

# **Russell Investments Australian Shares Enhanced Income Fund**

ARSN 146 415 803

## **Special purpose financial report For the year ended 30 June 2018**

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## Directors' report

The directors of Russell Investment Management Ltd (ABN 53 068 338 974 AFSL No. 247185), the Responsible Entity of Russell Investments Australian Shares Enhanced Income Fund, present their report together with the financial statements of Russell Investments Australian Shares Enhanced Income Fund (the "Fund"), for the year ended 30 June 2018.

### Principal activities

The Fund invests predominantly in shares or unit trusts listed or about to be listed on the Australian Stock Exchange. The Fund may also invest in hybrid equity securities such as convertible and preference shares as set out in the Fund's offer documents and in accordance with the provisions of the Fund's Constitution. The Fund will use derivatives such as options and futures to generate additional income and manage investment risk.

The Fund did not have any employees during the year.

The Fund terminated operations on 4 June 2018 and the final redemption was paid on 4 June 2018. The directors of the Responsible Entity intend to wind up the Fund prior to the next reporting period at 30 June 2019. This is the final sets of financial statements.

### Directors

The following persons held office as directors of Russell Investment Management Ltd during the year or since the end of the year and up to the date of this report:

Peter Gunning  
 Jodie Hampshire (appointed, effective 3 July 2018)  
 Symon Parish  
 Glenn Smith (resigned, effective 29 June 2018)  
 Kenneth Willman  
 Bronwyn Yates

### Review and results of operations

The Fund is no longer being managed on a going concern basis as it is wound up.

#### Results

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

	<b>Year ended</b>	
	<b>30 June 2018</b>	30 June 2017
Operating profit/(loss) before finance costs attributable to unitholders (\$)	<u>6,498,602</u>	<u>34,140,079</u>
<i>Distributions - Class A</i>		
Distributions paid and payable (\$)	<u>901,993</u>	<u>1,773,596</u>
Distribution (Cents per unit - CPU)	<u>2.43</u>	<u>5.38</u>
<i>Distributions - Class D</i>		
Distributions paid and payable (\$)	<u>4,404,228</u>	<u>11,264,365</u>
Distribution (Cents per unit - CPU)	<u>2.90</u>	<u>6.10</u>

### Distribution

Distributions of income generally occur quarterly with a final annual distribution as at 30 June each year. Realised capital gains are distributed only at 30 June each year. A detailed summary of the Distributions to unitholders for the year can be found in note 7 of the financial statements.

## Directors' report (continued)

### Options

There were no options over interests in the Fund at any time during the year.

### Significant changes in state of affairs

The Responsible Entity has elected for the Attribution Managed Investment Trust ("AMIT") rules to apply to the Fund, from 1 July 2017. The new rules are intended to reduce complexity, increase certainty and reduce compliance costs for MITs and their investors.

The Fund terminated operations on 4 June 2018 and the final redemption was paid on 4 June 2018.

These financial statements for the year ended 30 June 2018 are prepared on a liquidation basis. The directors considered the Fund is not going concern as they resolved on 4 June 2018 to wind up the Fund.

These are the final set of financial statements for the Fund.

### 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.

### Indemnity and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Russell Investment Management Ltd or the auditors of the Fund. So long as the officers of Russell Investment Management Ltd act in accordance with the Fund's Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. 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 Responsible Entity or its associates

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

### Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in note 6 of the financial statements.

The value of the Fund's assets and liabilities is disclosed in the Statement of financial position and derived using the basis set out in note 2 of the financial statements.

### Environmental regulation

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

### Rounding of amounts to the nearest dollars

The Fund is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded to the nearest dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

## Directors' report (continued)

### Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

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



Director

Sydney  
25 September 2018



## Auditor's Independence Declaration

As lead auditor for the audit of Russell Investments Australian Shares Enhanced Income Fund for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in blue ink, appearing to read 'Joe Sheeran', with a long horizontal flourish extending to the right.

