporting systems, including the external audit;
- ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and the best standards of governance;
- reviewing and overseeing internal compliance and legal regulatory compliance;
- ensuring compliance with the Fund's constitution and with the continuous disclosure requirements of the ASX Listing Rules and the *Corporations Act 2001(Cth)*;
- overseeing the Fund's process for making timely and balanced disclosures of all material information concerning the Fund; and
- communication with and protecting the rights and interests of all unitholders.

The Board has established a formal policy, specified in Section 2 of the Corporate Governance Charter, which sets out its functions and responsibilities. A review of the policy is conducted annually.

## **2. Structure the Board to add value**

### ***Composition of the Board***

The Board is structured to maintain a mix of directors from different backgrounds with complementary skills and experience. Details of each director in office during the reporting period are given in the Directors' Report, including the years in office, skills, experience, and expertise relevant to the position of director.

**Australian Governance & Ethical Index Fund**  
**Corporate governance statement**  
**30 June 2020**

The directors of the Responsible Entity during the reporting period were:

- **Mr Stuart Nisbett** (appointed on 19 December 2019)
- **Mr Peter Shear** (appointed on 19 December 2019)
- **Mr Warwick Keneally**
- **Mr Mike Adams**
- **Mr Alex MacLachlan** (resigned on 19 December 2019).

Having regard to the size of the Fund and the nature of its business, the Board has determined that a board with four members is the appropriate composition for the Board and will enable it to continue to effectively discharge its responsibilities to the Fund. However, the composition of the Board will be reviewed periodically.

The current Board comprises two independent directors, Stuart Nisbett and Peter Shear, and two non-independent directors, Warwick Keneally and Mike Adams, with the independent Chairperson holding the casting vote<sup>1</sup>. The Board however has established a Compliance Committee with a majority of external members who are responsible for:

- monitoring the extent to which the Responsible Entity complies with the Fund's relevant regulations, compliance plan that has been lodged with the Australian Securities and Investments Commission (**ASIC**) (**Compliance Plan**), constitution and report the findings to the Board;
- reporting to ASIC if the Compliance Committee is of the view that the Responsible Entity has not complied with the Compliance Plan or any relevant laws;
- assessing at regular intervals whether the Fund's Compliance Plan is adequate; and
- making recommendations to the Responsible Entity about any changes that the Compliance Committee considers should be made to the Compliance Plan.

The Fund recognises the ASX Recommendations with respect to establishing remuneration and nomination committees as good corporate governance. However, considering the size of the Fund, the functions that would be performed by these committees are best undertaken by the Board.

The Board will review its view on committees in line with the ASX Recommendations and in light of any changes to the size or nature of the Fund and, if required, may establish committees to assist it in carrying out its functions. At that time, the Board will adopt a charter for such committees in accordance with the ASX Recommendations and industry best practices.

It is the Board's policy to determine the terms and conditions relating to the appointment and retirement of non-executive directors on a case-by-case basis and in conformity with the requirements of the ASX Listing Rules and the *Corporations Act 2001 (Cth)*. In accordance with the corporate governance policy, directors are entitled to seek independent advice at the expense of the Fund. Written approval must be obtained from the chair prior to incurring any expense on behalf of the Fund.

### **3. Act ethically and responsibly**

#### ***Code of conduct***

The Board has adopted a Code of Conduct, as specified in Section 5 of the Corporate Governance Charter, to define the basic principles of business conduct of the Fund and the Responsible Entity. This Code requires the Fund's personnel to abide by the policies of the Fund and the law. The Code of Conduct is a set of principles giving direction and reflecting the Fund's approach to business conduct and is not a prescriptive list of rules for business behaviour.

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<sup>1</sup> Prior to his appointment as a director of the Board, Stuart Nisbett was remunerated for services on investment committees for two of the Responsible Entity's unlisted funds. The Board is of the view that this association does not compromise Stuart Nisbett's independence because one of the investment committees was dissolved in 2017 and he ceased to be remunerated for the other investment committee prior to his appointment as director.

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**Corporate governance statement**  
**30 June 2020**

***Unit trading policy***

The Board has established a Unit Trading Policy, as specified in Section 6 of the Corporate Governance Charter, which applies to trading in the Fund's units on the ASX. This policy outlines the permissible dealing of the Fund's units while in possession of price sensitive information and applies to all directors of the Responsible Entity.

The Policy imposes restrictions and notification requirements, including the imposition of discretionary blackout periods, trading windows and the need to obtain pre-trade approval.

***Insider trading policy***

The Board has adopted an Insider Trading Policy, as specified in Section 7 of the Corporate Governance Charter, to apply to trading in the Fund's units on the ASX. This policy applies to all directors, executives and employees of the Responsible Entity. All directors, executives and employees of the Responsible Entity must not deal in the Fund's units while in possession of price sensitive information. In addition, the general Unit Trading Policy (see Section 6 of the Corporate Governance Charter) sets out additional restrictions which apply to directors and executives of the Responsible Entity.

**4. Safeguard integrity in corporate reporting**

***Compliance Committee***

As a registered managed investment scheme, the Fund has a Compliance Plan. The Compliance Plan is reviewed comprehensively every year to ensure that the way in which the Fund operates protects the rights and interests of unitholders and that major compliance risks are identified and properly managed.

The Responsible Entity has formed a Compliance Committee to ensure the Fund complies with the relevant regulations, its Compliance Plan and its constitution. The Compliance Committee meets and reports to the Board on a quarterly basis.

The Compliance Committee is structured with three members, the majority of which are external. Details of the Compliance Committee members are as follows:

**Mike Adams** (internal member)

Refer to information on directors (page 13).

**Barry Sechos** (external member)

Barry is one of two external members of the Compliance Committee. Barry is a member of the compliance committee for the New Energy Solar Fund, the Evans & Partners Global Disruption Fund, the Fort Street Real Estate Capital Fund Series, the Cordish Dixon Private Equity Fund Series, the Evans & Partners Global Flagship Fund, the Evans & Partners Asia Fund, the Evans & Partners Australian Flagship Fund, the Venture Capital Opportunities Fund and the US Masters Residential Property Fund.

Barry is a Director of Sherman Group Pty Limited, a privately owned investment company, and is responsible for managing the legal, financial and operational affairs of Sherman Group of companies. Barry has 35 years' experience in corporate law and finance having spent seven years as a banking and finance lawyer at Allens (Sydney, Singapore and London), and eight years as a Director of EquitiLink Funds Management and Aberdeen Asset Management Australia. Barry is also a Director of See Saw Films, a film production and finance group and winner of the 2011 Academy Award for Best Picture, Concentrated Leaders Fund Limited, an investment company listed on the ASX, Regeneus Limited, an ASX listed biotech company and a Director of Sherman Contemporary Art Foundation, a charitable cultural organisation.

**Michael Britton** (external member)

Michael is one of two external members of the Compliance Committee. He is a member of the compliance committee for the New Energy Solar Fund, the Fort Street Real Estate Capital Fund Series, the Cordish Dixon Private Equity Fund Series, the

**Australian Governance & Ethical Index Fund**  
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Evans & Partners Asia Fund, the Evans & Partners Global Flagship Fund, the Evans & Partners Australian Flagship Fund, the Venture Capital Opportunities Fund and the Evans & Partners Global Disruption Fund. He is also an independent member of Compliance Committees for NorthWest Australia (Scheme 2), Angas Asset Management Fund, Angas Prime and Angas Direct. Michael has over 36 years of commercial and financial services experience, initially with Boral Limited and culminating in 13 years as General Manager of the corporate businesses of The Trust Company Limited (now part of Perpetual Limited) (**The Trust Company**) where he established the company's reputation as a leader in the delivery of independent responsible entity services. He has represented The Trust Company as a director on the boards of both domestic and offshore operating subsidiary companies and a large number of special purpose companies delivering the responsible entity function in both conventional and stapled, ASX listed and unlisted managed investment schemes. Michael has acted as a Responsible Manager (as recognised by ASIC), a member of committees of inspection in relation to large insolvency administrations and as an independent compliance committee member for substantial investment managers with portfolios of managed investment schemes.

