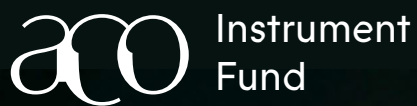


Australian Chamber Orchestra



ANNUAL REPORT 2016-2017





Richard Tognetti and Satu Vänskä. Photo: Jack Saltmiras

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Cover: Timo-Veikko Valve plays the 1616 Brothers Amati cello at
ACO Soloists. Photo: Jack Saltmiras

ACO Instrument Fund Chair's Report

The 2017 financial year was an exciting one for the ACO Instrument Fund as the search for our third instrument culminated with the Board purchasing the stunning 1616 Brothers Amati cello known as the 'ex-Fleming'. This oldest but newest instrument joins the Fund's two existing assets – the 1728/29 Stradivarius and the 1714 Guarnerius filius Andreae – all three instruments performed in concert halls around Australia and the world by the players of the Australian Chamber Orchestra, considered to be the finest chamber orchestra in the world.

When the acquisition was completed in May 2017 for a price of AUD\$1.4 million, we immediately commenced a program to sell the units that had been issued to the ACO for funding the purchase. As at 30 June 2017 we secured over \$140,000 in additional investments, which has at the time of writing grown to over \$545,000. A substantial proportion of this amount has come from additional unit purchases by existing unitholders. The Board would like to thank those investors who have added to their holdings and also to welcome our new investors.

As at the end of the financial year we had 31 investors in the Fund (in addition to the Australian Chamber Orchestra). Our investors include individuals, companies, family trusts, self-managed super funds (SMSFs) and Private Ancillary Funds (PAFs).

During the year we held special events to showcase the Fund's wonderful instruments, one co-hosted with Crestone Wealth Management in Sydney and the second, hosted backstage at Hamer Hall, Melbourne. Such events as these are incredibly valuable opportunities for both current and prospective investors, as it gives them the chance to observe these exquisite instruments in an intimate setting, hearing the instruments played by the outstanding musicians of the ACO and also meeting with the players to talk about the instruments.

As part of the process of purchasing the Amati cello, the Board undertook a Formal Valuation of the instruments and agreed on 10 April 2017 to maintain the Fund's unit price

at \$1.40. This was the unit price at which units were issued to the ACO in return for funding the purchase and it has remained the price for the purposes of selling down these units. Furthermore, the Board decided that this was also the price that should apply to the July 2017 withdrawal period. The decisions took into account the independent valuation of the Fund's assets, undertaken in March 2017 by 3 different instrument experts, the relevant exchange rate and certain adjustments for deferred tax and liquidity. The unit price of \$1.40 compares with a unit price of \$1.20 at the end of 2014 financial year, and \$1.00 at the Fund's launch in 2011.

I would like to acknowledge the contribution of our Australian Financial Services Licence holder, JBWere Ltd and its team, the ACO team – Investor Relations Manager Yeehwan Yeoh and CFO (and AML/CTF Compliance Officer) Fiona McLeod, and my fellow Directors Jessica Block, John Leece, John Taberner and Julie Steiner. I would also like to thank former Director Andrew Stevens for his time serving on the Board.



Bill Best

Chair

Australian Chamber Orchestra Instrument Fund



Timo-Veikko Valve on the 1616 Brothers Amati cello,
Intimate Mozart, 2017. Photo: Zan Wimberley

ACO Managing Director's Report

Since its inception in 2011, the ACO Instrument Fund has provided our musicians with access to some truly great stringed instruments. The Fund launched with the 1728/29 Stradivarius violin, followed by another great violin, the 1714 'ex Isolde Menges' Guarnerius filius Andreæ in 2014. This year in May, we acquired the 1616 'ex Fleming' Brothers Amati cello – the first cello to join the Fund's growing library of wonderful instruments. The search for this latest acquisition was one which took almost three years before "it found us", as our Principal Cello Timo-Veikko 'Tipi' Valve so adroitly put it.

There have been so many standout moments for the instruments of the Fund in this past year's landscape of acclaimed concerts that it is hard to single out just one. Tipi's stunning interpretation of Debussy's Cello Sonata, in an arrangement written specially for him, was a personal favourite.

It gives me great pleasure to acknowledge the growth of the Fund and its prized instruments. Not only is the dollar value of the instruments in the Fund approximately \$7 million, but the artistic, social and historical value of the instruments of the Fund is immeasurable. Indeed, the 'voice' of the ACO is strongly influenced by the quality of the instruments within

the Fund – and with the ACO going from strength to strength each year – affirming the ongoing artistic and economic viability of the symbiotic relationship between the Orchestra and the Fund.

As well as its financial potential, investment in the Instrument Fund represents a strong philanthropic commitment, and I'd like to take this opportunity to thank our ACO Instrument Fund investors. Many exciting events are in store for the 2018 concert season, and I hope to see you at the season opener, *Tognetti Tchaikovsky Brahms*, a big, melodic and emotively powerful start to the year.

Finally, my thanks to the Directors of the ACO Instrument Fund, especially the Chair, Bill Best, for his tenacious commitment to the prosperity of the Fund.



Richard Evans
Managing Director
Australian Chamber Orchestra



The ACO plays the Fund's instruments as well as instruments on loan from benefactors. Photo: Dan Mahon

Instrument Fund Overview



Satu Vänskä. Photo: Zan Wimberley

The Australian Chamber Orchestra Instrument Fund (the "Fund") was established to offer investors the opportunity to participate in ownership of a bank of historical stringed instruments. The instruments the Fund owns and targets have a history of increasing in value, or have the capacity to do so in the future. Each instrument is identified, assessed and verified by experts in the field of historical stringed instruments before being considered for purchase.

The Fund lends instruments which it has purchased to the ACO without charge for use by its players in events such as concerts, recordings, rehearsals, both in Australia and internationally. The ACO is responsible for insurance and maintenance of the Fund's instruments.

The Investment Objective

The Fund's investment objective is to achieve long-term capital gains from investing in high-quality stringed instruments. The Fund is not expected to generate income returns.

The Investment Strategy

Australian Chamber Orchestra Instrument Fund Pty Ltd (the "Trustee") will acquire for the Fund, from local and international sources, specified stringed instruments which meet the requirements for the ACO's playing standards and commitments. There is no intention for the Fund to borrow, or to hold investments other than instruments and cash.

Comment from JBWere Limited

JBWere is pleased to act as arranger for investments in the Fund.

JBWere believes that as a leader in delivering first-class investment advice and philanthropic services, managing and growing people's wealth is very important, but when we are able to do this in a way that benefits the community, there is an even greater degree of satisfaction. We are delighted by the progress and performance of the Fund since its inception and look forward to being a part of its continuing success.



ACO and Henning Kraggerud, *Grieg and Beyond*, 2017.
Photo: Prudence Upton

Assets of the Fund



The 1728/29 Stradivarius violin

The Fund acquired its first instrument in 2011 – a 1728/29 Stradivarius violin. This instrument is a composite of two instruments made by Antonio Stradivari in 1728 and 1729. This is not unusual: in the 18th century it was common to repair instruments by replacing sections. In this case, two Stradivarius violins, one with an original front, the other with an original back and sides, have been united to form an all-Stradivarius instrument that displays all the hallmarks of great Stradivarius violins. It has powerful projection and evenness of tone throughout its full range, with equality across all four strings. It has a rich and well-projected lower register on the G-string and a finely balanced middle register that soars to a sweet-toned, singing quality in the upper register which, in the right hands, intensifies to brilliance. It is capable of great dynamic variety and can be heard distinctly in solo lines above an ensemble or orchestral accompaniment. It is also equally able to blend elegantly with an instrumental section. The Fund's 1728/29 Stradivarius violin is played by ACO Principal Violin Satu Vänskä.