Joe Sheeran  
Partner  
PricewaterhouseCoopers

Sydney  
25 September 2018

## Statement of comprehensive income

	Notes	Year ended	
		30 June 2018 \$	30 June 2017 \$
<b>Investment income</b>			
Interest income from financial assets not held at fair value through profit or loss		8,478	52,130
Distributions income		6,861,533	11,348,830
Net gains/(losses) on financial instruments held at fair value through profit or loss	3	163,669	23,253,663
Other operating income		-	25,969
<b>Total investment income/(loss)</b>		<b>7,033,680</b>	<b>34,680,592</b>
<b>Expenses</b>			
Management fees		239,899	247,415
Responsible Entity's fees		19,578	27,900
Custody fees		46,610	53,668
Auditor's remuneration	10	29,865	29,155
Transaction costs		128,478	162,836
Withholding taxes		799	-
Other operating expenses		69,849	19,539
<b>Total operating expenses</b>		<b>535,078</b>	<b>540,513</b>
<b>Operating profit/(loss) for the year</b>		<b>6,498,602</b>	<b>34,140,079</b>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	7	(5,306,221)	(13,037,961)
(Increase)/decrease in net assets attributable to unitholders	6	(1,192,381)	(21,102,118)
<b>Profit/(loss) for the year</b>		<b>-</b>	<b>-</b>
Other comprehensive income for the year		-	-
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>

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

## Statement of financial position

		As at	
	Notes	30 June 2018 \$	30 June 2017 \$
<b>Assets</b>			
Cash and cash equivalents	8	-	577,979
Deposits held with brokers for margin		-	100,000
Receivables		-	1,690,160
Financial assets held at fair value through profit or loss	4	-	173,487,357
<b>Total assets</b>		-	175,855,496
<b>Liabilities</b>			
Payables		-	95,266
Distributions payable to unitholders	7	-	160,949
Financial liabilities held at fair value through profit or loss	5	-	531,884
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		-	788,099
<b>Net assets attributable to unitholders - liability</b>	6	-	175,067,397

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



**Statement of changes in equity**

	Year ended	
	30 June 2018	30 June 2017
	\$	\$
<b>Total equity at the beginning of the financial year</b>	-	-
Profit/(loss) for the year	-	-
Other comprehensive income	-	-
<b>Total comprehensive income</b>	-	-
Transactions with owners in their capacity as owners	-	-
<b>Total equity at the end of the financial year</b>	-	-

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

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

## Statement of cash flows

	Notes	Year ended	
		30 June 2018 \$	30 June 2017 \$
<b>Cash flows from operating activities</b>			
Proceeds related to financial instruments held at fair value through profit or loss		114,201,219	166,684,335
Payments related to financial instruments held at fair value through profit or loss		(83,293,123)	(125,422,887)
Distributions received		8,300,242	11,301,172
Interest received/(paid)		9,478	52,130
Amount received from/(paid to) brokers for margin		100,000	7,829,000
Proceeds from receivables		31,160	17,809
Management fees paid		(271,899)	(233,415)
Responsible Entity fees paid		(21,578)	(27,900)
Payment of other expenses		(336,068)	(262,532)
<b>Net cash inflow/(outflow) from operating activities</b>	9(a)	<u>38,719,431</u>	<u>59,937,712</u>
<b>Cash flows from financing activities</b>			
Proceeds from applications by unitholders		43,960,354	107,513,937
Payments for redemptions by unitholders		(82,956,943)	(173,269,098)
Distributions paid		(300,821)	(8,002)
<b>Net cash inflow/(outflow) from financing activities</b>		<u>(39,297,410)</u>	<u>(65,763,163)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(577,979)</b>	<b>(5,825,451)</b>
Cash and cash equivalents at the beginning of the year		<u>577,979</u>	<u>6,403,430</u>
<b>Cash and cash equivalents at the end of the year</b>	8	<u>-</u>	<u>577,979</u>
Non-cash financing activities	9(b)		

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

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## 1 General information

These special purpose financial statements cover Russell Investments Australian Shares Enhanced Income Fund (the "Fund") as an individual entity. The Fund was constituted on 30 September 2010. The Fund was terminated on 4 June 2018 and the final redemption was paid on 4 June 2018. The directors of the Responsible Entity intend to wind up the Fund prior to the next reporting period at 30 June 2019.

The Responsible Entity of the Fund is Russell Investment Management Ltd (the "Responsible Entity"). The Responsible Entity's registered office is Level 29, 135 King Street, Sydney, NSW 2000. The financial statements are presented in the Australian currency.