Currently Michael is an independent director on the boards of the now unlisted Westfield Corporation Limited and Westfield America Management Limited (following Unibail Rodamco absorbing the Westfield offshore Shopping Malls). He is an independent director of the unlisted Knights Capital Group Limited, a Perth-based investor. He is the sole independent director of two special purpose companies involved in high profile wholesale debt capital and securitisation transactions in the aviation and motor vehicle industries and is also a panel member for the Australian Financial Complaints Authority (formerly Financial Ombudsman Services Limited).

Michael holds degrees in Jurisprudence and Law from the University of New South Wales and is a Graduate Member of the Australian Institute of Company Directors and a Fellow of the Governance Institute of Australia.

The Board, having considered their overall responsibilities, the size and structure of the Fund and other duties performed by the Compliance Committee, does not consider it appropriate, at this time, to establish an audit committee.

## **5. Making timely and balanced disclosure**

The Board is committed to complying with its continuous disclosure obligations under the *Corporations Act 2001 (Cth)* and ASX Listing Rules, as well as releasing relevant information to the market and unitholders in a timely and direct manner to promote investor confidence in the Fund and its securities.

The Fund has adopted a Continuous Disclosure Policy (as specified in Section 4 of the Corporate Governance Charter) to ensure the Fund complies with its continuous disclosure requirements. This policy is administered by the Board and monitored by the Compliance Committee.

## **6. Respect the rights of unitholders**

### ***Rights of unitholders***

The Fund promotes effective communication with unitholders. The Board has developed a strategy within its Continuous Disclosure Policy to ensure that unitholders are informed of all major developments affecting the Fund's performance, governance, activities and state of affairs. This includes using a website to facilitate communication with unitholders. Each unitholder is also provided online access to Boardroom Pty Limited (**Registry**) to allow them to receive communications from, and send communication to, the Responsible Entity and the Registry. Information is communicated through announcements to the ASX, releases to the media and the dispatch of financial reports. Unitholders are provided with an opportunity to access such reports and releases electronically. Copies of all ASX announcements are linked to the Fund's website.

These include:

- monthly net tangible asset backing announcements;
- quarterly investment updates;
- the half-year report;

**Australian Governance & Ethical Index Fund**  
**Corporate governance statement**  
**30 June 2020**

- the annual report;
- occasional ASX announcements made to comply with the Fund's continuous disclosure requirements; and
- occasional correspondence sent to unitholders on matters of significance to the Fund.

The Board encourages full participation of unitholders at the general meetings to ensure a high level of accountability and identification with the Fund's strategy. Unitholders who are unable to attend the general meeting are given the opportunity to provide questions or comments ahead of the meeting and where appropriate, these questions are answered at the meeting.

## **7. Recognise and manage risk**

The Board has accepted the role of identification, assessment, monitoring and managing the significant areas of risk applicable to the Fund and its operations. It has not established a separate committee to deal with these matters as this responsibility will be undertaken by the Compliance Committee. The Board also monitors and appraises financial performance, including the approval of annual and half-year financial reports and liaising with the Fund's auditor.

In order to evaluate and continually improve the effectiveness of its risk management and internal control processes the Board conducts an annual review of its risk management framework to satisfy itself that the framework continues to be sound. A review of the risk management framework took place for the reporting period.

The Fund does not have any material exposure to economic, environmental and social sustainability risks. The Board receives a letter half-yearly from the Fund's external auditor regarding their procedures and reporting that the financial records have been properly maintained and the financial statements comply with the Australian accounting standards.

The Responsible Entity provides declarations required by Section 295A of the *Corporations Act 2001 (Cth)* for all financial periods and confirms that in its opinion the financial records of the Fund have been properly maintained and that the financial statements and accompanying notes comply with the Australian Accounting Standards and give a true and fair view of the financial position and performance of the Fund, based on its review of the internal control systems, management of risk, the financial statements and the letter from the Fund's external auditor.

Details of the Fund's financial risk management are set out in the notes to the financial statements in the annual report.

## **8. Remunerate fairly and responsibly**

### ***Remuneration policy***

Due to the relatively small size of the Fund and its operations, the Board does not consider it appropriate at this time to establish a formal remuneration committee.

Directors of the Fund are remunerated by the Responsible Entity. In accordance with the Fund's constitution, the Responsible Entity is entitled to a management fee for services rendered. Details of the Fund's related party transactions are disclosed in the notes to financial statements within the annual report. The Fund's constitution is available to unitholders on request.

**Australian Governance & Ethical Index Fund**  
**Directors' report**  
**30 June 2020**

The directors of Walsh & Company Investments Limited, the Responsible Entity of Australian Governance & Ethical Index Fund (the **Fund** or **AGM**) present their report with the annual financial report for the Fund for the financial year ended 30 June 2020.

**Directors**

The directors of the Responsible Entity at any time during or since the end of the financial period are listed below:

Stuart Nisbett	Appointed 19 December 2019
Warwick Keneally	
Mike Adams	
Peter Shear	Appointed 19 December 2019
Alex MacLachlan	Resigned 19 December 2019

Directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

**Information on directors**

**Stuart Nisbett**

**Chairman**

Stuart is currently Executive Director and Principal at Archerfield Capital Partners, a boutique corporate advisory firm specialising in real estate, which he established in 2008. He has more than 30 years experience in property development, property funds management, equity and debt raising, corporate advisory and project finance.

Previously, Stuart was Executive Director, Head of Property Funds at ANZ Investment Bank. He was also the Managing Director, Head of Property Banking & Property Investment Banking at N M Rothschild & Sons (Australia) Limited. Stuart has also held senior roles at director level at Macquarie Bank Property Investment Banking Division and at Lendlease Corporation in its development and commercial asset management divisions. Stuart was appointed to the Board of Walsh & Company Investments Limited on 19 December 2019.

Stuart is a Chartered Accountant and holds a Bachelor of Commerce with Merit and a Masters of Commerce from the University of NSW, and in 2005 was appointed a Fellow of the Australian Property Institute.

**Alex MacLachlan**

**Chairman**

Alex joined Dixon Advisory in 2008 to lead the then newly formed Funds Management division, which later became Walsh & Company. From funds under management of under \$100 million at the time of his start, Alex has grown Walsh & Company Group to over \$6 billion of assets under management today, with investments across residential and commercial property, fixed income, private equity, listed equities and renewable energy. Prior to joining the firm, Alex was an investment banker at UBS AG, where he rose to Head of Energy for Australasia. During his tenure in investment banking, Alex worked on more than \$100 billion in mergers and acquisitions and capital markets transactions, advising some of the world's leading companies. Alex resigned from the Board of Walsh & Company Investments Limited on 19 December 2019.

Alex has a Bachelor of Arts from Cornell University and a Masters of Business Administration from The Wharton School, University of Pennsylvania.

**Warwick Keneally**

Warwick is Head of Finance at Walsh & Company, the Funds Management division of Evans Dixon Limited. Before joining Walsh & Company, Warwick worked in chartered accounting firms specialising in turnaround and restructuring. Warwick started his career with KPMG, working in their Canberra, Sydney and London offices and has undertaken a range of complex restructuring engagements across Europe, UK and Australia, for a range of Australian, UK, European and US banks.

Warwick has worked with companies and lenders to develop and implement strategic business options, provide advice in relation to continuous disclosure requirements, develop cash forecasting training for national firms, and lectured on cash management.

Warwick has a Bachelor of Economics and Bachelor of Commerce from the Australian National University and is a Member of the Institute of Chartered Accountants in Australia and New Zealand.

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**Mike Adams**

Mike has extensive experience across a broad range of corporate, commercial and private client sectors. His core practice areas involve the provision of advice and transactional expertise in relation to new and existing retail financial products and the regulatory framework within which they operate, as well as debt and equity financing, intellectual property, and film and television media law among others. Mike has previously worked in private practice, public sector and in-house roles in Australia, New Zealand and the United Kingdom, acting across multiple industries for a variety of clients, including high-net-worth individuals, banks and financial institutions, as well as numerous listed and unlisted corporate entities.

