



Australian Chamber Orchestra

RICHARD TOGNETTI – ARTISTIC DIRECTOR



Instrument Fund

Annual Report
2017/18



ILYA ISAKOVICH
1728/29 Stradivarius violin

PHOTO. WOLTER PEETERS

CONTENTS

Australian Chamber Orchestra Instrument Fund Chair's Report	pg. 4
Australian Chamber Orchestra Managing Director's Report	pg. 5
Instrument Fund Overview	pg. 6
Assets of the Fund	pg. 7-9
Financial Statements	pg. 10-30
Independent Auditor's Report	pg. 31
Anti-Money Laundering / Counter-Terrorism Financing Report	pg. 34
Corporate Governance Statement	pg. 35
Patrons of the Instrument Fund	pg. 38
Corporate Directory	pg. 39

COVER PHOTO: TIMO-VEIKKO VALVE
1616 Brothers Amati cello

PHOTO: CHRISTIE BREWSTER

ACO INSTRUMENT FUND CHAIR'S REPORT

The ACO Instrument Fund is – and continues to be – a unique Fund that allows wholesale investors the opportunity to participate in the ownership of a bank of historic stringed instruments whilst simultaneously providing musicians of the Australian Chamber Orchestra (ACO) with access to three Golden Age instruments; a 1728/29 Stradivarius violin, a 1714 Guarneri violin and a 1616 Brothers Amati cello. The ongoing support from the investors in the Fund ensures that, in the hands of the extraordinary ACO musicians, these rare instruments will continue to be heard and appreciated by people around Australia and the world.

The Directors of the Fund were pleased to note the Instrument Fund's inclusion in Benchmarking Impact*. Released in July by the Responsible Investment Association Australasia (RIAA), the report outlines the quadrupling of investments into the Australian impact investment market over the last three years. This trend reflects the number of investors who are not only investing for fiscal returns, but who would also like to see their investments have positive social and environmental impact.

In the 2018 financial year, the Fund witnessed the strongest growth in its investor base since its inception in 2011. The Fund saw a \$2 million increase in unitholdings held by investors (outside of ACO Pty Ltd). This pool includes seven repeat investors and nine new investors, including the Fund's first institutional investor, arts and media industry super fund, Media Super. This brings the total number of discrete unitholders in the Fund to 44. I would like to express my gratitude to all investors for their commitment to the Fund and warmly welcome new investors to the ACO's wonderful extended family.

I am particularly delighted that Media Super has become our largest single investor with a holding of 17%. Media Super is an active investor in the Australian arts and cultural sector and it sees the Instrument Fund as an appropriately structured and governed vehicle to further its investment in this sector. Further I am pleased to announce that Media Super are poised to make another investment into the Fund upon the acquisition of a fourth string instrument, a process which is well advanced at the time of writing. The prospect

of adding another instrument to the Fund's existing assets promises to bring the Fund to a new level of maturity.

On 5 June 2018, the Board undertook an Informal Valuation and resolved to maintain the unit price of the Fund at \$1.40. As described in the Information Memorandum, an Informal Valuation reflects the most recent Formal Valuation (undertaken in May 2017), 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 the 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 the ACO team:- Investor Relations Manager Yeehwan Yeoh and CFO (and AML/CTF Compliance Officer) Fiona McLeod.

We were joined by a new director, Edward Gilmartin, on the ACOIF Board this year. I would like to thank Ed and fellow Fund directors Jessica Block, John Leece, Julie Steiner and John Taberner for their expertise and advice throughout the past year.



Bill Best
Chair
ACO Instrument Fund

* Castellas, E & Findlay, S, 2018, Benchmarking Impact: Australian Impact Investment Market Activity and Performance Report 2018, Responsible Investment Association Australasia, Melbourne.

ACO MANAGING DIRECTOR'S REPORT



The ACO is renowned the world over for the virtuosity, mastery and energy of its musicians. All of the musicians will attest that their instruments are vital partners in the production of a quality of sound that accords with their high standards. Most widely regarded in the classical music world are instruments from the period now known as the Golden Age, where artisans such as Antonio Stradivari and Bartolomeo Giuseppe Guarneri 'del Gesu', were prolific. But due to the finite number of instruments still in existence and playable quality, and their correspondingly ever-increasing value, access to them is for most musicians impossible.