The Fund invests predominantly in shares or unit trusts listed or about to be listed on the Australian Stock Exchange. The Fund may also invest in hybrid equity securities such as convertible and preference shares as set out in the Fund's offer documents and in accordance with the provisions of the Fund's Constitution. The Fund will use derivatives such as options and futures to generate additional income and manage investment risk.

On 5 May 2016, a new tax regime applying to Managed Investment Trusts ("MITs") was established under the Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016. The Attribution Managed Investment Trust ("AMIT") regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. In order to allow the Fund to elect into the AMIT tax regime, the Fund's Constitution has been amended and the other conditions to adopt the AMIT tax regime have been met effective 1 July 2017. The Responsible Entity is therefore no longer contractually obligated to pay distributions.

The financial statements were authorised for issue by the directors of the Responsible Entity on 25 September 2018. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

## 2 Summary of significant accounting policies

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

### (a) Basis of preparation

These special purpose financial statements that have been prepared for the sole purpose of distributing financial statements to the members and must not be used for any other purpose. The directors have determined that the accounting policies adopted are appropriate to meet the needs of the members. These special purpose financial statements have been prepared in accordance with the Fund's Constitution, Australian Accounting Standards and Interpretations issued by the Australian Accounting Standard Board and the Corporation Act 2001 in Australia with the exception of the disclosure requirements in the following IFRS equivalents Australian Accounting Standards:

*AASB 7 Financial Instrument: Disclosure*

*AASB 124 Related Party Disclosure*

By the resolution of the Board of the Responsible Entity and in accordance with the Fund's Constitution, the Fund terminated operations on 4 June 2018 and the final redemption was paid on 4 June 2018. The directors have therefore determined that the going concern basis of preparation is no longer appropriate. As such, the financial statements have been prepared on a liquidation basis whereby the Fund's assets have been measured at their net realisable values and the liabilities have been recognised at their contractual settlement amounts. Adoption of the liquidation basis of preparation has had no impact on the carrying amount of assets and liabilities of the Fund.

The special purpose financial statements have been prepared as required by the Fund's constitutions and for the purpose of complying with Australian securities and Investments Commission (ASIC) deregistration requirement and must not be used for any other purposes. The directors have determined that the accounting policies adopted are appropriate for this purpose.

The Statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months.

## 2 Summary of significant accounting policies (continued)

### (a) Basis of preparation (continued)

#### *Compliance with International Financial Reporting Standards*

The financial statements of the Fund also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board with the exception of the disclosure requirements in the following IFRS equivalent Australian Accounting Standards:

- AASB 7 *Financial Instrument: Disclosure*
- AASB 124 *Related Party Disclosure*

#### *New and amended standards adopted by the Fund*

There are no new standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2017 that have a material impact on the Fund.

### (b) Financial instruments

#### *(i) Classification*

The Fund's investments are classified as at fair value through profit or loss, which comprise:

- Financial instruments held for trading

Derivative financial instruments such as options are included under this classification. The Fund does not designate as hedges in a hedging relationship.

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

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold.

These are investments in equity securities and unit trusts.

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

#### *(ii) Recognition/derecognition*

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Fund has transferred substantially all risks and rewards of ownership.

#### *(iii) Measurement*

##### *Financial assets and liabilities held at fair value through profit or loss*

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

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of comprehensive income within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise. This also includes dividend expense on short sales of securities, which have been classified at fair value through profit or loss.

## 2 Summary of significant accounting policies (continued)

### (b) Financial instruments (continued)

#### (iii) Measurement (continued)

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market prices used for both financial assets and financial liabilities were last traded prices.

The fair value of financial assets and liabilities that are not traded in an active market are determined using valuation techniques. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined using a valuation technique. If such a difference exists, the Fund recognised the difference in the Statement of comprehensive income to reflect a change in factors, including time, that market participants would consider in setting a price.

#### (iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### (c) Net assets attributable to unitholders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders. The units are classified as financial liabilities as the Fund is required to distribute its distributable income. The units can be put back to the Fund at any time for cash or in specie based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to redeem units in the Fund.

### (d) Cash and cash equivalents

For the purpose of presentation in the Statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, 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. Bank overdrafts, if any, are shown within borrowings in the Statement of financial position.

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

### (e) Deposits held with broker for margin

Margin accounts comprise cash held as collateral for derivative transactions. The cash is held by the broker and is only available to meet margin calls.