Mike is also a director with MA Law, a Sydney-based financial services law firm, and is admitted as a solicitor of the Supreme Court of NSW. He has a Bachelor of Laws from the University of Otago.

**Peter Shear**

Peter has significant expertise in funds management, financial advisory and complex lending arrangements including leveraged finance, property development and debt workout situations. Peter was most recently Co-Managing Partner of Opportunistic Lending and Special Situations at LIM Advisors. Prior to this role, Peter held the positions of Chief Risk Officer and Managing Director & Head of Corporate and Structured Finance at Lloyds Banking Group (and its predecessor HBOS plc) in Australia. Peter was also previously a Partner in Corporate Finance & Restructuring at Ernst & Young. Peter was appointed to the Board of Walsh & Company Investments Limited on 19 December 2019.

Peter has a Bachelor of Business from the University of Technology Sydney, an Executive MBA from AGSM, is a member of Chartered Accountants Australia and New Zealand, a Fellow of FINSIA and a Graduate Member of the Australian Institute of Company Directors.

**Principal activities**

The Fund is a registered managed investment scheme structured as a closed end unit trust that is domiciled in Australia and quoted on the Australian Securities Exchange (**ASX**) (ticker code: **AGM**). It was registered on 10 May 2018. The registered office and principal place of business of the Responsible Entity of the Fund is located at Level 15, 100 Pacific Highway, North Sydney, NSW, 2060.

The principal activity of the Fund during the financial period was to provide investors with long term capital appreciation, while reducing risk and preserving capital, through investments in securities within the S&P/ASX100 Index that exhibit relatively high levels of governance, social and environmental performance.

There were no significant changes in the nature of this activity during the year.

**Review of financial results and operations**

**a) Financial results for the period**

The performance of the Fund, as represented by the results of its operations for the relevant periods ended 30 June, was as follows:

	2020	2019
<b>Results</b>		
Total investment income (\$)	(2,463,851)	4,865,167
Total expenses (\$)	<u>(84,911)</u>	<u>(112,914)</u>
Net profit (\$)	<u><u>(2,548,762)</u></u>	<u><u>4,752,253</u></u>

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	2020	2019
<b>Distributions</b>		
Cash distributions - cents per unit	9.45	13.50
Total cash distribution (\$)	1,608,016	3,128,614
	2020	2019
<b>Net asset value</b>		
Net asset value per unit (ex-distribution) - \$ per unit	1.72	1.95

**b) Performance returns**

The performance returns shown in the table below are for the relevant periods ended 30 June, and have been calculated using the net asset value per unit for the Fund, which is after fees and expenses, assuming reinvestment of distributions. The returns are calculated monthly and compounded to produce longer period returns.

	30 June 2020 %	30 June 2019 %
<b>Performance</b>		
Growth return (i)	(11.90)	4.20
Distribution return (ii)	4.60	8.00
Total return (iii)	<u>(7.30)</u>	<u>12.20</u>

(i) The Growth return is calculated as a percentage by dividing the end of period net asset value per unit by the net asset value per unit at the start of the period minus 1.

(ii) The Distribution return is calculated as a percentage by subtracting the Growth return from the Total return.

(iii) The Total return is calculated as a percentage by dividing the end of period net asset value per unit (cum-distribution) by the net asset value per unit at the start of the period minus 1.

**Significant changes in the state of affairs**

There were no significant changes in the state of affairs of the Fund during the financial year.

**Future developments and expected results of operations**

As announced on 25 August 2020, the Responsible Entity has determined that it is in the best interests of the unitholders that the Fund is terminated and wound up. This is following the receipt of notice from the Fund's Investment Manager that they will terminate their Investment Management Services under the Investment Management Agreement. The operations of the Fund will continue until the date of commencement of wind-up of the Fund, which is expected to be on or around 26 October 2020.

**Options**

No options were granted over issued or unissued units in the Fund during, or since, the end of the year.

**Indemnity and insurance**

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.

Insurance premiums have been paid, during or since the end of the financial period, for all of the directors of the Responsible Entity of the Fund. The contract of the insurance prohibits disclosure of the nature of the liability and the amount of the premium.

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No indemnities have been given or insurance premiums paid, during or since the end of the financial period, for the auditor of the Fund.

**Environmental regulation**

The Fund is not subject to any significant environmental regulation under Australian Commonwealth or State law.

**Fund assets**

The value of the Fund's assets is disclosed in the Statement of financial position and derived using the basis set out in Note 3 to the financial statements.

**Interests held by the Responsible Entity and Directors**

The number of units in the Fund held by the Responsible Entity, their related parties and Directors at the date of this report are disclosed in note 14 to the financial statements.

**Interests in the Fund**

The movement in units on issue in the Fund during the financial period is disclosed in note 11 of the financial statements.

**Fees paid to the Responsible Entity or its associates**

Fees paid to the Responsible Entity and its associates out of Fund assets during the financial period are disclosed in note 14 to the financial statements.

No fees were paid out of Fund assets to the Directors of the Responsible Entity during the financial period.

**Matters subsequent to the end of the financial period**

On 25 August 2020, the Responsible Entity provided its unitholders notice in writing of its intention to commence the wind-up of the Fund on or around 26 October 2020 in accordance with the provisions of the Fund's constitution. In line with this, the Responsible Entity has determined that the unit buy-back program is no longer in the best interest of the unitholders and has concluded this program on 25 August 2020.

**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 immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors



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Stuart Nisbett  
Chairman of Walsh & Company Investments Limited, Responsible Entity

27 August 2020



# Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of Walsh & Company Investments Limited (the Responsible Entity)  
of Australian Governance & Ethical Index Fund

I declare that, to the best of my knowledge and belief, in relation to the audit of Australian Governance & Ethical Index Fund for the financial year ended 30 June 2020 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Jessica Davis

*Partner*

Sydney

27 August 2020

**Australian Governance & Ethical Index Fund**  
**Statement of profit or loss and other comprehensive income**  
**For the period ended 30 June 2020**

	Note	2020 \$	2019 \$
<b>Investment income</b>			
Other income		-	17,377
Dividend and distribution income		1,295,807	2,221,547
Interest income		6,075	10,369
Net (loss)/gain on financial assets at fair value through profit or loss		(3,765,733)	2,615,874
Total net investment (loss)/income		<u>(2,463,851)</u>	<u>4,865,167</u>
<b>Expenses</b>			
Management and administration fees	14	(67,283)	(79,115)
Investment transaction costs	14	(17,628)	(33,799)
Total expenses		<u>(84,911)</u>	<u>(112,914)</u>
<b>(Loss)/profit before income tax expense</b>		(2,548,762)	4,752,253
Income tax expense		-	-
<b>(Loss)/profit after income tax expense for the period</b>		(2,548,762)	4,752,253
Other comprehensive income for the period, net of tax		-	-
<b>Total comprehensive (loss)/income for the period</b>		<u>(2,548,762)</u>	<u>4,752,253</u>
		<b>Cents</b>	<b>Cents</b>
Basic (loss)/earnings per unit	6	(13.77)	23.65
Diluted (loss)/earnings per unit	6	(13.77)	23.65

*The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes*

**Australian Governance & Ethical Index Fund**  
**Statement of financial position**  
**As at 30 June 2020**

	Note	2020 \$	2019 \$
<b>Assets</b>			
Cash and cash equivalents	7	815,910	382,070
Receivables	8	123,092	3,365,010
Financial assets	9	<u>27,321,491</u>	<u>41,540,175</u>
<b>Total assets</b>		<u>28,260,493</u>	<u>45,287,255</u>
<b>Liabilities</b>			
Payables	10	94,239	2,044,375
Distributions payable		<u>792,304</u>	<u>979,738</u>
<b>Total liabilities</b>		<u>886,543</u>	<u>3,024,113</u>
<b>Net assets</b>		<u>27,373,950</u>	<u>42,263,142</u>
<b>Equity</b>			
Issued capital	11	29,907,089	40,639,503
(Accumulated losses)/retained earnings		<u>(2,533,139)</u>	<u>1,623,639</u>
<b>Total equity</b>		<u>27,373,950</u>	<u>42,263,142</u>

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

**Australian Governance & Ethical Index Fund**  
**Statement of changes in equity**  
**For the period ended 30 June 2020**