About Antonio Stradivari

Antonio Stradivari (1644–1737) is widely acknowledged as the greatest violin maker of all time. His instruments exhibit a unique blend of tonal excellence, design, beauty to the eye and accuracy of workmanship. Stradivari was born in Cremona, Italy, one of the recognised traditional centres of violin making. Even in that elite field, he was quickly recognised as a master. His instruments bear the hallmarks of his superiority: innovations such as wider and more intricate inlays, bolder sound-holes, stronger arching in the tables and a broader, squarer centre. Mystery still surrounds the recipe for his unique varnish.



The 1714 Giuseppe Guarnerius fillius Andreæ

The Fund acquired its second instrument in March 2014 – a beautiful violin made in 1714 by Giuseppe Guarneri filius Andreæ. The Fund's 1714 Guarnerius violin is played by Violinist Maja Savnik.

A 1937 certificate of authentication from W.E. Hill & Sons describes the Guarnerius violin in detail: "The back, in one piece, is of wood cut on the slab and marked by a broad, irregular curl, that of the sides, cut on the quarter by a handsome, small curl, the head being plain: the table is of pine of fine grain at centre, opening slightly on the flanks and the varnish, of an orange-red colour. This violin, in a fine state of preservation, is a handsome example of the maker's work."

Not only is the Guarnerius a beautiful instrument, it comes with an impeccable provenance, having been previously owned by Isolde Menges (1893-1976), a renowned English violinist and pedagogue. A 1990 letter from Charles Beare, British violin expert, craftsman and dealer, describes her thus: "Isolde was a great character as well as a great musician. She loved her Guarneri and I always loved seeing it, especially the varnish on the back".

About Giuseppe Guarneri filius Andreæ

By 1698, Giuseppe Guarneri filius Andreæ (1666-1740 – had inherited his father's shop, where he had worked as an assistant for most of his life. The Guarneri workshop was just down the road from Antonio Stradivari's shop and the two competed to produce high quality instruments. Guarneri showed great originality in his designs, and expert craftsmanship. His outline tended to be narrow-waisted, the f-holes low and elegant, and he used a rich varnish, often described as deep orange-red in colour.

Guarneri's sons Pietro and Giuseppe del Gesù followed their grandfather and father into the family business, creating one of the greatest dynasties of Italian luthiers ever known. Pietro moved to Venice in 1717 to continue making violins, while del Gesù remained in Cremona, helping his father produce characteristic violins, and eventually inherited the Guarneri family workshop.



The 1616 Brothers Amati cello

The Fund was delighted to acquire its third instrument and its first cello in May 2017 – the 1616 Brothers Amati 'ex-Fleming'. This cello is a rare and characteristic example of its makers and has a reputation for its magnificent tonal qualities amongst the historical stringed instrument dealing world.

The description on the J&A Beare certificate of authenticity reads: "The back in two pieces of maple with quite narrow flames ascending slightly from the centre joint; the sides of similar wood; the scroll of later date with flames of medium width; the table in two pieces of spruce of medium grain; the varnish of an orange-brown colour on a lighter ground."

The cello is named after the celebrated British cellist Amaryllis Fleming who owned the instrument in the late 20th century. Hers was "an extraordinary life lived amongst uncommon people" according to journalist June Ducas, for her private life as much as her musical career. Fleming was the first modern cellist to return to performing Baroque music in "historically-informed style". This included performing the six cello Suites by J.S. Bach on a five-stringed cello.

About the Brothers Amati

'(Hieronymus) Amati created the warmest, most beautiful and sweet sound with an amazing clarity in its centre, a real core. The way Amati cellos are constructed means the sound can carry very well in large halls. They allow to radiate a long wave with a certain softness that reaches out into the auditorium.' Florian Leonhard, 2015

The famous Amati legacy was established by Andrea Amati (c1511-1577), like both the Stradivari and Guarneri families, from Cremona, Italy. His two sons were Antonio (c1540-1607) and his half-brother Girolamo (Hieronymus) (c1561-1630), or the 'brothers Amati' as they are commonly known. Although it is noted that Hieronymus bought out Antonio around 1588, most productions until 1630 bore labels which indicated that the two continued to work together, improving the design of the instruments of the violin family in subtle ways, such as the form of the soundhole and the outlines of the instruments.

The influence of the work of the Brothers Amati spread far and wide, in Italy and abroad. The Amati legacy was sealed by Hieronymus' son, Nicolò, who may have taught Antonio Stradivari and Andrea Guarneri.



Mountain world premiere. Photo: Maria Boyadgis

AUSTRALIAN CHAMBER ORCHESTRA INSTRUMENT FUND

ABN 17 968 443 499

Financial statements – 30 June 2017

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These financial statements cover Australian Chamber Orchestra Instrument Fund as an individual entity.

The trustee of Australian Chamber Orchestra Instrument Fund is Australian Chamber Orchestra Instrument Fund Pty Limited (ABN 63 147 806 424).

The trustee's registered office is:
Opera Quays, 2 East Circular Quay
Sydney NSW 2000

Directors' report

The directors of Australian Chamber Orchestra Instrument Fund Pty Limited (a controlled entity of Australian Chamber Orchestra Pty Ltd), the trustee of Australian Chamber Orchestra Instrument Fund, present their report together with the financial statements of Australian Chamber Orchestra Instrument Fund ("the Fund") for the year ended 30 June 2017.

The Australian Financial Service Licence Holder ("AFSL Holder") of Australian Chamber Orchestra Instrument Fund is JBWere Pty Ltd (ABN 68 137 978 360, Level 16, 101 Collins Street, Melbourne VIC, 3000).

Directors

The following persons held office as directors of Australian Chamber Orchestra Instrument Fund Pty Limited ("the Trustee") during the year or since the end of the year and up to the date of this report.

- Mr WD Best
- Ms J Block
- Mr JD Leece
- Mr JG Taberner
- Ms J Steiner (appointed 27 April 2017)
- Mr AC Stevens (retired 27 April 2017)

Information about the directors is set out below:

Mr W D Best

Chairman

Non-Executive Director since 10 December 2010

Bill Best is currently Chairman of LifeHealthcare, an ASX listed specialist distributor of high-end medical devices, and Liverpool Partners Private Equity Fund. He is also Chairman of Inala, a Rudolf Steiner organisation supporting individuals with disabilities. Bill is an advisor to OnMarketBookbuilds. Previously Bill had 30 years of investment banking experience, and was for many years an Executive Director of Macquarie Bank. Bill has LLB, B.Comm and M.Comm degrees. He is also a Director of the Australian Chamber Orchestra Pty Limited.

Ms J Block

Non-Executive Director since 10 December 2010

Jessica Block is a business development consultant and former Deputy Managing Director of the Australian Chamber Orchestra Pty Limited. She practised as a solicitor with Mallesons Stephen Jacques for five years until 1996, when she was made a Senior Associate. She then spent two years with the Nine Network as one of its Corporate Counsel, and has held senior management positions with the Bell Shakespeare Company and the Sydney Festival. Jessica has a degree in Arts/Law from the University of Sydney.