For this reason, the ACO devised the Instrument Fund, a two-way street where both musicians and investors can benefit from the ownership of a bank of fine instruments. Now in its seventh year, the Instrument Fund has a collection of three fine instruments, each of which inspire audiences around Australia and the world. We are in the final stages of acquiring a very fine fourth instrument, which will be launched in the coming financial year.

We want to see these instruments enjoyed by a wide and diverse audience across Australia and internationally. For this reason, one of our major achievements this year was the live streaming of the Goldberg Variations concert from the Sydney Opera House, which achieved more than 268,000 views.

I am also particularly proud of the ACO's performance of Vivaldi's *Concerto for Violin and Two Cellos* that was led by guest director Ilya Gringolts. It was wonderful to witness the Instrument Fund's 1616 Brothers Amati cello, played by Timo-Veikko Valve, and the 1729 Guarneri cello that was so generously gifted to the ACO by the Instrument Fund's Founding Patron, Peter Weiss, and played by Julian Thompson, to be featured side by side in this most famous piece of music.

As always, I thank the Directors of the Instrument Fund, for their prudent governance of the Fund and for their considerable time, personal and professional commitment to the Fund.

Richard Evans
Managing Director
Australian Chamber Orchestra

INSTRUMENT FUND OVERVIEW

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 future. Each instrument is identified, assessed and verified by expert opinion before being considered for purchase.

The Fund lends instruments which it has purchased to the ACO without charge for use by its players in concerts, recordings and rehearsals in Australia and on the ACO's international tours. 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 to see the progress and performance of the Fund since its inception and look forward to being a part of its continuing success.

ARTISTIC DIRECTOR RICHARD TOGNETTI AO

Performs on a 1743 Guarneri 'del Gesu' kindly on loan from an anonymous benefactor

PHOTO: CHRISTIE BREWSTER



ASSETS OF THE FUND

THE 1728/29 STRADIVARIUS VIOLIN



ABOUT THE 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 Violinist Glenn Christensen.

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.

ASSETS OF THE FUND

THE 1714 GIUSEPPE GUARNERIUS FILIUS ANDREÆ



ABOUT THE VIOLIN

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.

ASSETS OF THE FUND

THE 1616 BROTHERS AMATI CELLO



ABOUT THE CELLO

The Fund was delighted to acquire its third instrument and its first cello in May 2017 – the 1616 Brothers Amati ‘ex-Fleming’. The Fund’s cello is played by Principal Cello Timo-Veikko Valve. 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. 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.

10

30 JUNE 2018

**ACO
INSTRUMENT
FUND
FINANCIAL
STATEMENTS**

ABN. 17 968 443 499

AUSTRALIAN CHAMBER ORCHESTRA INSTRUMENT FUND

ABN 17 968 443 499

Financial statements – 30 June 2018

Contents	Page
Directors' report	12
Auditor's independence declaration	16
Statement of profit or loss and other comprehensive income	17
Statement of financial position	18
Statement of changes in equity	19
Statement of cash flows	20
Notes to the financial statements	21
Directors' declaration	30
Independent audit report to the unitholders of Australian Chamber Orchestra Instrument Fund	31

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 2018.

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 W D Best
- Ms J Block
- Mr E N Gilmartin (appointed 29 November 2017)
- Mr J D Leece
- Ms J Steiner
- Mr J G Taberner

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 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 is now a Director of the ACO Instrument Fund Pty Limited and of ACO US, Inc. She practised as a solicitor with Mallesons Stephen Jacques and the Nine Network, and has held senior management positions with the Bell Shakespeare Company and Sydney Festival. Jessica has a degree in Arts/Law from the University of Sydney.

Mr E N Gilmartin

Non-Executive Director since 29 November 2017

Edward Gilmartin runs his family's private investment company. He worked as an investment banker in London until 1993 and with Macquarie Bank in Sydney and Melbourne until 1998. Edward has a degree in Engineering and a Masters' degree in Economics.

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**Ms J Steiner****Non-Executive Director since 27 April 2017**

Julie Steiner is the Managing Director of Odgers Berndtson Australia where she leads the Practices covering the Education, Health, Government and the Cultural sectors. In addition, Julie is the global Chair of the Odgers Education practices and Chairs the Australian Board and CEO Practice. Prior to her nearly 20 years in global 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 Macmillan 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 and the Nomination Committee of the ANU. Julie has an honours degree in English, Literature and Politics from the University of Melbourne.

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. Since 2008, he has been 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 ACO UK and ACO US.