	Issued capital \$	Retained earnings \$	Total equity \$
Balance at 10 May 2018	-	-	-
Profit after income tax expense for the period	-	4,752,253	4,752,253
Other comprehensive income for the period, net of tax	-	-	-
Total comprehensive income for the period	-	4,752,253	4,752,253
<i>Transactions with unitholders in their capacity as unitholders:</i>			
Issued capital (note 11)	46,100,496	-	46,100,496
Unit buy-back (note 11)	(5,433,148)	-	(5,433,148)
Buy-back costs (notes 11 and 14)	(27,845)	-	(27,845)
Distributions paid (note 5)	-	(3,128,614)	(3,128,614)
Balance at 30 June 2019	<u>40,639,503</u>	<u>1,623,639</u>	<u>42,263,142</u>
	Issued capital \$	Retained earnings/ (accumulated losses) \$	Total equity \$
Balance at 1 July 2019	40,639,503	1,623,639	42,263,142
Loss after income tax expense for the period	-	(2,548,762)	(2,548,762)
Other comprehensive income for the period, net of tax	-	-	-
Total comprehensive income for the period	-	(2,548,762)	(2,548,762)
<i>Transactions with unitholders in their capacity as unitholders:</i>			
Issued capital (note 11)	593,964	-	593,964
Unit buy-back (note 11)	(11,279,688)	-	(11,279,688)
Buy-back costs (notes 11 and 14)	(46,690)	-	(46,690)
Distributions paid (note 5)	-	(1,608,016)	(1,608,016)
Balance at 30 June 2020	<u>29,907,089</u>	<u>(2,533,139)</u>	<u>27,373,950</u>

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

**Australian Governance & Ethical Index Fund**  
**Statement of cash flows**  
**For the period ended 30 June 2020**

	Note	2020 \$	2019 \$
<b>Cash flows from operating activities</b>			
Interest income received		6,321	9,937
Dividends received		1,493,211	1,940,190
Payments to suppliers		1,147	(36,424)
Management and administration fees paid		<u>(74,119)</u>	<u>(76,636)</u>
Net cash from operating activities	15	<u>1,426,560</u>	<u>1,837,067</u>
<b>Cash flows from investing activities</b>			
Payments for investments		(5,481,719)	(10,980,022)
Receipts from disposal of investments		<u>17,047,113</u>	<u>15,634,528</u>
Net cash from investing activities		<u>11,565,394</u>	<u>4,654,506</u>
<b>Cash flows from financing activities</b>			
Receipt of funds from Australian Governance Masters Index Fund Limited	11	-	579,064
Payments for unit buy-backs	11	(11,309,275)	(5,313,950)
Payment of buy-back costs	11	(47,346)	(27,868)
Distributions paid	5	<u>(1,201,493)</u>	<u>(1,346,749)</u>
Net cash used in financing activities		<u>(12,558,114)</u>	<u>(6,109,503)</u>
Net increase in cash and cash equivalents		433,840	382,070
Cash and cash equivalents at the beginning of the financial period		<u>382,070</u>	<u>-</u>
Cash and cash equivalents at the end of the financial period	7	<u><u>815,910</u></u>	<u><u>382,070</u></u>

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

**Australian Governance & Ethical Index Fund**  
**Notes to the financial statements**  
**30 June 2020**

**1. General information**

Australian Governance & Ethical Index Fund (**Fund**) is a registered managed investment scheme domiciled in Australia. The investment objective of the Fund is to provide investors with long term capital appreciation, while reducing risk and preserving capital, through investments in securities within the S&P/ASX100 Index that exhibit relatively high levels of governance, social and environmental performance.

The comparative period is the period from date of registration 10 May 2018 to 30 June 2019.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 August 2020. The directors have the power to amend and reissue the financial statements.

**2. New Accounting Standards and Interpretations**

*Adoption of new and revised Accounting Standards*

The Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) that are relevant to their operations and effective for the current year. The impact of the adoption is not material to the Fund's financial report in the current or future reporting periods and on foreseeable future transactions.

*Accounting Standards and Interpretations issued but not yet effective*

New standards, amendments to standards and interpretations that are effective for annual reporting periods beginning on or after 1 January 2020 have not been early adopted in preparing these financial statements. There are no standards that are not yet effective and that are expected to have a material impact on the Fund.

**3. Significant accounting policies**

**Statement of compliance**

The financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards issued by the Australian Accounting Standards Board (**AASB**) and the *Corporations Act 2001*. Compliance with Australian Accounting Standards ensures the financial statements and notes to the financial statements of the Fund comply with the International Financial Reporting Standards (**IFRS**) issued by the International Accounting Standards Board (**IASB**).

**Basis of preparation**

Subsequent to the financial reporting period, the Responsible Entity has announced that the Fund will commence the winding up process on or around 26 October 2020 in accordance with the provisions of the Fund's constitution. All assets will be realised and all liabilities will be settled and a final distribution of the remaining monies will be made to the unitholders.

In preparing the financial statements on an alternate basis, the Responsible Entity has continued to apply the requirements of Australian Accounting Standards taking into account that the Fund is not expected to continue as a going concern in the foreseeable future. All assets are measured at their net realisable values and liabilities are measured at their anticipated settlement amounts based on relevant Australian Accounting Standard requirements. There has been no significant remeasurement of any amounts in the financial statements. No additional provisions or liabilities have been recognised as a result of the intended wind up of the Fund, as the Responsible Entity has not incurred any legal or contractual obligations.

All amounts are presented in Australian dollars, unless otherwise noted.

The following accounting policies have been adopted in the preparation and presentation of the financial report.

**Investment income**

*Dividend and distribution income*

Dividend and distribution income is recognised when the right to receive a dividend has been established.

### **3. Significant accounting policies (continued)**

#### *Interest income*

Interest income is recognised in profit or loss using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

#### *Net change in fair value of investments*

Realised and unrealised gains and losses on investments measured at fair value through profit or loss are recognised in the Statement of profit or loss and other comprehensive income.

#### **Taxes**

##### *Income tax*

Under current Australian income tax laws, the Fund is not liable to pay income tax provided its distributable income for each income year is fully distributed to Unitholders, by way of cash or reinvestment.

##### *Goods and Services Tax (GST)*

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense.

The Fund qualifies for reduced input tax credits at a minimum of 55%.

Where fees are stated to be exclusive of GST and GST is payable on any fee, the fee will be increased by an amount equal to the GST payable.

Cash flows are presented in the Statement of cash flows on a gross basis.

#### **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

#### **Receivables**

Receivables include balances due from brokers, dividends and distributions receivable, reduced input tax credit receivable and other receivables. Amounts are generally received within 30 days of being accrued for. Receivable amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition.

The amount of the impairment loss is recognised in profit or loss within other operating expenses. When receivables for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other operating expenses in profit or loss.

#### **Financial instruments**

Financial instruments, incorporating financial assets and financial liabilities, are recognised on trade date, when the Fund becomes a party to the contractual provisions of the instrument.

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

The Fund holds financial assets comprising equity securities. These securities are mandatorily classified as fair value through profit or loss.

### **3. Significant accounting policies (continued)**

#### *Financial assets*

Financial assets at fair value through profit or loss are measured initially at fair value, with transaction costs recognised in the Statement of profit or loss and other comprehensive income. Subsequent to initial recognition, all financial assets held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of profit or loss and other comprehensive income. Financial assets not at fair value through profit or loss, including receivables, are measured initially at fair value plus transaction costs that are directly attributable to its acquisition or issue and are subsequently measured at amortised cost using the effective interest rate method and are assessed for impairment based on the expected credit loss model.

#### *Financial liabilities*

Financial liabilities at fair value through profit or loss are measured initially at fair value, with transaction costs recognised in the Statement of profit or loss and other comprehensive income. Financial liabilities not at fair value through profit or loss, including payables, are measured initially at fair value plus transaction costs and are subsequently measured at amortised cost using the effective interest rate method.

#### *Derecognition*

Financial assets are derecognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are discharged or cancelled or expire.