Mr J D Leece AM

Non-Executive Director since 20 May 2011

John Leece has been a Partner of Boroughs Chartered Accountants for more than 35 years. He has served for many years on Committees and Boards of the Australian Accounting Profession and served as a Captain in the Australian Army Reserve. He is a Board member of the World Scout Foundation based in Geneva; a Trustee of the Charlie Perkins Trust for Children and Students; a Trustee of the Charlie Perkins Scholarships Trust awarding scholarships to Indigenous Australians to attend university at Oxford or Cambridge; a Councillor of the Australian Geographic Society; a Life Benefactor of the Westmead Medical Research Foundation; a Patron of the ACO and the Art Gallery of NSW. He is the initiator of the International Defence and Security Dialogues which are held biennially. John is also a member of the Explorers Club of New York and has been awarded the Australian Geographic Silver Medallion Spirit of Adventure. He has been recognised in the Order of Australia as a Member in the General Division for significant service to the community, particularly to the Scouting movement, and to philanthropy.

Directors' report continued

Mr J G Taberner

Non-Executive Director since 10 December 2010

John Taberner was for 20 years until 2008 a partner in the Sydney office of Herbert Smith Freehills, Solicitors. For 9 years from 2008 to 2017, he was a Consultant at Herbert Smith Freehills, Solicitors. John has extensive experience advising a wide range of clients on all aspects of environmental law. For 20 years he led the firm's environmental law practice in Sydney and was also a director of the firm's national Pro Bono practice. John has Masters' degrees in Arts and Environmental Law. He is also a Director and Life Patron of the Australian Chamber Orchestra Pty Limited. John is also a Director of ACOUK and ACOUS.

Ms J Steiner

Non-Executive Director since 27 April 2017

Julie Steiner is the Managing Director of Odgers Berndtson's Australian operations where she leads the Industry Practices: Education, Health, Government, Financial Services and Arts and Culture and Functional Practices, which cover COO, CIO, CFO and senior HR senior roles. Julie also works with public and private sector Boards to appoint Chairs and Non-Executive Directors. She was a founding Director of Braithwaite Steiner Pretty (BSP). Prior to executive search, Julie worked in the public and private sectors as General Manager Enterprises for the Australian Broadcasting Corporation and CEO of IMAX Australia. Her early career was in publishing with Macmillian and Penguin Books. She has been a broadcaster with the ABC and has sat on a number of Boards. Julie is a graduate of the Australian Institute of Company Directors, is the Chair of the Odgers Berndtson Global Education Practices and is on the Board of the Australian Chamber Orchestra Pty Ltd. Julie has an honours degree in English, Literature and Politics from the University of Melbourne.

Principal activities

The Fund is an unregistered, wholesale, managed investment fund.

The Fund invests in rare, historical, high quality stringed instruments which are loaned to the Australian Chamber Orchestra Pty Limited for use by its players. The Fund intends to generate long term capital gains and is not expected to generate a return on income in the short term.

The Fund did not have any employees during the year.

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

Review and results of operations

During the year, the Fund invested in a new instrument a rare 1616 Brothers Amati Cello and continued to hold its investment in a Stradivarius 1728/29 violin and a Guarneri 1714 violin. It will continue its search for future investments in accordance with the governing documents of the Fund and in accordance with the provisions of the Fund Trust Deed.

The performance of the Fund, as represented by the results of its operations, was a net profit for the year ended 30 June 2017 of \$Nil (2016: \$Nil).

Distributions

Distributions paid and payable for the year ended 30 June 2017 were \$Nil (2016: \$Nil).

Directors' report continued

Unit prices

Unit prices are shown as follows:

	30 June 2017	30 June 2016
Unit prices	<u>\$1.40</u>	<u>\$1.40</u>

It should be noted that redemptions will only be possible during periodic withdrawal windows (in accordance with Note 3d).

The key differences between net assets for unit pricing purposes and net assets as reported in the financial statements prepared under Australian Accounting Standards have been outlined below:

	30 June 2017	30 June 2016
Net Assets for Unit pricing purposes	5,795,289	4,657,285
Effect of classification of net assets attributable to unitholders as liabilities	<u>(5,795,289)</u>	<u>(4,657,285)</u>
Net Assets under Australian Accounting Standards	<u>-</u>	<u>-</u>

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

- I. the operations of the Fund in future financial years, or
- II. the results of those operations in future financial years, or
- III. the state of affairs of the Fund in future financial years.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provision of the Fund Trust Deed.

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

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

Directors' report continued

Indemnity and insurance of officers

No insurance premiums are paid for out of the assets of the Fund with regard to insurance cover provided to either the officers of Australian Chamber Orchestra Instrument Fund Pty Limited or the auditors of the Fund.

The officers of the Australian Chamber Orchestra Instrument Fund Pty Limited are in no way indemnified out of the assets of the Fund.

Insurance premiums have been paid to provide insurance cover to the officers of the Australian Chamber Orchestra Instrument Fund Pty Limited by the Australian Chamber Orchestra Pty Limited.

Indemnity of auditors

The auditors of the Fund are in no way indemnified out of the assets of the Fund.

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

No fees were paid out of Fund property to the Trustee or its associates during the year.

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

The number of interests in the Fund held by the Trustee or its associates as at the end of the financial year are disclosed in note 12 to the financial statements.

Fees paid to the AFSL Holder

Fees paid to the AFSL holder in the year ended 30 June 2017 were \$1,237 (2016: \$4,420).

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in note 5 to the financial statements.

The value of the Fund's assets and liabilities is disclosed on the statement of financial position and derived using the basis set out in note 3 to the financial statements.

Environmental regulations

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

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 17.

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



W D BEST
Director
Sydney
15 September 2017



Auditor's Independence Declaration

To the Directors of Australian Chamber Orchestra Instrument Fund Pty Ltd:

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as auditor of the audit of the Australian Chamber Orchestra Instrument Fund Pty Ltd, I declare that, to the best of my knowledge and belief, during the year ended 30 June 2017 there have been no contraventions of:

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

A handwritten signature in black ink that reads 'Steven J Miller & Co'.

STEVEN J MILLER & CO
Chartered Accountants

A handwritten signature in black ink that reads 'S J Miller'.