### (f) Investment income

Interest income is recognised in the Statement of comprehensive income for all financial instruments that are not held at fair value through profit or loss using the effective interest method. Interest income on assets held at fair value through profit or loss is included in the net gains/(losses) on financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b).

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest

## 2 Summary of significant accounting policies (continued)

### (f) Investment income (continued)

rate, the Fund estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense. The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the Statement of comprehensive income as distribution income.

Trust distributions are recognised on an entitlements basis as at the date the unit value is quoted ex-distribution.

### (g) Expenses

All expenses, including Responsible Entity's fees, management fees and custodian fees, are recognised in the Statement of comprehensive income on an accruals basis. The Responsible Entity is entitled under the Fund's Constitution to be reimbursed for certain expenses incurred in administering the Fund.

### (h) Income tax

Under current legislation, the Fund is not subject to income tax as unitholders are presently entitled to the income of the Fund.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Fund is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders.

The benefit of imputation credits and foreign tax paid are passed on to unitholders.

### (i) Distribution to unitholders

In accordance with the Fund's Constitution, the Fund fully distributes its distributable (taxable) income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the Statement of comprehensive income as finance costs attributable to unitholders.

The distributions are generally payable at the end of September, December, March and June each year.

### (j) Increase/(decrease) in net assets attributable to unitholders

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

### (k) Foreign currency translation

#### (i) Functional and presentation currency

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

## 2 Summary of significant accounting policies (continued)

### (k) Foreign currency translation (continued)

#### (ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income in other operating income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in the Statement of comprehensive income on a net basis within net gains/(losses) on financial instruments held at fair value through profit or loss.

The Fund does not isolate that portion of gains or losses on securities and derivative financial instruments that are measured at fair value through profit or loss and which are due to changes in foreign exchange rates from those that are due to changes in the market price of securities. Such fluctuations are included with the net gains or losses on financial instruments at fair value through profit or loss.

### (l) Receivables

Receivables may include amounts for interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in note 2(f) above. Amounts are generally received within 30 days of being recorded as receivables.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Fund will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

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

### (m) Payables

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

The distribution amount payable to unitholders as at the end of each reporting period is recognised separately in the Statement of financial position when unitholders are presently entitled to the distributable income under the Fund's Constitution.

### (n) Applications and redemptions

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



## 2 Summary of significant accounting policies (continued)

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

The GST incurred on the costs of various services provided to the Fund by third parties such as custodial services and investment management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 55% or 75%; hence investment management fees, custodial fees and other expenses have been recognised in the Statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the Statement of financial position. Cash flows relating to GST are included in the Statement of cash flows on a gross basis.

### (p) Rounding of amounts

The Fund is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

### (q) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 reporting period and have not been early adopted by the Fund. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below:

#### (i) AASB 9 *Financial Instruments* (and applicable amendments), (effective from 1 July 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The standard is not applicable until 1 July 2018 but is available for early adoption.

The directors have assessed the impact of AASB 9 on the Funds financial statements. Given no debt instruments are held by the Fund, which could result in a reclassification of the financial instruments to amortised cost or fair value through other comprehensive income ('FVOCI'), the adoption of AASB 9 is not expected to have a significant impact on the recognition and measurement of the Fund's financial instruments.

The derecognition rules have not been changed from the previous requirements, and the Fund does not apply hedge accounting.

#### (ii) AASB 15 *Revenue from Contracts with Customers*, (effective from 1 July 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The Fund's main source of income are interest, dividends and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As consequence, the directors do not expect the adoption of the new revenue recognition rules to have a significant impact on the Fund's accounting policies or the amounts recognised in the financial statements.