#### *Fair value*

The fair value of equity securities traded in active markets is based on their quoted market prices at the end of the reporting date without any deduction for estimated future selling costs. The quoted market price used for financial assets and securities held by the Fund is the current bid price, and the quoted market price for financial liabilities is the current asking price.

#### **Payables**

Payables include amounts due relating to the purchase of investments, trade creditors and accrued expenses at the reporting date. Trade payables and accruals are recognised at amortised cost when the obligation arises for payments for the purchase of goods and services.

#### **Issued capital**

##### *Ordinary units*

Ordinary units are classified as equity. Issued capital is recognised at the fair value of the consideration received by the Fund. Incremental costs directly attributable to the issue of the ordinary units are recognised as a deduction from equity.

##### *Distributions to unitholders*

Distributions to unitholders are recognised in the reporting period in which the distributions are declared, determined, or publicly recommended by the Board of the Responsible Entity on or before the end of the financial period. A distribution payable is recognised in the Statement of financial position where the amount is not yet distributed at balance date.

#### **Earnings per unit**

##### *Basic and diluted earnings per unit*

Basic earnings per unit is determined by dividing the profit or loss excluding any cost of servicing equity other than ordinary units by the weighted average number of ordinary units outstanding during the financial period. Diluted earnings per unit is the same as basic earnings per unit because there are no dilutive potential ordinary units.

#### **Critical accounting estimates and judgements**

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best-available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data obtained both externally and within the Fund. The expected credit loss (ECL) impairment model has not materially impacted the Fund.

**Australian Governance & Ethical Index Fund**  
**Notes to the financial statements**  
**30 June 2020**

**4. Operating segments**

The Fund operates in Australia and is engaged solely in investing activities, generating long term capital appreciation and deriving revenue from dividend and distribution income and interest income.

**5. Distributions**

Distributions declared during the financial period were as follows:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Cash distribution - 4.5 cents per unit paid on 31 August 2018	-	1,091,139
Cash distribution - 4.5 cents per unit paid on 4 February 2019	-	1,057,737
Cash distribution - 4.5 cents per unit paid on 2 August 2019	-	979,738
Cash distribution - 4.5 cents per unit paid on 3 February 2020	815,712	-
Cash distribution - 4.95 cents per unit paid on 31 July 2020	792,304	-
	<u>1,608,016</u>	<u>3,128,614</u>

**6. Earnings per unit**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
(Loss)/profit after income tax	<u>(2,548,762)</u>	<u>4,752,253</u>
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary units used in calculating basic earnings per unit	<u>18,503,042</u>	<u>20,097,055</u>
Weighted average number of ordinary units used in calculating diluted earnings per unit	<u>18,503,042</u>	<u>20,097,055</u>
	<b>Cents</b>	<b>Cents</b>
Basic (loss)/earnings per unit	(13.77)	23.65
Diluted (loss)/earnings per unit	(13.77)	23.65

**7. Cash and cash equivalents**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Cash at bank	<u>815,910</u>	<u>382,070</u>

**8. Receivables**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Receivable for investments sold	30,000	3,078,686
Other receivables	1,876	2,746
Dividend and distribution receivable	91,216	283,578
	<u>123,092</u>	<u>3,365,010</u>

**Australian Governance & Ethical Index Fund**  
**Notes to the financial statements**  
**30 June 2020**

**9. Financial assets**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Equity investments - listed	<u>27,321,491</u>	<u>41,540,175</u>

Refer to note 13 for further information on fair value measurement.

The market values of individuals investments held at the end of the reporting period are set out immediately before the Unitholder Information.

**10. Payables**

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
Unsettled trades	89,612	2,037,261
Other payables	<u>4,627</u>	<u>7,114</u>
	<u>94,239</u>	<u>2,044,375</u>

Refer to note 12 for further information on financial instruments.

**11. Issued capital**

	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
	<b>Units</b>	<b>Units</b>	<b>\$</b>	<b>\$</b>
Ordinary shares - fully paid	<u>15,950,638</u>	<u>21,709,196</u>	<u>29,907,089</u>	<u>40,639,503</u>

*Movements in ordinary unit capital*

<b>Details</b>	<b>Date</b>	<b>Units</b>	<b>\$</b>
Balance	10 May 2018	10	10
Redemption of ordinary units (a)	9 July 2018	(10)	(10)
Issue of ordinary units (b)	9 July 2018	24,247,481	45,303,994
Issue of ordinary units at \$1.83 per unit (distribution reinvested)	31 August 2018	222,999	408,548
Issue of ordinary units at \$1.69 per unit (distribution reinvested)	4 February 2019	229,330	387,954
Unit buybacks		(2,990,614)	(5,433,148)
Buyback costs		-	(27,845)
Balance	30 June 2019	21,709,196	40,639,503
Issue of ordinary units at \$1.94 per unit (distribution reinvested)	2 August 2019	166,559	323,523
Issue of ordinary units at \$2.05 per unit (distribution reinvested)	3 February 2020	131,752	270,441
Unit buybacks		(6,056,869)	(11,279,688)
Buyback costs		-	(46,690)
Balance	30 June 2020	<u>15,950,638</u>	<u>29,907,089</u>

(a) 10 nominal ordinary units were redeemed at \$1.00 per unit on completion of the Restructure

(b) In respect of the Restructure completed on 9 July 2018, 24,247,481 were issued at \$1.87 per unit. Cash totalling \$579,064 and financial assets at fair value totalling \$44,742,307 were received from Australian Governance Masters Index Fund Limited.

**Australian Governance & Ethical Index Fund**  
**Notes to the financial statements**  
**30 June 2020**

**11. Issued capital (continued)**

*Ordinary units*

All issued units are fully paid. The holders of ordinary units are entitled to one vote per unit at meetings of the Fund and are entitled to receive distributions declared from time to time by the Responsible Entity.

*Unit buy-back*

There is a current on-market unit buy-back.

*Capital management*

The Fund manages its capital to ensure it will be able to continue as a going concern while maximising the return to unitholders. The capital structure of the Fund consists of issued capital net of issue costs amounting to \$29,907,089 as at 30 June 2020. The Fund is not subject to any externally imposed capital requirements.

**12. Financial instruments**

***Financial risk management***

The Fund's financial instruments primarily comprise of listed equity investments. The Fund's investment objective is to achieve long term capital appreciation, while reducing risk and preserving capital, through investments in securities within the S&P/ASX100 Index that exhibit relatively high levels of governance, social and environmental performance, in accordance with its investment strategy (as stipulated in the Fund's current Product Disclosure Statement and Constitution). The main risks the Fund is exposed to through its financial instruments are market risk (including equity price risk and interest rate risk), credit risk and liquidity risk.

The Responsible Entity has overall responsibility for the establishment and oversight of the risk management framework, including developing and monitoring risk management policies.

***Market risk***

*Equity price risk*

Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual securities. The equity price risk exposure arises from the Fund's investments in equity securities. The Investment Manager manages the Fund's equity price risk in accordance with the Fund's investment objectives and policies, as detailed in the current Product Disclosure Statement.

As the majority of the Fund's financial instruments are carried at fair value with changes in fair value recognised in the Statement of profit or loss and other comprehensive income, all changes in market conditions will directly affect investment income.

The following table illustrates the effect on profit before tax and equity from possible changes in the value of equity investments, with all other variables remaining constant.

2020	% change	Average price increase		% change	Average price decrease	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Equity investments	5%	<u>1,366,075</u>	<u>1,366,075</u>	(5%)	<u>(1,366,075)</u>	<u>(1,366,075)</u>
2019	% change	Average price increase		% change	Average price decrease	
		Effect on profit before tax	Effect on equity		Effect on profit before tax	Effect on equity
Equity investments	5%	<u>2,077,009</u>	<u>2,077,009</u>	(5%)	<u>(2,077,009)</u>	<u>(2,077,009)</u>

**12. Financial instruments (continued)**

*Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund is exposed to interest rate risk on its variable rate cash deposits. The Fund currently does not hedge against this exposure.

The Fund's exposure to interest rate risk is limited to cash deposits. At 30 June 2020, approximately 97.1% of the financial assets were non-interest bearing and 2.9% of the financial assets were at a floating rate, represented by the cash and cash equivalents balance on the Statement of financial position.