S J MILLER
Registered Company
Auditor No 4286

Sydney

Dated 15, 9, 17

Steven J Miller & Co
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Statement of profit or loss and other comprehensive income

for the year ended 30 June 2017

	Year Ended 30 June 2017	Year Ended 30 June 2016
Note	\$	\$
Investment income		
Interest income	606	66
Net (loss) / gains on musical instruments held at fair value	<u>(211,502)</u>	<u>343,717</u>
Total net investment (loss) / income	<u>(210,896)</u>	<u>343,783</u>
Expenses		
Licence holder fees	(1,237)	(4,420)
Provision for liquidity risk benefit / (expense)	<u>128,261</u>	<u>(276,156)</u>
Total operating expenses	<u>127,024</u>	<u>(280,576)</u>
Operating (loss) / profit	<u>(83,872)</u>	<u>63,207</u>
Income tax benefit / (expense)	4 <u>83,872</u>	<u>(63,207)</u>
Net profit after income tax	<u>-</u>	<u>-</u>
Finance costs attributable to unitholders		
Distributions to unitholders	6 <u>-</u>	<u>-</u>
Changes in net assets attributable to unitholders	5 <u>-</u>	<u>-</u>
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income	<u><u>-</u></u>	<u><u>-</u></u>

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

Statement of financial position

as at 30 June 2017

	Note	As At 30 June 2017 \$	As At 30 June 2016 \$
Assets			
Cash and cash equivalents	7	11,216	99,870
Receivables	8	287,586	150,049
Musical Instruments	9	7,020,281	5,857,797
Total assets		<u>7,319,083</u>	<u>6,107,716</u>
Liabilities			
Payables	10	288,817	3,321
Deferred tax liability	11	643,878	727,750
Provision for liquidity risk	14	591,099	719,360
Total liabilities (excluding liability to unitholders)		<u>1,523,794</u>	<u>1,450,431</u>
Net assets attributable to unitholders	5	<u>5,795,289</u>	<u>4,657,285</u>
Liability to unitholders			
Fair value of outstanding units	5	<u>5,795,289</u>	<u>4,657,285</u>
Liability to unitholders		<u>5,795,289</u>	<u>4,657,285</u>

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

Statement of changes in equity

for the year ended 30 June 2017

The Fund's net assets attributable to unitholders are classified as a liability under *AASB 132 Financial Instruments: Presentation*. As such, the Fund has no equity and no items of change in equity have been presented for the current or comparative year.

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

Statement of cash flows

for the year ended 30 June 2017

	Year Ended 30 June 2017	Year Ended 30 June 2016
Note	\$	\$
Cash flows from operating activities		
Licence holder fees paid	(2,200)	(8,600)
Payment of intercompany loan	(1,121)	-
Interest received	667	-
Net cash outflow from operating activities	<u>(2,654)</u>	<u>(8,600)</u>
Cash flows from financing activities		
Proceeds from purchase of units by unitholders	143,667	309,998
Payment for redemptions by unitholders	<u>(143,667)</u>	<u>(203,708)</u>
Net cash inflow from financing activities	<u>-</u>	<u>106,290</u>
Cash flows from investing activities		
Purchase of musical instruments	9(a) (86,000)	-
Net cash (outflow) from investing activities	<u>(86,000)</u>	<u>-</u>
Net (decrease) / increase in cash and cash equivalents	<u>(88,654)</u>	<u>97,690</u>
Cash and cash equivalents at the beginning of the year	<u>99,870</u>	<u>2,180</u>
Cash and cash equivalents at the end of the year	7 <u><u>11,216</u></u>	<u><u>99,870</u></u>

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

Notes to the financial statements

for the year ended 30 June 2017

1. General information

These financial statements cover Australian Chamber Orchestra Instrument Fund ("the Fund") as an individual entity. The Fund was established on 14 July 2011. The Fund will terminate ten years from commencement on 14 July 2021 unless greater than 50% of the unitholders (excluding Australian Chamber Orchestra Pty Limited) vote to extend the operation of the Fund.

The Trustee of the Fund is Australian Chamber Orchestra Instrument Fund Pty Limited ("the Trustee"). The Trustee's office is Opera Quays, 2 East Circular Quay, Sydney, NSW 2000. The manager of the Fund is Australian Chamber Orchestra Pty Limited and the Australian Financial Services Licence holder is JBWere Pty Ltd ("AFSL holder").

The Fund aims to generate long term capital growth in accordance with the objectives stated in the governing documents of the Fund and in accordance with the provisions of the Fund Trust Deed. It aims to achieve this objective by investing in rare, historical, specified high quality stringed instruments.

The financial statements were authorised for issue by the directors of the Trustee on 6 September 2017. The directors of the Trustee have the power to amend and reissue the financial statements.

2. Changes in accounting policies

There has been no significant changes to the accounting policies for the Fund.

a) New and revised standards that are effective for these financial statements

A number of new and revised standards became effective for annual periods beginning on or after 1 July 2016. Information on the more significant standard(s) is presented below.

AASB 2014-3 Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations

The amendments to AASB 11 Joint Arrangements state that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a 'business', as defined in AASB 3 Business Combinations, should:

- apply all of the principles on business combinations accounting in AASB 3 and other Australian Accounting Standards except principles that conflict with the guidance of AASB 11. This requirement also applies to the acquisition of additional interests in an existing joint operation that results in the acquirer retaining joint control of the joint operation (note that this requirement applies to the additional interest only (i.e. the existing interest is not re-measured) and to the formation of a joint operation when an existing business is contributed to the joint operation by one of the parties that participate in the joint operation).
- provide disclosures for business combinations as required by AASB 3 and other Australian Accounting Standards.

AASB 2014-3 is applicable to annual reporting periods beginning on or after 1 January 2016.

The adoption of these amendments has not had a material impact on the Fund.

AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

Notes to the financial statements continued

for the year ended 30 June 2017

2. Changes in accounting policies continued

The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e. a revenue-based amortisation method might be appropriate) only in two (2) limited circumstances:

- the intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or
- when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

AASB 2014-4 is applicable to annual reporting periods beginning on or after 1 January 2016.

The adoption of these amendments has not had a material impact on the Fund.

AASB 2014-9 Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements

The amendments introduce the equity method of accounting as one of the options to account for an entity's investments in subsidiaries, joint ventures and associates in the entity's separate financial statements.

AASB 2014-9 is applicable to annual reporting periods beginning on or after 1 January 2016.

The adoption of these amendments has not had a material impact on the Fund.

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

The Standard makes amendments to AASB 101 Presentation of Financial Statements arising from the IASB's Disclosure Initiative project. The amendments:

- clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- remove potentially unhelpful guidance in AASB 101 for identifying a significant accounting policy.

AASB 2015-2 is applicable to annual reporting periods beginning on or after 1 January 2016.

The adoption of these amendments has not had a material impact on the Fund.

3. Summary of accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards – Reduced Disclosure Requirements and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*. Australian Chamber Orchestra Instrument Fund is a for-profit public trading trust for the purpose of preparing the financial statements.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non current. All balances are expected to be recovered or settled within twelve months, except for investments in musical instruments and net assets attributable to unitholders.

The annual report is presented in Australian dollars which is the Fund's functional currency.

Notes to the financial statements continued
for the year ended 30 June 2017

3. Summary of accounting policies continued

b) Musical Instruments

Musical instruments are held for long term capital growth. They are shown at fair value based on periodic, at least biennial, valuations by reputable valuers such as *J & A Beare Ltd., London* and *Peter Biddulph Ltd., London* which are based on active market prices, adjusted, if necessary, for any difference in craftsmanship, age and/or condition of the instrument. The reasonableness of the fair value is assessed annually by the directors of the Trustee Company.

There is no definitive accounting standard which deals with investments in rare, historical stringed instruments held for longer term capital growth. The Board of Directors considers it most appropriate and reliable method is to record changes in fair value in the net profit/loss, rather than comprehensive income. Musical instruments are not depreciated.

c) Use of estimates and judgement

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experiences and other factors, including expectation of future events that are considered to be reasonable under the circumstances, the results of which form the basis of making judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

d) Net assets attributable to unitholders

Units can be applied for at any time but are redeemable in limited withdrawal windows that the Trustee intends to provide every three years. The next withdrawal window commences 1 July 2017.