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 did not invest in any new instruments and continued to hold its investment in a Stradivarius 1728/29 violin, Guarneri 1714 violin and a 1616 Brothers Amati Cello. It continued 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 2018 of \$Nil (2017: \$Nil).

Distributions

Distributions paid and payable for the year ended 30 June 2018 were \$Nil (2017: \$Nil).

Directors' report continued

Unit prices

Unit prices are shown as follows:

	30 June 2018	30 June 2017
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 2018	30 June 2017
Net Assets for Unit pricing purposes	5,795,289	5,795,289
Effect of classification of net assets attributable to unitholders as liabilities	<u>(5,795,289)</u>	<u>(5,795,289)</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 2018 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 2018 were \$19,260 (2017: \$1,237).

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 16.

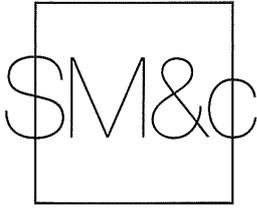
This report is made in accordance with a resolution of the directors.



W D BEST

Director
Sydney

12 September 2018



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 2018 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.

STEVEN J MILLER & CO
Chartered Accountants

S J MILLER
Registered Company
Auditor No 4286

Sydney

Dated 12, 9, 18

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Statement of profit or loss and other comprehensive income

for the year ended 30 June 2018

	Year Ended 30 June 2018	Year Ended 30 June 2017
Note	\$	\$
Investment income		
Interest income	29	606
Net gain / (loss) on musical instruments held at fair value	<u>285,902</u>	<u>(211,502)</u>
Total net investment income / (loss)	<u>285,931</u>	<u>(210,896)</u>
Expenses		
Licence holder fees	(19,260)	(1,237)
Provision for liquidity risk (expense) / benefit	<u>(128,135)</u>	<u>128,261</u>
Total operating expenses	<u>(147,395)</u>	<u>127,024</u>
Operating profit / (loss)	<u>138,536</u>	<u>(83,872)</u>
Income tax (expense) / benefit	4 <u>(138,536)</u>	<u>83,872</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 2018

	Note	30 June 2018 \$	30 June 2017 \$
Assets			
Cash and cash equivalents	7	770	11,216
Receivables	8	84	287,586
Musical Instruments	9	<u>7,306,183</u>	<u>7,020,281</u>
Total assets		<u>7,307,037</u>	<u>7,319,083</u>
Liabilities			
Payables	10	10,100	288,817
Deferred tax liability	11	782,414	643,878
Provision for liquidity risk	14	<u>719,234</u>	<u>591,099</u>
Total liabilities (excluding liability to unitholders)		<u>1,511,748</u>	<u>1,523,794</u>
Net assets attributable to unitholders	5	<u>5,795,289</u>	<u>5,795,289</u>
Liability to unitholders			
Fair value of outstanding units	5	<u>5,795,289</u>	<u>5,795,289</u>
Liability to unitholders		<u>5,795,289</u>	<u>5,795,289</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 2018

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 2018

	Year Ended 30 June 2018	Year Ended 30 June 2017
Note	\$	\$
Cash flows from operating activities		
Licence holder fees paid	(18,476)	(2,200)
Net payment of intercompany loan	(281,181)	(1,121)
GST refund	289,202	-
Interest received	9	667
Net cash outflow from operating activities	<u>(10,446)</u>	<u>(2,654)</u>
Cash flows from financing activities		
Proceeds from purchase of units by unitholders	2,000,995	143,667
Payment for redemptions by unitholders	(2,000,995)	(143,667)
Net cash inflow from financing activities	<u>-</u>	<u>-</u>
Cash flows from investing activities		
Purchase of musical instruments	9(a) -	(86,000)
Net cash inflow / (outflow) from investing activities	<u>-</u>	<u>(86,000)</u>
Net decrease in cash and cash equivalents	<u>(10,446)</u>	<u>(88,654)</u>
Cash and cash equivalents at the beginning of the year	<u>11,216</u>	<u>99,870</u>
Cash and cash equivalents at the end of the year	7 <u><u>770</u></u>	<u><u>11,216</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 2018

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 12 September 2018. 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 2017. Information on the more significant standard(s) is presented below.

AASB 2016-1 Amendments to Australian Accounting Standards - Recognition of Deferred Tax Assets for Unrealised Losses

AASB 2016-1 amends AASB 112 *Income Taxes* to clarify how to account for deferred tax assets related to debt instruments measured at fair value, particularly where changes in the market interest rate decrease the fair value of a debt instrument below cost.