	1% increase		1% decrease	
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
<b>2020</b>				
Cash at bank	8,159	8,159	(8,159)	(8,159)
	<u>8,159</u>	<u>8,159</u>	<u>(8,159)</u>	<u>(8,159)</u>
	Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
<b>2019</b>				
Cash at bank	3,821	3,821	(3,821)	(3,821)
	<u>3,821</u>	<u>3,821</u>	<u>(3,821)</u>	<u>(3,821)</u>

The Fund does not hold significant cash balances exposed to interest rates in other currencies and does not have any borrowings or other financial liabilities or assets with direct exposure to changes in interest rates and accordingly is not exposed to material interest rate risk.

**Credit risk**

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

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 considers relevant, historical analysis and forward looking information in determining any expected credit losses. At the reporting date all receivables and cash and cash equivalents are held with approved counterparties and are either callable on demand or due within 30 days. Management consider the probability of default to be low and as a result, no loss allowance has been recognised based on 12 months expected credit losses as any such impairment would be wholly insignificant to the Fund.

The clearing and depository operations of the Fund's security transactions are mainly concentrated with one counterparty, JP Morgan. As at 30 June 2020, all investments and substantially all cash is held in custody by JP Morgan, which holds a long term issuer credit rating of A+ (Moody's rating). The remaining cash at 30 June 2020 is held with financial institutions that have a credit rating of at least A.

**Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

The Fund's exposure to liquidity risk is minimal. The risk is managed by ensuring that sufficient cash and cash equivalents is maintained to meet ongoing operating requirements and investments are primarily held in actively traded markets. The majority of the Fund's listed securities are considered readily realisable as they are listed on ASX.

**Remaining contractual maturities**

The following are contractual maturities of financial liabilities:

**Australian Governance & Ethical Index Fund**  
**Notes to the financial statements**  
**30 June 2020**

**12. Financial instruments (continued)**

	6 months or less \$	6 months to 1 year \$	Remaining contractual maturities \$
<b>2020</b>			
<b>Non-derivatives</b>			
<i>Non-interest bearing</i>			
Payables	(94,239)	-	(94,239)
Distributions payable	(792,304)	-	(792,304)
Total non-derivatives	<u>(886,543)</u>	<u>-</u>	<u>(886,543)</u>
	6 months or less \$	6 months to 1 year \$	Remaining contractual maturities \$
<b>2019</b>			
<b>Non-derivatives</b>			
<i>Non-interest bearing</i>			
Payables	(2,044,375)	-	(2,044,375)
Distributions payable	(979,738)	-	(979,738)
Total non-derivatives	<u>(3,024,113)</u>	<u>-</u>	<u>(3,024,113)</u>

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

***Fair value of financial instruments***

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

**13. Fair value measurement**

The aggregate net fair values and carrying amounts of financial assets and financial liabilities at balance date are disclosed in the Statement of financial position and in the notes to the financial statements.

The fair values of:

- other assets and other liabilities approximate their carrying value.
- listed securities included in "Equity Investments" are readily traded on the Stock Exchanges in a standardised form globally. The net fair value of listed securities is determined by valuing them at the last quoted sale price as at the end of the reporting period.

The Fund measures fair values using the following fair value hierarchy that reflects the significance of the inputs in making the measurements:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: unobservable inputs for the asset or liability

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<b>2020</b>				
<i>Financial assets at fair value through profit or loss</i>				
Equity investments - listed	27,321,491	-	-	27,321,491
Total assets	<u>27,321,491</u>	<u>-</u>	<u>-</u>	<u>27,321,491</u>

**Australian Governance & Ethical Index Fund**  
**Notes to the financial statements**  
**30 June 2020**

**13. Fair value measurement (continued)**

2019	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
<i>Financial assets at fair value through profit or loss</i>				
Equity investments - listed	41,540,175	-	-	41,540,175
Total assets	41,540,175	-	-	41,540,175

There were no transfers between levels during the financial year (2019: nil).

While the COVID-19 pandemic has caused uncertainty and market volatility during the year, the Fund has continued to follow its established policies and process (as set out in this note) in managing risk and determining the fair value of the financial assets and liabilities as at the reporting date. No changes were required to the principles used in applying the fair value measurement hierarchy to financial assets and liabilities held, with each asset and liability continuing to be classified in a manner which reflects the significance and observability of the inputs used in the valuation.

**14. Related party transactions**

*Related party investments in the Fund*

The Responsible Entity or its associates does not hold any investments in the Fund.

*Responsible Entity services*

*a) Responsible Entity fee*

The Responsible Entity's duties include establishing the compliance plan and procedures and monitoring against regulatory and legislative requirements, the issuance of disclosure documents, the appointment and monitoring of external service providers to the Fund and overall administration of the Fund. Walsh & Company Investments Limited, as Responsible Entity, receives a Responsible Entity fee of 0.08% per annum (inclusive of the net effect of GST) of the gross asset value of the Fund.

Total Responsible Entity paid or payable to the Responsible Entity for the period ended 30 June 2020 were \$26,528 (30 June 2019: \$31,760), exclusive of GST, and included in management and administration fees in profit or loss.

*b) Custodial services*

The Responsible Entity provided custodial services to the Fund in its personal capacity under a custody arrangement with Walsh & Company Investments Limited during the period up to 19 December 2019.

Effective 19 December 2019, the Fund's custodial services were outsourced to external service providers. The Responsible Entity bears the cost of the custodial services and, as such, there were no custody fees paid out of the assets of the Fund.

*c) Fund administration services*

Australian Fund Accounting Services Pty Limited, a related party of the Responsible Entity, provides fund administration services to the Fund under an agreement with the Responsible Entity. These services include net asset valuation, management accounting, statutory reporting, capital management and taxation. The Responsible Entity bears the cost of the fund administration services and, as such, there were no fund administration fees paid out of the assets of the Fund.

*d) Legal and consulting services*

Effective from January 2020, the Responsible Entity entered into an agreement with MDA1 Pty Limited, trading as MA Law, to provide legal and consulting services to the Responsible Entity and the investment schemes under its control. Mike Adams, a director of the Responsible Entity, is also a director and shareholder of MDA1 Pty Limited. Mike Adams previously provided similar services as an employee of a non-related entity to the Fund. The Responsible Entity has agreed to bear the cost of the legal and consulting services and, as such, there were no legal and consulting fees paid out of the assets of the Fund.

**Australian Governance & Ethical Index Fund**  
**Notes to the financial statements**  
**30 June 2020**

**14. Related party transactions (continued)**

*Investment Management fee*

The Investment Manager provides investment management services to the Fund, including overseeing the assessment of market conditions and investment opportunities, the selection and recommendation of investments, monitoring the Funds' investment portfolio, and determining and recommending the retention or sale of investment in the Fund's portfolio.

In connection with the provision of services as Investment Manager, Walsh & Company Asset Management Pty Limited, receives an Investment Management fee of 0.11% per annum (inclusive of the net effect of GST) of the value of the portfolio.

Total Investment Management fees paid or payable for the period ended 30 June 2020 was \$38,503 (30 June 2019: \$44,395), exclusive of GST, and included in management and administration fees in profit or loss.

*Brokerage fee*

Dixon Advisory & Superannuation Services Limited, a related party of the Responsible Entity, was engaged as a broker by the Fund and received brokerage of 0.50% on all transactions undertaken as part of the Fund's buy-back program up to 1 October 2019.

Effective 1 October 2019, Evans & Partners Pty Ltd, also a related party of the Responsible Entity and broker of the Fund, was engaged to provide brokerage under the Fund's buy-back program. There was no change in the brokerage fee structure under the buy-back program as a result of the change in brokers.

Total brokerage fees paid or payable to the related parties of the Responsible Entity for the period ended 30 June 2020 was \$45,552 (30 June 2019: \$27,166), exclusive of GST, and included in buy-back costs in changes in equity.

*Investment transaction costs*

Evans & Partners Pty Ltd, a related party of the Responsible Entity, receives brokerage of 0.10% (excluding GST) on all transactions in Australian equities undertaken by the Fund. During the period, the brokerage paid was \$17,120 (30 June 2019: \$32,975), exclusive of GST, and recognised as investment transaction costs in profit or loss.