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

### (r) Comparative revisions

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

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

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

	Year ended	
	30 June 2018	30 June 2017
	\$	\$
<b>Financial assets</b>		
Net gain/(loss) on financial assets held for trading	1,917,221	1,723,818
Net gain/(loss) on financial assets designated at fair value through profit or loss	<u>(1,203,552)</u>	<u>21,146,941</u>
Net gains/(losses) on financial assets held at fair value through profit or loss	<u>713,669</u>	<u>22,870,759</u>
<b>Financial liabilities</b>		
Net gain/(loss) on financial liabilities held for trading	<u>(550,000)</u>	<u>382,904</u>
Net gains/(losses) on financial liabilities held at fair value through profit or loss	<u>(550,000)</u>	<u>382,904</u>
Total net gains/(losses) on financial instruments held at fair value through profit or loss	<u>163,669</u>	<u>23,253,663</u>

#### 4 Financial assets held at fair value through profit or loss

	<b>30 June 2018</b>	<b>As at 30 June 2017</b>
	<b>Fair value \$</b>	<b>Fair value \$</b>
<b>Held for trading</b>		
Derivatives	-	844,650
Total held for trading	-	844,650
<b>Designated at fair value through profit or loss</b>		
Equity securities	-	159,049,409
Unit trusts	-	13,593,298
Total designated at fair value through profit or loss	-	172,642,707
<b>Total financial assets held at fair value through profit or loss</b>	-	173,487,357
<b>Comprising:</b>		
<b>Derivatives</b>		
Australian exchange traded options	-	844,650
Total derivatives	-	844,650
<b>Equity securities</b>		
Australian equity securities	-	159,049,409
Total equity securities	-	159,049,409
<b>Unit trusts</b>		
Unit trusts	-	13,593,298
Total unit trusts	-	13,593,298
<b>Total financial assets held at fair value through profit or loss</b>	-	173,487,357

Financial assets held at fair value through profit or loss include securities amount of \$0 (30 June 2017: \$9,204,690) held as collateral with counter party financial institutions for derivative transactions purposes. Under the terms of agreement the counter parties has the ability to sell the securities to recover its dues.

## 5 Financial liabilities held at fair value through profit or loss

	As at	
	30 June 2018	30 June 2017
	Fair value \$	Fair value \$
<b>Held for trading</b>		
Derivatives	-	531,884
Total held for trading	-	531,884
<b>Total financial liabilities held at fair value through profit or loss</b>	-	531,884
<b>Comprising:</b>		
<b>Derivatives</b>		
Australian exchange traded options	-	531,884
Total derivatives	-	531,884
<b>Total financial liabilities held at fair value through profit or loss</b>	-	531,884

## 6 Net assets attributable to unitholders

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

	Year ended			
	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	No.	No.	\$	\$
<b>Class A</b>				
Opening balance	37,194,226	34,878,555	34,277,882	29,395,448
Applications	578,617	19,628,097	553,059	18,226,868
Redemptions	(38,578,517)	(19,058,989)	(35,591,731)	(17,020,128)
Units issued upon reinvestment of distributions	805,674	1,746,563	762,121	1,607,645
Increase/(decrease) in net assets attributable to unitholders	-	-	(1,331)	2,068,049
Closing balance	-	37,194,226	-	34,277,882
<b>Class D</b>				
Opening balance	155,755,627	214,768,555	140,789,515	177,452,982
Applications	46,297,990	97,436,360	43,407,295	89,287,069
Redemptions	(206,805,598)	(168,956,476)	(189,794,750)	(156,248,970)
Units issued upon reinvestment of distributions	4,751,981	12,507,188	4,404,228	11,264,365
Increase/(decrease) in net assets attributable to unitholders	-	-	1,193,712	19,034,069
Closing balance	-	155,755,627	-	140,789,515
<b>Total net assets attributable to unitholders - liability</b>	-	192,949,853	-	175,067,397

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

## 6 Net assets attributable to unitholders (continued)

There are two separate classes of units. Each unit within the same class has the same rights as all other units within that class. Except for different management fee rates, the two different classes have the same preferences and restrictions.

### 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 amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

## 7 Distributions to unitholders

The distributions for the year were as follows:

	Year ended			
	30 June 2018 \$	30 June 2018 CPU	30 June 2017 \$	30 June 2017 CPU
<b>Class A</b>				
Distributions for the year	<u>901,993</u>	<u>2.43</u>	<u>1,773,596</u>	<u>5.38</u>
<b>Class D</b>				
Distributions for the year	<u>4,404,228</u>	<u>2.90</u>	<u>11,264,365</u>	<u>6.10</u>
<b>Total distributions for the year</b>	<u>5,306,221</u>		<u>13,037,961</u>	

At 30 June 2018, the above distributions for class A and class D include distribution payable amount of \$0 (2017: \$160,949) and \$0 (2017: \$0) respectively.