Net assets attributable to unitholders are classified as financial liabilities as units are redeemable at the option of the unitholder periodically. The fair value of redeemable units is measured at the redemption amount that is payable (based on the unit price) at the end of the reporting period if unitholders were to redeem their units in the Fund.

e) Cash and cash equivalents

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

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

f) Interest income

Interest income is recognised in the statement of profit or loss and other comprehensive income for all interest bearing instruments using the effective interest rate method.

g) Expenses

The Fund may reimburse the Trustee for fees paid by it to the AFSL holder and any other costs incurred by it in connection with the Fund. All expenses are brought to account on an accruals basis.

Notes to the financial statements continued
for the year ended 30 June 2017

3. Summary of accounting policies continued

h) Income tax expense

The Fund accounts for the current and future tax consequences of its own assets and liabilities and other events as the Fund is currently a public trading trust. The Trustee is liable to pay tax on the net income of the Fund.

The income tax expense/(benefit) for the year comprises current income tax expense/(benefit) and deferred tax expense/(benefit).

Current income tax expense charged to profit or loss is the tax payable on taxable income. Current tax liabilities / (assets) are measured at amounts expected to be paid to/(recovered from) the relevant tax authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year.

Deferred tax assets and liabilities are calculated at the rates that are expected to apply to the period when the asset is realised or the liability is settled and their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability. Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probably that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

The company tax rate has been reduced from 28.5% to 27.5% for income year commencing on 1 July 2016 for small businesses which applies to the Australian Chamber Orchestra Instrument Fund (2016: 28.5%).

i) Goods and Services Tax (GST)

In February 2017 the Fund registered for GST and backdated registration to 1 January 2014. In the Financial Statements from 2017, 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 the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST components of investing and financing activities, which are disclosed as operating cash flows.

Notes to the financial statements continued
for the year ended 30 June 2017

	Year Ended 30 June 2017 \$	Year Ended 30 June 2016 \$
4. Income tax expense/(benefit)		
The components of income tax expense/(benefit) are:		
Current tax expense / (benefit)	-	-
Deferred tax (benefit) / expense	<u>(83,872)</u>	<u>63,207</u>
Income tax (benefit) / expense	<u>(83,872)</u>	<u>63,207</u>
Numerical reconciliation of income tax expense to prima facie tax payable:		
Operating (loss) / profit before income tax expense/(benefit)	<u>(83,872)</u>	<u>63,207</u>
Prima facie tax (receivable) /payable on profit from ordinary activities before income tax at 27.5% for year end 30 June 2017 (2016: 28.5%)	(23,065)	18,014
Restatement prior year deferred tax calculation due to change in income tax rate to 27.5% for year end 30 June 2017 (2016: 28.5% from 30% in 2015)	(25,535)	(33,227)
Prior year overprovision for income tax	-	(285)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Provision for liquidity risk	<u>(35,272)</u>	<u>78,705</u>
Income tax attributable to the Fund	<u>(83,872)</u>	<u>63,207</u>

Notes to the financial statements continued
for the year ended 30 June 2017

5. Net assets attributable to unitholders

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

	Year Ended		Year Ended	
	30 June 2017 \$	30 June 2017 Number	30 June 2016 \$	30 June 2016 Number
Opening balance at 1 July	4,657,285	3,326,632	4,550,994	3,250,711
Applications	1,301,016	929,297	360,373	257,409
Redemptions	(163,012)	(116,437)	(254,082)	(181,488)
Closing balance at 30 June	5,795,289	4,139,492	4,657,285	3,326,632

As stipulated within the Trust Deed, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as all the other units of the Fund.

The Board undertook a Formal Valuation of the current units and agreed at the 10 April 2017 Board meeting the current unit price of \$1.40 (2016: \$1.40) should remain unchanged. The Board decided to undertake an Informal Valuation on 24 May 2017 in advance of the July 2017 withdrawal period and resolved the unit price would remain \$1.40 for the July 2017 withdrawal window and therefore remained appropriate for the year end 30 June 2017.

Capital Risk Management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amounts of net assets attributable to unitholders is subject to daily applications and periodical redemptions.

Applications can be made at any time by wholesale clients. A unit in the Fund is an illiquid investment. The Trustee will provide periodic withdrawal opportunities under which a limited amount of units will be purchased by the Australian Chamber Orchestra Pty Limited on a pro rata basis from investors who wish to participate in the relevant withdrawal opportunity. The Trustee intends to provide these withdrawal opportunities every three years. The next opportunity will be 1 July 2017.

Additionally, if the Trustee determines that the Fund's cash levels materially exceed its forecast requirements, it may offer a pro rata redemption opportunity or make a pro rata capital distribution to unitholders.

6. Distributions to unitholders

There were no distributions paid or payable during the year ended 30 June 2017 (2016: \$Nil).

Notes to the financial statements continued
for the year ended 30 June 2017

	30 June 2017	30 June 2016
Note	\$	\$
7. Cash and cash equivalents		
Cash at bank	<u>11,216</u>	<u>99,870</u>
	<u>11,216</u>	<u>99,870</u>

8. Receivables

Interest receivable	5	66
GST receivable	<u>287,581</u>	<u>149,983</u>
	<u>287,586</u>	<u>150,049</u>

9. Musical instruments

Stringed instruments

Fair value at 1 July		5,857,797	5,664,063
Acquisitions - Amati Cello	9(a)	1,373,986	-
Acquisitions - Guarneri Violin	9(b)	-	(149,983)
Net (loss) / gain from fair value adjustment	9(c)	<u>(211,502)</u>	<u>343,717</u>
Fair value at 30 June		<u>7,020,281</u>	<u>5,857,797</u>

9(a). Acquisitions - Amati Cello

On 3 May 2017 the Fund agreed to purchase a rare *1616 Brothers Amati Cello* for \$1,373,986 excluding GST and \$1,511,384 including GST (2016: \$Nil). The *1616 Brothers Amati Cello* was purchased from the Australian Chamber Orchestra Pty Ltd (ACO) in exchange for 812,860 units valued at \$1.40 in the Fund, cash of \$86,000, promissory note one of \$137,398 to the ACO to be paid once ATO refund GST on *1616 Brothers Amati Cello* received and promissory note two of \$149,983 to the ACO to be paid once ATO refund GST on *1714 Guarneri Violin* received.

9(b). Acquisitions - Guarneri Violin

In February 2017 the Fund registered for GST and backdated registration to 1 January 2014. This change enabled the Fund to complete an activity statement for the 12 March 2014 purchase of Guarneri *1714 violin* for the GST to be refunded. The GST to be refunded is \$149,983 and is shown as a decrease in acquisition cost and forms part of GST receivable in note 8. This error originated in 2014 and is being adjusted in 2016 as per note 16.

9(c). Net gain/(loss) from fair value adjustment

Net gain/(loss) from fair value adjustment in 2016 consists of two components, a gain from fair value adjustment for the Guarneri Violin of \$149,983 (see note 16), plus a gain from fair value adjustment of \$193,734 due to movement in exchange rates at year end. The exchange rates applied are explained in the valuation basis section following on next page. The 2017 gain from fair value adjustment is solely due to movement in exchange rates.

Notes to the financial statements continued
for the year ended 30 June 2017

9. Musical instruments continued

Valuations basis

The Fund values its musical instruments at fair value which it reviews at least annually. The reasonableness of the fair value is assessed by the directors of the Trustee Company.