**15. Reconciliation of (loss)/profit after income tax to net cash from operating activities**

	2020	2019
	\$	\$
(Loss)/profit after income tax expense for the period	(2,548,762)	4,752,253
Adjustments for:		
Net loss/(gain) on financial assets at fair value through profit or loss	3,765,733	(2,615,874)
Other income	-	(17,377)
Investment transaction costs	18,844	-
Change in operating assets and liabilities:		
Decrease/(increase) in receivables	193,232	(284,100)
(Decrease)/increase in payables, excluding unsettled trades	(2,487)	2,165
Net cash from operating activities	<u>1,426,560</u>	<u>1,837,067</u>

**Australian Governance & Ethical Index Fund**  
**Notes to the financial statements**  
**30 June 2020**

**16. Remuneration of auditor**

During the financial period the following fees were paid or payable for services provided by KPMG, the auditor of the Fund:

	<b>2020</b>	<b>2019</b>
	<b>\$</b>	<b>\$</b>
<i>Audit services - KPMG</i>		
Audit or review of the financial statements	<u>34,150</u>	<u>31,257</u>
<i>Other services - KPMG</i>		
Taxation review	<u>5,000</u>	<u>5,000</u>
	<u><u>39,150</u></u>	<u><u>36,257</u></u>

Walsh & Company Investments Limited, the Responsible Entity of the Fund, has agreed to bear the fees for the audit and other services paid to KPMG for the reporting period.

**17. Events after the reporting period**

On 25 August 2020, the Responsible Entity provided its unitholders notice in writing of its intention to commence the wind-up of the Fund on or around 26 October 2020 in accordance with the provisions of the Fund's constitution. In line with this, the Responsible Entity has determined that the unit buy-back program is no longer in the best interest of the unitholders and has concluded this program on 25 August 2020.

**Australian Governance & Ethical Index Fund**  
**Directors' declaration**  
**30 June 2020**

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 3 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Fund's financial position as at 30 June 2020 and of its performance for the financial period ended on that date; and
- there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



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Stuart Nisbett  
Chairman of Walsh & Company Investments Limited, Responsible Entity

27 August 2020



# Independent Auditor's Report

To the unitholders of Australian Governance & Ethical Index Fund

## Opinion

We have audited the **Financial Report** of Australian Governance & Ethical Index Fund (the Fund).

In our opinion, the accompanying Financial Report of the Fund is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- *Statement of financial position* as at 30 June 2020
- *Statement of profit or loss and other comprehensive income, Statement of changes in equity, and Statement of cash flows* for the year then ended
- Notes including a summary of significant accounting policies
- *Directors' Declaration*.

## Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 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 fulfilled our other ethical responsibilities in accordance with the Code.

## Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

This matter was addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on this matter.

**Valuation and existence of financial assets at fair value through profit or loss (\$27.3m)**

Refer to Note 9 *Financial Assets*

**The key audit matter**

Financial assets at fair value through profit of loss comprise investments in listed Australian securities (investments).

Valuation and existence of investments is a key audit matter due to:

- Size of the Fund’s portfolio of listed Australian securities which represents 97% of total assets at year end;
- The degree of audit effort and resources involved in gathering sufficient appropriate audit evidence on the valuation and existence of investments;
- the Fund outsourced certain processes and controls relevant to recording and valuing investments to a custodian for the period from 15 November 2019 to the year-ended 30 June 2020; and
- The importance of the performance of these investments in driving the Fund’s investment income and capital performance.

As a result, this was the area with greatest effect on our overall audit strategy and allocation of resources in planning and performing our audit.

**How the matter was addressed in our audit**

Our procedures included:

- We assessed the appropriateness of the accounting policies applied by the Fund, including those relevant to the fair value of investments, against the requirements of the accounting standards;

For the period from 1 July 2019 to the date custodial functions were transferred to external service providers:

- We obtained an understanding of the processes and assessed controls in relation to the custodial functions within the Responsible Entity to record and value the Fund’s investments;
- We checked the accuracy of the transfer of investments from the Responsible Entity’s underlying records to the external custodian;
- We checked the trade dates for a sample of investments purchased and sold from the Fund’s list of trades to underlying trade confirmations from counterparties. We did this to check the ownership and quantity of the investments held by the Fund; and
- For a sample of investments purchased and sold from the Fund’s list of trades, we checked the trade dates to underlying trade confirmations from counterparties and amounts settled to the Fund’s bank statements to assess the period the investment is recognised or derecognised.

For the period from the date custodial functions were transferred to external service providers to 30 June 2020:

- We obtained the custodians’ GS007 (Guidance Statement 007 Audit Implications of the User of Service Organisations for Investment Management Services) independent assurance report to understand the custodian’s processes and assess controls to record and value the Fund’s investments; and
- We assessed the reputation, professional competence and independence of the auditors of the GS007 assurance report;

	<ul style="list-style-type: none"> <li>• We checked the ownership of the investments to custody reports to test existence of investments being valued; and</li> <li>• We checked the valuation of a sample of investments, as recorded in the general ledger, to externally quoted market prices from Australian stock exchange as at year end.</li> </ul>
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### Emphasis of matter – Basis of Preparation

We draw attention to Note 3 in the Financial Report, which describes the basis of preparation. The Financial Report has not been prepared on a going concern basis as the Responsible Entity has announced that the Fund will commence winding up on or around 26 October 2020. Our opinion is not modified in respect of this matter.

### Other Information

Other Information is financial and non-financial information in Australian Governance & Ethical Index Fund's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of Walsh & Company Investments Limited (the Responsible Entity) are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

### Responsibilities of the Directors for the Financial Report

The Directors of Walsh & Company Investments Limited (the Responsible Entity) are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Fund's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they 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 objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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:

[https://www.auasb.gov.au/admin/file/content102/c3/ar2\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf). This description forms part of our Auditor's Report.

KPMG

Jessica Davis

*Partner*

Sydney

27 August 2020

**Australian Governance & Ethical Index Fund**  
**Investments at market value**  
**30 June 2020**

**Investments**

The investments held by the Fund are:

Investments	Market Value	
	\$	%
A2 Milk Company Limited	444,630	1.63%
ALS Limited	66,033	0.24%
Altium Limited	263,478	0.96%
Alumina Limited	268,856	0.98%
Ampol Limited	156,364	0.57%
Ansell Limited	96,411	0.35%
APA Group	486,659	1.79%
ASX Limited	320,687	1.17%
Atlas Arteria Ltd	311,286	1.14%
Aurizon Holdings Limited	190,945	0.70%
Ausnet Services Limited	56,307	0.21%
Australia And New Zealand Banking Group Limited	1,282,674	4.69%
Beach Energy Limited	46,442	0.17%
Bendigo And Adelaide Bank Limited	74,278	0.27%
Bluescope Steel Limited	117,543	0.43%
Boral Limited	90,820	0.33%
Brambles Limited	489,628	1.79%
Carsales.Com Limited	86,837	0.32%
Charter Hall Group	87,317	0.33%
Cleanaway Waste Management Limited	268,970	0.98%
Cochlear Limited	464,390	1.70%
Coles Group Limited	400,233	1.47%
Commonwealth Bank Of Australia	2,378,190	8.70%
Computershare Limited	130,990	0.48%
CSL Limited	2,831,829	10.36%
Dexus	192,841	0.71%
Downer Edi Limited	51,925	0.19%
Evolution Mining Limited	184,513	0.68%
Flight Centre Travel Group Limited	29,424	0.11%
GPT Group	156,100	0.57%
Iluka Resources Limited	230,964	0.85%
Incitec Pivot Limited	64,463	0.24%
Insurance Australia Group Limited	259,269	0.95%
James Hardie Industries Plc	236,314	0.86%
JB Hi-Fi Limited	97,678	0.37%
Lendlease Group	164,509	0.60%
Link Administration Holdings Limited	47,392	0.17%
Macquarie Group Limited	1,178,528	4.31%
Magellan Financial Group Limited	173,914	0.64%
Medibank Private Limited	169,043	0.62%
Mirvac Group	354,986	1.30%
National Australia Bank Limited	1,502,385	5.50%
Newcrest Mining Limited	840,811	3.08%
NIB Holdings Limited	40,586	0.15%
Nine Entertainment Co. Holdings Limited	40,510	0.15%
Northern Star Resources Ltd	189,218	0.69%