AASB 2016-1 is applicable to annual reporting periods beginning on or after 1 January 2017.

AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107

AASB 2016-2 amends AASB 107 *Statement of Cash Flows* to require entities preparing financial statements in accordance with Tier 1 reporting requirements to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

AASB 2016-2 is applicable to annual reporting periods beginning on or after 1 January 2017.

AASB 2016-4 Amendments to Australian Accounting Standards - Recoverable Amount of Non-Cash-Generating Specialised Assets of Not-for-Profit Entities

This Standard amends AASB 136 *Impairment of Assets* to:

- remove references to depreciated replacement cost as measure of value in use for not-for-profit entities; and
- clarify that the recoverable amount of primarily non-cash-generating assets of not-for-profit entities, which are typically specialised in nature and held for continuing use of their service capacity, is expected to be materially the same as fair value determined under AASB 13 *Fair Value Measurement*, with the consequence that:

AASB 136 does not apply to such assets that are regularly revalued to fair value under the revaluation model in AASB 116 *Property, Plant and Equipment* and AASB 138 *Intangible Assets*; and

AASB 136 applies to such assets accounted for under the cost model in AASB 116 and AASB 138

AASB 2016-4 is applicable to annual reporting periods beginning on or after 1 January 2017.

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

Notes to the financial statements continued
for the year ended 30 June 2018**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.

b) Musical Instruments

Musical instruments are held for long term capital growth. They are shown at fair value based on periodic, at least triennial, 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 2020.

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.

Notes to the financial statements continued
for the year ended 30 June 2018

3. Summary of accounting policies continued

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.

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 for the income year commencing on 1 July 2017, which applies to the Australian Chamber Orchestra Instrument Fund is 30% (2017: 27.5%). On 23 August 2018, Federal Parliament passed the *Treasury Laws Amendment (Enterprise Tax Plan Base Rate Entities) Bill 2018*, retrospectively applying the legislation from 1 July 2017. In summary, this Bill amends the *Income Tax Rates Act 1986* to provide that a corporate tax entity will not qualify for the lower 27.5% corporate tax rate if more than 80% of its assessable income is of a passive nature. If this is the case then a 30% corporate tax rate would apply. For the Fund it is considered that more than 80% of assessable income is of a passive nature.

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 2018

	30 June 2018	30 June 2017
	\$	\$
4. Income tax expense/(benefit)		
The components of income tax expense/(benefit) are:		
Current tax expense / (benefit)	-	-
Deferred tax expense / (benefit)	<u>138,536</u>	<u>(83,872)</u>
Income tax expense / (benefit)	<u>138,536</u>	<u>(83,872)</u>
Numerical reconciliation of income tax expense to prima facie tax payable:		
Operating profit / (loss) before income tax expense/(benefit)	<u>138,536</u>	<u>(83,872)</u>
Prima facie tax payable / (receivable) on profit from ordinary activities before income tax at 30% for the year ended 30 June 2018 (2017: 27.5%)	41,561	(23,065)
Restatement prior year deferred tax calculation due to change in income tax rate to 30% for the year ended 30 June 2018 (2017: 27.5%)	58,534	(25,535)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Provision for liquidity risk	<u>38,441</u>	<u>(35,272)</u>
Income tax attributable to the Fund	<u>138,536</u>	<u>(83,872)</u>

5. Net assets attributable to unitholders

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

	30 June 2018	30 June 2018	30 June 2017	30 June 2017
	\$	Number	\$	Number
Opening balance at 1 July	5,795,289	4,139,492	4,657,285	3,326,632
Applications	2,000,995	1,429,282	1,301,016	929,297
Redemptions	<u>(2,000,995)</u>	<u>(1,429,282)</u>	<u>(163,012)</u>	<u>(116,437)</u>
Closing balance at 30 June	<u>5,795,289</u>	<u>4,139,492</u>	<u>5,795,289</u>	<u>4,139,492</u>

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 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. This value of \$1.40 per unit, was considered an appropriate unit value as at 30 June 2017. The Board agreed at its meeting of 5 June 2018, that the current unit price of \$1.40 remains an appropriate value for each unit as at 30 June 2018.

Notes to the financial statements continued

for the year ended 30 June 2018

5. Net assets attributable to unitholders continued

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 2020.