External valuations from reputable valuers are requested on at least a biennial basis and are based on active market prices, adjusted if necessary, for any difference in craftsmanship, age and/or condition of the instrument. The fair value is the amount which a willing party in an arm's length transaction would be willing to pay, based on current prices in an active market for similar instruments with similar qualities.

In March 2017, the Fund was provided with valuations for both the Stradivarius 1728/29 violin and the Guarneri 1714 violin by *Peter Biddulph Ltd. (London)*; *J&A Beare Ltd. (London)* and *Tarisio Fine instruments and Bows (London and New York)*. These valuations were provided in US dollars.

The directors of the Trustee made the assessment of the fair value of both instruments on the basis of the information from the three reputable valuers with the guidance of the *Australian Chamber Orchestra Pty Ltd*. The valuation date was 31 March 2017, this was a Formal Valuation as described by the Information Memorandum (2016: The Formal Valuation date was 15 May 2014).

On 3 May 2017 the Fund agreed to purchase the 1616 Brothers Amati Cello from the ACO, which included a valuation in US dollars, this is the Formal valuation for the 1616 Brothers Amati Cello.

The Fair Value of the Instruments shown as at 30 June 2017 reflects the most recent Formal Valuation in US dollars and the AUD/USD exchange rate as at 30 June 2017.

	30 June	30 June
	2017	2016
Exchange Rate AUD/USD	<u>0.7692</u>	<u>0.7426</u>

The next Formal Valuation will be carried out prior to the opening of the next withdrawal window which occurs in July 2020.

Contractual obligations

Pursuant to clause 3.6 of the Fund Administration Agreement, the Fund is obligated to hire musical instruments to the Australian Chamber Orchestra Pty Ltd for specified hiring periods as agreed in writing.

The *Stradivarius 1728/29 violin*, *Guarneri 1714 violin* and *1616 Amati Brothers cello* have and will continue to be hired by the Australian Chamber Orchestra Pty Ltd until 14 July 2021.

Notes to the financial statements continued
for the year ended 30 June 2017

	Note	30 June 2017 \$	30 June 2016 \$
10. Payables			
Accrued expenses		1,436	2,200
Intercompany loan - related party	10(a)	<u>287,381</u>	<u>1,121</u>
		<u>288,817</u>	<u>3,321</u>

10(a). Intercompany Loan

On 3 May 2017 the Fund agreed to purchase a rare *1616 Brothers Amati Cello* from the Australian Chamber Orchestra Pty Limited. To pay for the Amati the Fund issued two promissory notes, one for \$137,398 to the ACO to be paid once the ATO refund GST on the 1616 Brothers Amati Cello and the other for \$149,983 to the ACO to be paid once the ATO refund GST on the 1714 Guarneri Violin. The two promissory notes are reported here as an intercompany loan.

11. Deferred tax liability

Fair value gain on musical instruments		648,027	731,869
Future income tax benefits attributable to tax losses		(3,755)	(3,511)
Other deferred tax assets		<u>(394)</u>	<u>(608)</u>
		<u>643,878</u>	<u>727,750</u>

Notes to the financial statements continued
for the year ended 30 June 2017

12. Related party transactions

Trustee

The trustee of Australian Chamber Orchestra Instrument Fund is Australian Chamber Orchestra Instrument Fund Pty Limited ("the Trustee"). The Trustee is a controlled entity of Australian Chamber Orchestra Pty Limited.

Australian Chamber Orchestra Pty Limited is the Manager of the Fund. JBWere Pty Limited is the AFSL holder (AFSL 341162).

Key management personnel

Key management personnel includes persons who were directors of Australian Chamber Orchestra Instrument Fund Pty Limited at any time during the financial year as follows:

- Mr WD Best
- Ms J Block
- Mr JD Leece
- Ms J Steiner (appointed 27 April 2017)
- Mr AC Stevens (retired 27 April 2017)
- Mr JG Taberner

There is no compensation paid to key management personnel from the Fund.

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

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

The key management personnel hold units in the Fund as follows:

2017 Unitholder	Opening Units	Units acquired / transferred	Units disposed / transferred	Closing Units	Fair value \$	Interest held %	Distributions paid \$
WD Best	100,000	-	-	100,000	140,000	2.42	-
Alochan Pty Ltd *	100,000	-	(100,000)	-	-	-	-
	200,000	-	(100,000)	100,000	140,000	2.42	-

2016 Unitholder	Opening Units	Units acquired / transferred	Units disposed / transferred	Closing Units	Fair value \$	Interest held %	Distributions paid \$
WD Best	100,000	-	-	100,000	140,000	3.01	-
Alochan Pty Ltd *	-	100,000	-	100,000	140,000	3.01	-
	100,000	100,000	-	200,000	280,000	6.02	-

* Note: On 2 September 2015 Alochan Pty Ltd ceased being a related party to the fund and became part of key management personnel in 2016, then on 27 April 2017 Alochan Pty Ltd ceased being part of key management personnel and therefore is not included in the key management personnel comparison in 2017.

Notes to the financial statements continued
for the year ended 30 June 2017

12. Related party transactions continued

Related party holdings

Parties related to the Fund, held units in the Fund as follows:

2017 Unitholder	Opening Units	Units acquired / transferred	Units disposed / transferred	Closing Units	Fair value \$	Interest held %	Distributions paid \$
Australian Chamber Orchestra Pty Limited	1,321,826	826,678	(116,437)	2,032,067	2,844,894	49.09	-
Wyargine Holdings Pty Ltd	200,000	-	-	200,000	280,000	4.83	-
James Superannuation Fund**	50,000	-	(50,000)	0	-	-	-
	1,571,826	826,678	(166,437)	2,232,067	3,124,894	53.92	-

2016 Unitholder	Opening Units	Units acquired	Units disposed / transferred	Closing Units	Fair value \$	Interest held %	Distributions paid \$
Australian Chamber Orchestra Pty Limited	1,480,427	22,887	(181,488)	1,321,826	1,850,556	39.74	-
Wyargine Holdings Pty Ltd	200,000	-	0	200,000	280,000	6.01	-
James Superannuation Fund	50,000	-	0	50,000	70,000	1.50	-
Alochan Pty Ltd **	100,000	-	(100,000)	-	-	-	-
	1,830,427	22,887	(281,488)	1,571,826	2,200,556	47.25	-

** Note: James Superannuation Fund ceased being a related party to the Fund on 30 November 2015 and has therefore been removed from closing units balance reported in 2017. During 2016, Alochan Pty Ltd was part of key management personnel and therefore was not included in the 2016 related parties to the fund.

Trustees fees and other transactions

Neither the Trustee nor the Australian Chamber Orchestra Pty Limited charge fees for operating or managing the Fund.

The Trustee may be reimbursed from the Fund for costs incurred by it in connection with the Fund. Costs reimbursed from the Fund to the Trustee during the year ended 30 June 2017 were \$Nil (2016: \$Nil).

The Australian Chamber Orchestra Pty Limited will provide various general administrative and secretarial services to the Trustee at no cost under the Fund Administration Agreement, an agreement between the Australian Chamber Orchestra Pty Limited and the Trustee.

The Fund and the Australian Chamber Orchestra Pty Ltd have signed an Instrument Hire Agreement, whereby for a nominal fee the Australian Chamber Orchestra Pty Ltd can utilise the instruments held by the Fund. However, in consideration of the free general administrative and secretarial services provided by the Australian Chamber Orchestra Pty Limited, the fee has been waived.