**Australian Governance & Ethical Index Fund**  
**Investments at market value**  
**30 June 2020**

Investments	Market Value	
	\$	%
Oil Search Limited	112,697	0.41%
Orica Limited	136,897	0.50%
Orora Limited	50,155	0.18%
Oz Minerals Limited	543,495	1.99%
QBE Insurance Group Limited	259,669	0.95%
Qube Holdings Limited	379,787	1.39%
Ramsay Health Care Limited	235,082	0.86%
Reliance Worldwide Corporation Limited	52,264	0.19%
Rio Tinto Limited	1,716,847	6.28%
Santos Limited	178,451	0.65%
Scentre Group	225,070	0.82%
Seek Limited	156,185	0.57%
Spark Infrastructure Group	70,101	0.26%
Stockland	157,155	0.58%
Suncorp Group Limited	225,166	0.82%
Sydney Airport	456,554	1.67%
Telstra Corporation Limited	922,317	3.38%
Transurban Group	718,327	2.63%
Unibail-Rodamco-Westfield	135,081	0.49%
Vicinity Centres	90,336	0.33%
Virgin Money UK PLC	296,776	1.09%
Wesfarmers Limited	988,636	3.62%
Woodside Petroleum Limited	394,095	1.44%
Woolworths Limited	951,497	3.48%
Worleyparsons Limited	55,782	0.20%
Xero Limited	195,899	0.72%
	<u>27,321,491</u>	

**Transactions**

The total number of transactions in Fund securities during the reporting period was 345.

**Australian Governance & Ethical Index Fund**  
**Unitholder information**  
**30 June 2020**

The unitholder information set out below was applicable as at 31 July 2020.

**Distribution of equitable securities**

Analysis of number of equitable security holders by size of holding:

	<b>Number of holders of ordinary units</b>
1 to 1,000	33,647
1,001 to 5,000	309,342
5,001 to 10,000	1,333,977
10,001 to 100,000	13,185,982
100,001 and over	712,251
	<u>15,575,199</u>
Holding less than a marketable parcel	<u>35</u>

**Equity security holders**

*Twenty largest quoted equity security holders*

The names of the twenty largest security holders of quoted equity securities are listed below:

	<b>Ordinary units % of total units issued</b>	
	<b>Number held</b>	
DARJUD PTY LTD (THE D & J MAHER S/FUND A/C)	141,812	0.89
MRS DIANE MORA GALLERY MRS MADELEINE JANE LENZNER & MRS VERONICA LOUISE ROBSON (THE GALLERY SUPER FUND A/C)	125,654	0.79
MR ROBERT CHARLES TAYLOR & MRS SUSAN TAYLOR (R & S TAYLOR SUPER FUND A/C)	118,750	0.74
MR JACQUES POL CALLUAUD & MRS LYNN MARGARET CALLUAUD (JP & LM CALLUAUD S/F A/C)	111,000	0.70
GL & AM MORRISON PTY LTD (G & A MORRISON S/F A/C)	110,000	0.69
BREWER SUPERANNUATION PTY LTD (BREWER SUPER FUND A/C)	105,035	0.66
J & V KING PTY LTD (JOHN G KING S/F A/C)	98,700	0.62
ALNJEN PTY LTD (THE ALNJEN JONES S/F A/C)	89,892	0.56
MR ALAN KLINE & MRS PATRICIA KLINE (A L KLINE SUPER FUND A/C)	87,639	0.55
STOBADGER PTY LIMITED (STOBADGER STAFF S/FUND A/C)	83,710	0.52
HICKEY NEBBILOLO SUPER FUND PTY LTD (THE M & C HICKEY S/F A/C)	81,578	0.51
CONCORDE SYSTEMS PTY LTD (CONCORDE SYSTEMS S/FUND A/C)	79,813	0.50
MCDONALD & HAMROSI SUPER PTY LTD (MCDONALD & HAMROSI S/F A/C)	73,894	0.46
AVALFO PTY LTD (V OFFNER & A FRANKLIN SF A/C)	73,748	0.46
MAXELA PTY LTD (MAXELA SUPER FUND A/C)	73,180	0.46
ARORA SUPER PTY LTD (ARORA FAMILY SUPER FUND A/C)	72,661	0.46
MR GLENN ALEXANDER WITHERS & MR CHRISTOPHER JAMES WITHERS (G WITHERS SUPER FUND A/C)	68,293	0.43
MR TREVOR CRAFT & MRS JENNIFER MARY COLLINS (T CRAFT & JM COLLINS S/F A/C)	67,743	0.42
T H H NOMINEES PTY LIMITED (TIM HIGGINS S/F A/C)	64,707	0.41
LANDE PTY LTD (THE DE AMBROSIS S/F A/C)	64,356	0.40
	<u>1,792,165</u>	<u>11.23</u>

**Australian Governance & Ethical Index Fund**  
**Unitholder information**  
**30 June 2020**

*Unquoted equity securities*

There are no unquoted equity securities.

**Substantial holders**

There are no substantial holders in the Fund.

**Voting rights**

The voting rights attached to ordinary units are set out below:

*Ordinary units*

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each unit shall have one vote.

There are no other classes of equity securities.

**Management Agreement Summary**

Walsh & Company Asset Management Pty Limited (ACN 159 902 708) (**Investment Manager**) has been appointed to act as investment manager for the Australian Governance & Ethical Index Fund (**Fund**) under an Investment Management Agreement (**Investment Management Agreement** or **IMA**) dated 14 May 2018 between Walsh & Company Asset Management Pty Limited as the Investment Manager and Walsh & Company Investments Limited (**Responsible Entity**) as Responsible Entity of the Fund.

The IMA is for an Initial Term commencing on the date of the agreement, 14 May 2018, and expiring on the date 5 years after the commencement date, unless terminated earlier in accordance with its terms.

Under the IMA, the Investment Manager is entitled to be paid a monthly management fee of 0.11% (exclusive of GST) per annum of the Value of the Portfolio calculated on the last business day of the prior month.

**Australian Governance & Ethical Index Fund**  
**Corporate directory**  
**30 June 2020**

The Fund's units are quoted on the official list of Australian Securities Exchange (**ASX**).

**The ASX code is AGM**

**Responsible Entity**

Walsh & Company Investments Limited  
(ACN 152 367 649)  
(AFSL 410 433)  
Level 15, 100 Pacific Highway  
NORTH SYDNEY NSW 2060  
T 1300 454 801  
F 1300 883 159  
E [info@walshandco.com.au](mailto:info@walshandco.com.au)  
[walshandco.com.au](http://walshandco.com.au)

**Directors**

Stuart Nisbett  
Warwick Keneally  
Mike Adams  
Peter Shear

**Secretaries**

Hannah Chan  
Caroline Purtell

**Australian Governance & Ethical Fund**

(ARSN 625 826 646)  
Level 15, 100 Pacific Highway  
NORTH SYDNEY NSW 2060  
T 1300 454 801  
F 1300 457 349  
E [info@governanceandethicalfund.com.au](mailto:info@governanceandethicalfund.com.au)  
[governanceandethicalfund.com.au](http://governanceandethicalfund.com.au)

**Unit Register**

Boardroom Pty Limited  
Level 12, 225 George Street SYDNEY  
NSW 2000  
T 1300 737 760 (Australia)  
T +61 2 9290 9600 (International)  
F 1300 653 459  
[boardroomlimited.com.au](http://boardroomlimited.com.au)

**Auditor**

KPMG  
Level 38, Tower Three International  
Towers Sydney 300 Barangaroo  
Avenue SYDNEY NSW 2000  
T: +61 2 9335 7000  
F: +61 2 9335 7001  
[kpmg.com.au](http://kpmg.com.au)

**Banker**

ANZ Bank  
J.P. Morgan