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 2018 (2017: \$Nil).

	Note	30 June 2018	30 June 2017
		\$	\$
7. Cash and cash equivalents			
Cash at bank		770	11,216
		<u>770</u>	<u>11,216</u>
8. Receivables			
Interest receivable		-	5
GST receivable		84	287,581
		<u>84</u>	<u>287,586</u>

9. Musical instruments

Stringed instruments

Fair value at 1 July		7,020,281	5,857,797
Acquisitions - Amati Cello	9(a)	-	1,373,986
Net gain / (loss) from fair value adjustment	9(b)	285,902	(211,502)
Fair value at 30 June		<u>7,306,183</u>	<u>7,020,281</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. 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 the ATO refund of the GST for the *1714 Guarneri* Violin is received.

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

The 2018 and 2017 gain / (loss) from fair value adjustment is solely due to movements in exchange rates.

Notes to the financial statements continued
for the year ended 30 June 2018**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 annually.

External valuations from reputable valuers are requested on at least a triennial basis and are based on active market prices, adjusted if necessary, for any difference in craftsmanship, age and/or condition of each 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.

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 adopted for the *1616 Brothers Amati* Cello.

The Fair Value of the Instruments recorded as at 30 June 2018 reflects the most recent Formal Valuation in US dollars, and the AUD/USD exchange rate as at 30 June 2018.

	30 June 2018	30 June 2017
Exchange Rate AUD/USD	0.7391	0.7692

The next Formal Valuation will be carried out prior to 30 June 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.

	Note	30 June 2018	30 June 2017
		\$	\$
10. Payables			
Accrued expenses		3,900	1,436
Intercompany loan - related party	10(a)	6,200	287,381
		10,100	288,817

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 of the GST on the *1616 Brothers Amati* Cello is received, and the other for \$149,983 to the ACO to be paid once the ATO refund of the GST on the *1714 Guarneri* Violin is received. The two promissory notes are reported here as an intercompany loan. These promissory notes were paid in full, promissory note two on 6 July 2017 and promissory note one on 8 August 2017. The intercompany loan as at 30 June 2018 is from the ACO for the balance of licence holder fees.

Notes to the financial statements continued

for the year ended 30 June 2018

	Note	30 June 2018 \$	30 June 2017 \$
11. Deferred tax liability			
Fair value gain on musical instruments		792,709	648,027
Future income tax benefits attributable to tax losses		(9,125)	(3,755)
Other deferred tax assets		(1,170)	(394)
		<u>782,414</u>	<u>643,878</u>

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 EN Gilmartin (appointed 27 November 2017)
Mr JD Leece
Ms J Steiner
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:

2018	Opening Units	Units acquired / transferred	Units disposed / transferred	Closing Units	Fair value \$	Interest held %	Distributions paid \$
Unitholder							
WD Best	100,000	-	-	100,000	140,000	2.42	-
Aljebra Pty Ltd ATF Aljebra Investment Trust*	-	214,285	-	214,285	299,999	5.18	-
Trustees for the Languedoc Superannuation Fund	-	53,571	-	53,571	74,999	1.29	-
	<u>100,000</u>	<u>267,856</u>	<u>-</u>	<u>367,856</u>	<u>514,998</u>	<u>8.89</u>	<u>-</u>
2017	Opening Units	Units acquired / transferred	Units disposed / transferred	Closing Units	Fair value \$	Interest held %	Distributions paid \$
Unitholder							
WD Best	100,000	-	-	100,000	140,000	2.42	-
Alochan Pty Ltd **	100,000	-	(100,000)	-	-	-	-
	<u>200,000</u>	<u>-</u>	<u>(100,000)</u>	<u>100,000</u>	<u>140,000</u>	<u>2.42</u>	<u>-</u>

* Note: On 27 November 2017 Aljebra Pty Ltd ATF Aljebra Investment Trust became part of key management personnel in 2018.

** Note: On 27 April 2017 Alochan Pty Ltd ceased being part of key management personnel and therefore is not included in the key management personnel closing units in 2017.