The Trustee is responsible for fees paid to the Australian Financial Services Licence (AFSL) Holder under the Licence Service Agreement, an agreement between the Trustee and JBWere Pty Limited. The Trustee may recover these fees from the Fund. The Fees due are paid direct by the Fund, hence no recovery by the Trustee during the year ended 30 June 2017 (2016: \$Nil).

As described in note 10(a) in 2017 the Fund issued two promissory notes to pay for the 1616 Brother Amati Cello.

Notes to the financial statements continued
for the year ended 30 June 2017

13. Investment risk

The Fund's investment objective is the achievement of long term capital gains from investing in high quality stringed instruments. Accordingly, the Fund is not expected to generate regular income returns.

Further, there is a risk that the investment strategy will fail to perform as expected in which case the investment objective for the Fund may not be achieved.

In accordance with the investment strategy, the Fund does not intend to hold investments other than musical instruments and cash.

14. Liquidity risk

The Fund's Trust Deed provides for limited periodic withdrawal windows every three years. The Australian Chamber Orchestra Pty Limited will purchase up to \$500,000 worth of units on a pro rata basis from unitholders wishing to participate in the withdrawal opportunity. Therefore, the Fund is not exposed to the liquidity risk of meeting unitholders' redemptions at these times.

The first withdrawal window commenced on 1 July 2014 and closed on 21 July 2014. There was a total withdrawal from the fund of 50,000 units. The Australian Chamber Orchestra Pty Limited purchased the 50,000 units for \$60,000 (a unit price of \$1.20). The second withdrawal window will commence on 1 July 2017 and will close on 21 July 2017.

The Fund invests in rare, historical, high quality stringed instruments. The Fund intends to generate long term capital gains and is not expected to generate a return on income in the short term. Musical instruments are an illiquid investment. They are not traded in an organised public market and not easily realisable. The Fund would not be able to sell any of its instruments quickly in order to meet its liquidity requirements.

The Trustee can recover fees paid to the AFSL holder from the Fund as well as any tax owing on the profit of the Fund. The Fund intentionally holds minimal cash and usually pays these amounts from the interest it earns on any cash held in term deposits.

Due to the limited withdrawal opportunities, a unit in the Fund is an illiquid investment. They are not traded in an organised public market but can be transferred privately to other wholesale investors. The Trustee may approve or disapprove a transferee of a unitholder's units in its absolute discretion.

An adjustment was made by the directors to the unit price in consideration of the liquidity factors impacting the unit price, the units in the Fund being an unlisted investment with limited withdrawal opportunities and the Fund owns assets that are rarely traded and not easily or quickly realised.

	30 June 2017	Per Unit 30 June 2017	30 June 2016	Per Unit 30 June 2016
	\$	\$	\$	\$
Provision for liquidity risk	<u>591,099</u>	<u>0.14</u>	<u>719,360</u>	<u>0.22</u>

15. Events occurring after balance date

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the operations of the Fund in future financial years, the results of those operations in future financial years or the state of affairs of the Fund in future financial years.

Notes to the financial statements continued
for the year ended 30 June 2017

16. Disclosure of Prior Period Adjustments

A material adjustment relating to the GST charged on the 12 March 2014 purchase of the Guarneri 1714 violin was discovered in the current reporting period. In 2014, GST of \$149,983 was charged on the purchase of the Guarneri 1714 violin which should have been refunded on the purchase from the Australian Taxation Office instead of being included in the asset value. When the asset was revalued on 30 June 2014 the correct asset value was recorded in the Financial Statements however the net gain on musical instruments held at fair value was understated by \$149,983, as was the provision for liquidity risk by \$107,238 and income tax expense by \$42,745. The overall impact of this adjustment on the net profit after income tax, total comprehensive income and net assets attributable to unitholders is \$Nil and remains unchanged from what was reported in 2014. Comparative amounts for the prior period have been restated in accordance with AASB108 (*Accounting Policies, Changes in Accounting Estimates and Errors*).

The adjustment originated in 2014 and as per the Statement of Changes in Equity, as the Fund has no equity, changes in prior periods need to be reflected in the 2016 comparatives. The Financial Statement lines affected are outlined below.

Amount of the correction and Financial Statement lines affected

Statement of profit or loss and other comprehensive income (Extract)	Note	30 June 2016		
		Previous Amount	Adjustment	Restated Amount
		\$	\$	\$
Net gains on musical instruments held at fair value		193,734	149,983	343,717
Total net investment income		193,800	149,983	343,783
Provision for liquidity risk expense		(168,918)	(107,238)	(276,156)
Total operating expenses		(173,338)	(107,238)	(280,576)
Operating profit		20,462	42,745	63,207
Income tax expense	4	(20,462)	(42,745)	(63,207)

Statement of financial position (Extract)	Note	30 June 2016		
		Previous Amount	Adjustment	Restated Amount
		\$	\$	\$
Receivables	8	66	149,983	150,049
Total assets		5,957,733	149,983	6,107,716
Deferred tax liability	11	685,005	42,745	727,750
Provision for liquidity risk	14	612,122	107,238	719,360
Total liabilities		1,300,448	149,983	1,450,431

Note 14 Liquidity risk (Extract)	Note	30 June 2016		
		Previous Amount	Adjustment	Restated Amount
		\$	\$	\$
Provision for liquidity risk Per Unit	14	0.184	0.032	0.216

Directors' declaration

for the year ended 30 June 2017

In the opinion, of the directors of the Australian Chamber Orchestra Instrument Fund Pty Ltd as Trustee for the Australia Chamber Orchestra Instrument Fund:

- a. the financial statements and notes set out on pages 18 to 34 are in accordance with the *Corporations Act 2001*, including:
 - i. Giving a true and fair view of its financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
 - ii. Complying with Australian Accounting Standards – Reduced Disclosure Requirements (including the Australian Accounting Interpretations) and the Corporations Regulations
- b. there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable (refer note 14).

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

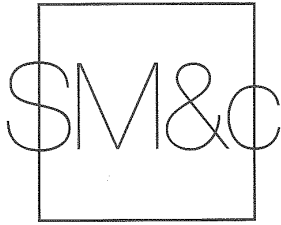


W D BEST

Director

Sydney

15 September 2017



Independent Audit Report

To the Directors of Australian Chamber Orchestra
Instrument Fund Pty Ltd

Report on the financial report

I have audited the financial report of Australian Chamber Orchestra Instrument Fund (the Fund), which comprises the statement of financial position as at 30 June 2017 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes and directors' declaration.

The responsibility of the directors for the financial report

The directors of Australian Chamber Orchestra Instrument Fund Pty Ltd (the Trustee Company) are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 3, the Directors also state, in accordance with Australian Accounting Standards AASB 101 *Presentation of Financial Statements*, that compliance with the Australian Accounting Standards – Reduced Disclosure Requirements ensures that the financial report, comprising the financial statements and notes, complies with Australian Accounting Standards – Reduced Disclosure Requirements.

Auditor's responsibility

My responsibility is to express an opinion on the financial report based on my audit. I have conducted my audit in accordance with Australian Auditing Standards. These Auditing Standards require that I comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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Independent Audit Report

To the Directors of Australian Chamber Orchestra
Instrument Fund Pty Ltd

Independence

In conducting my audit, I have complied with the independence requirements of the *Corporations Act 2001*. I confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of the Trustee Company would be in the same terms if provided to the directors as at the date of this auditor's report.

Auditor's opinion pursuant to the Corporations Act 2001

In my opinion, the financial report of Australian Chamber Orchestra Instrument Fund is in accordance with the *Corporations Act 2001*, including:

- i) giving a true and fair view of the Fund's financial position as at 30 June 2017 and of its performance for the year ended on that date; and
- ii) Complying with Australian Accounting Standards – Reduced Disclosure Requirements (including Australian Accounting Interpretations) as described in Note 3 and the Corporations Regulations 2001.



STEVEN J MILLER & CO
Chartered Accountants



STEVEN MILLER
Registered Company
Auditor No 4286

Sydney

Dated 9/10/17

Anti-Money Laundering and Counter-Terrorism Financing Report



Maja Savnik plays the 1714 Guanerius filius
Andreae. Photo: Jack Saltmiras

The Instrument Fund is defined as a reporting entity for the purposes of the Anti-Money Laundering and Counter-Terrorism Financing Act. It is therefore required to report on its compliance with the provisions of the AML/CTF Act in each calendar year by 31 March of the following year.

An independent audit was conducted by Financial Services Consulting Pty Ltd in January 2017 on the compliance of the Fund's administration with the AML/CTF Act. The auditor concluded that Part A of the Fund's AML/CTF program in all "material" respects:

- is effective having regard to the ML/TF risks posed to the Fund;
- complies with the Rules;
- has been effectively implemented; and
- has been complied with.

Corporate Governance Statement

This Corporate Governance Statement relates to the Australian Chamber Orchestra Instrument Fund (“the Fund”). The Fund is an unregistered managed investment fund, the trustee of which is Australian Chamber Orchestra Instrument Fund Pty Ltd (“the Trustee”).

The ASX Corporate Governance Council has published Corporate Governance Principles and Recommendations which specify the disclosures that should be made by an ASX Listed Entity. In view of its structure, the Fund is not required to make any disclosures relating to its corporate governance framework and practices.

The Board of the Trustee has a commitment to maintain long-term unitholder value and recognises the benefits of good corporate governance in achieving this aim. The Board is committed to best practice in corporate governance where these practices are appropriate and add value for unitholders in the Fund. The Trustee Board is of the opinion that, subject to certain departures which are not justified for adoption due to the nature and scale of the Fund’s activities and size of the Board, its policies and practices are in compliance with the ASX Corporate Governance Principles and Recommendations.

This statement is provided to outline the Trustee’s current corporate governance practices and the steps being taken to implement the recommendations and guidelines as outlined by the ASX Corporate Governance Council.

Principle 1: Lay solid foundations for management and oversight

The Trustee has delegated all management and administration of the Fund to the Australian Chamber Orchestra Pty Ltd (“ACO”) under a Fund Administration Agreement. The Board and senior management functions are therefore kept separate. The Board meets regularly to perform its prescribed functions, including formal meetings held every two months as well as additional ad hoc meetings where required.

Each of the Board members is in regular contact with the ACO Managing Director and Chief Financial Officer (CFO) / Company Secretary and the Investor Relations Manager. The ACO has a process for evaluating the performance of senior executives, including the evaluation of performance against key performance indicators.

The Trustee has entered into a Licence Services Agreement with JBWere Limited under which they have agreed to provide certain services to the Fund in connection with offers made to wholesale clients to invest in the Fund.

Principle 2: Structure the Board to add value

The Board seeks to ensure that its membership represents an appropriate balance between directors with experience and knowledge of the Fund and the investment market in which it operates, and directors with an external or fresh perspective, and that the size of the Board is conducive to effective discussion and efficient decision making.

The composition of the Board of Directors is prescribed by the Trust Deed and currently comprises five Board members, three of whom are not considered independent directors. As such, the Board composition is not in accordance with ASX corporate governance principles however, the Board considers that the individuals on the Board can and do make quality and independent judgements in the best interests of the unitholders on all relevant issues.

The Board members are all non-executive directors and a description of the skills and experience of each of the directors is contained within Financial Statements of this Annual Report under the Directors’ report on page 13.

The task of developing and implementing policies and procedures for nomination, selection and appointment of new directors as well as the re-election of incumbent directors is dealt with by the full Board. *The Trust is yet to implement a formal process for evaluating the performance of the Board and individual directors.*

Principle 3: Act ethically and responsibly

The ACO has a Code of Conduct for directors that provides policy and guidance on matters of conduct as directors. The aim of the code is to guide directors in the execution of their responsibilities, to ensure all legal obligations and stakeholder requirements are considered, and to provide all stakeholders with confidence in the integrity of the Board. The Trustee actively complies with this policy.

Principle 4: Safeguard integrity in corporate reporting

Having regard to the current size and activities of the Fund, the Board will retain responsibility for the duties of the audit committee, including the tasks of the selection and appointment of external auditors and the rotation of external audit engagement partners.

The Board has the power to make call upon the attendance of the ACO Managing Director and CFO, the external auditor or any other person to meetings of the Board. The directors also have access to professional advisors to provide advice and assistance as requested.

The Board will require the ACO Managing Director and CFO to state in writing to the Board that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

Principle 5: Make timely and balanced disclosure

Although not required to do so by any corporate or stock exchange regulation, the Board has a policy of complying with disclosure requirements as if the Fund were a registered fund. The Fund actively complies with this policy.

Principle 6: Respect the rights of shareholders

The Fund has a policy of promoting effective communication with unitholders. The Fund actively complies with this policy by way of regular newsletters posted to unitholders, unitholder presentations and its annual report. The Fund does not maintain a website but has a presence on the ACO website which is regularly updated. The ACO has a dedicated staff member employed as Investor Relations Manager who is seconded to the Fund.

Principle 7: Recognise and manage risk

The Board of the Trustee does not have a risk committee and itself oversees the Fund's risk management. It takes the management of risk seriously and has established and documented an enterprise risk management program for the oversight and management of the Fund's material business risks. This enterprise risk management program is based on the International Risk Management Standard AS/NZS ISO 31000:2009.

The area of risk considered under the risk policy include: Strategic and Market; Financial; Health & Safety; Reputational; Business Process & Systems; Property & Environmental; and Legal & Regulatory Compliance risks. The Fund's Information Memorandum addresses General Risks including Market, Regulatory, Business, Counterparty, Tax and Foreign Exchange and Individual Instrument risk. It also addresses Specific Risks such as Manager and Key Person risk, Investment Strategy risk, Liquidity risk and Realisation of Asset risk.

The Fund has also established a Complaints Handling Program, based upon the international and Australian Standard AS ISO 10002-2006. The Board of the Trustee reviews the Risk and Complaints Registers at each of its regular meetings.

Principle 8: Remunerate fairly and responsibly

The directors of the Trustee receive no remuneration for their services on the Board. The management and administration of the Fund is under the care of executive officers of the ACO who, with the exception of the Investor Relations Manager, receive no additional remuneration for these services. The remuneration of the Investor Relations Manager is set by the ACO Managing Director having regard to comparative salaries for equivalent positions within the industry in which it operates.



Secondary school students perform with ACO musicians, 2016 ACO Academy. Photo: Justin Nicholas

Corporate Directory



Patron, ACO Instrument Fund
Peter Weiss AO

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ACO at Northern Territory's Nyangatjarjara College, 2017. Photo: Lyn Williams



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 Instrument
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