Notes to the financial statements continued

for the year ended 30 June 2018

12. Related party transactions continued**Related party holdings**

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

2018	Opening Units	Units acquired / transferred	Units disposed / transferred	Closing Units	Fair value \$	Interest held %	Distributions paid \$
Unitholder							
Australian Chamber Orchestra Pty Limited	2,032,067	-	(1,429,282)	602,785	843,899	14.56	-
Wyargine Holdings Pty Ltd	200,000	-	-	200,000	280,000	4.83	-
	<u>2,232,067</u>	<u>-</u>	<u>(1,429,282)</u>	<u>802,785</u>	<u>1,123,899</u>	<u>19.39</u>	<u>-</u>
	Opening Units	Units acquired transferred	Units disposed / transferred	Closing Units	Fair value \$	Interest held %	Distributions paid \$
2017 Unitholder							
Australian Chamber Orchestra Pty Limited	1,321,826	826,678	(116,437)	2,032,067	2,844,894	49.09	-
Wyargine Holdings Pty	200,000	-	-	200,000	280,000	4.83	-
James Superannuation Fund***	50,000	-	(50,000)	-	-	-	-
	<u>1,571,826</u>	<u>826,678</u>	<u>(166,437)</u>	<u>2,232,067</u>	<u>3,124,894</u>	<u>53.92</u>	<u>-</u>

*** 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.

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 2018 were \$Nil (2017: \$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 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 there was no recovery by the Trustee during the year ended 30 June 2018 (2017: \$Nil).

As described in note 10(a) in 2017 the Fund issued two promissory notes to pay for the 1616 Brother Amati Cello. These were paid in full by August 2017. The intercompany loan as at 30 June 2018 is from the ACO for licence holder fees.

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.

Notes to the financial statements continued

for the year ended 30 June 2018

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 commenced on 1 July 2017 and closed on 21 July 2017, with no withdrawal requests. The third withdrawal window will occur in July 2020.

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 disallow 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 2018 \$	Per Unit 30 June 2018 \$	30 June 2017 \$	Per Unit 30 June 2017 \$
Provision for liquidity risk	<u>719,234</u>	<u>0.17</u>	<u>591,099</u>	<u>0.14</u>

15. Contingent liabilities

There are no contingent liabilities that have been incurred by the Fund in relation to 2018 or 2017.

16. Events occurring after balance date

On 23 August 2018, Federal Parliament passed the *Treasury Laws Amendment (Enterprise Tax Plan Base Rate Entities) Bill 2018*, retrospectively applying from 1 July 2017. In summary this Bill amends the *Income Tax Rates Act 1986* to provide that a corporate tax entity will not qualify for the lower 27.5% corporate tax rate if more than 80% of its assessable income is of a passive nature, if this is the case then a 30% corporate tax rate would apply. The 2018 Financials for the Fund have been prepared on this basis, refer to Note 3h and Note 4.

No other matters or circumstance has arisen since 30 June 2018 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.

Directors' declaration

for the year ended 30 June 2018

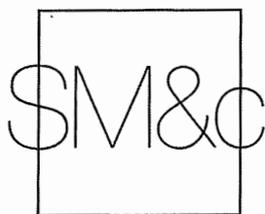
In the opinion, of the directors of the Australian Chamber Orchestra Instrument Fund Pty Ltd as Trustee for the Australia Chamber Orchestra Instrument Fund:

- a. the financial statements and notes set out on pages 17 to 29 are in accordance with the *Corporations Act 2001*, including:
 - i. Giving a true and fair view of its financial position as at 30 June 2018 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 2001; and
- 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
12 September 2018



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 2018 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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ABN 23 690 541 177



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 2018 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 14, 9, 18

GLENN CHRISTENSEN

1728/29 Stradivarius violin

PHOTO. CHRISTIE BREWSTER



ANTI-MONEY LAUNDERING/ COUNTER-TERRORISM FINANCING REPORT

The Instrument Fund is defined as a reporting entity for the purposes of the Anti-Money Laundering/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 2018 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 Trustee Board has a commitment to maintain long term unit-holder 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 unit holders 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 & Oversight

The Trustee has delegated all management and administration of the Fund to 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 six 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 unit holders 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 .

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 & 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 & 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 & 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.

PATRONS OF THE INSTRUMENT FUND

FOUNDING PATRON AND VISIONARY \$1M+

Peter Weiss AO



CONCERTO \$200,000–\$999,999

The late Amina Belgiorno-Nettis
Naomi Milgrom AO

OCTET \$100,000–\$199,999

John Taberner

QUARTET \$50,000–\$99,999

John Leece AM

CORPORATE DIRECTORY

REGISTERED OFFICE

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MAJA SAVNIK
1714 Guarneri violin

PHOTO: CHRISTIE BREWSTER