## 8 Cash and cash equivalents

	As at	
	30 June 2018 \$	30 June 2017 \$
Cash at bank	<u>-</u>	<u>577,979</u>
	<u>-</u>	<u>577,979</u>

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

	Year ended	
	30 June 2018	30 June 2017
	\$	\$
<b>(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities</b>		
Increase/(decrease) in net assets attributable to unitholders	1,192,381	21,102,118
Distributions to unitholders	5,306,221	13,037,961
Purchase of financial instruments held at fair value through profit or loss	(83,293,123)	(125,422,887)
Proceeds from sale of financial instruments held at fair value through profit or loss	114,201,219	166,684,335
Net (gains)/losses on financial instruments held at fair value through profit or loss	(163,669)	(23,253,663)
Distribution income reinvested	(218,492)	(393,658)
Net change in receivables	1,690,160	337,975
Net change in payables	(95,266)	16,531
Amount received from/(paid to) brokers for margin accounts	<u>100,000</u>	<u>7,829,000</u>
<b>Net cash inflow/(outflow) from operating activities</b>	<b><u>38,719,431</u></b>	<b><u>59,937,712</u></b>
<b>(b) Non-cash financing activities</b>		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	5,166,349	12,872,010
During the year, the following redemptions were satisfied by in specie asset transfers of assets	<b>142,429,538</b>	-

As described in note 2(j), income not distributed is included in net assets attributable to unitholders. The change in this amount each period (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable.

## 10 Auditor's remuneration

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

	Year ended	
	30 June 2018	30 June 2017
	\$	\$
<b>PricewaterhouseCoopers Australian firm</b>		
<i>Audit and other assurance services</i>		
Audit of financial statement and compliance plan audit	<u>20,147</u>	19,639
Total remuneration for audit and other assurance services	<u>20,147</u>	19,639
<i>Taxation services</i>		
Tax compliance services	<u>9,718</u>	9,516
Total remuneration for taxation services	<u>9,718</u>	9,516
Total remuneration of PricewaterhouseCoopers	<u>29,865</u>	29,155

## **11 Events occurring after the reporting period**

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the Statement of financial position as at 30 June 2018 or on the results and cash flows of the Fund for the year ended on that date.

## **12 Contingent assets and liabilities and commitments**

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2018 and 30 June 2017.

## Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 22 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
  - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2018 and of its performance for the financial year ended on that date; and
- (b) as disclosed in Note 2(a) to the financial statements, the Fund has terminated operations on 4 June 2018. The final redemption was paid on that day; and
- (c) Note 2(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Director

Sydney  
25 September 2018





## *Independent auditor's report*

To the unitholders of Russell Investments Australian Shares Enhanced Income Fund

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### *Our opinion*

In our opinion:

The accompanying financial report of Russell Investments Australian Shares Enhanced Income Fund (the Registered Scheme) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Registered Scheme's financial position as at 30 June 2018 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards to the extent described in Note 2 and the *Corporations Regulations 2001*.

### *What we have audited*

The financial report comprises:

- the statement of financial position as at 30 June 2018
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the Directors' declaration.

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### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Independence*

We are independent of the Registered Scheme in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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**PricewaterhouseCoopers, ABN 52 780 433 757**

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### *Emphasis of matter - going concern no longer appropriate*

We draw attention to Note 1 in the financial report, which discusses the directors of the Responsible Entity's intention to wind up the Registered scheme prior to the next reporting period end of 30 June 2019. As a result, the financial report has been prepared on a liquidation basis and not on a going concern basis. Our opinion is not modified in respect of this matter.

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### *Emphasis of matter - basis of accounting and restriction on use*

We draw attention to Note 2 in the financial report, which describes the basis of accounting. The financial report has been prepared for the purpose of fulfilling the directors of the Responsible Entity's financial reporting responsibilities under the *Corporations Act 2001*. As a result, the financial report may not be suitable for another purpose. Our report is intended solely for the Responsible Entity and the unitholders of the Russell Investments Australian Shares Enhanced Income Fund and should not be distributed to or used by parties other than the unitholders in the fund. Our opinion is not modified in respect of this matter.

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### *Other information*

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2018, including the Director's report, but does not include the financial report and our auditor's report thereon.

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

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

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

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### *Responsibilities of the directors of the Responsible Entity for the financial report*

The directors of the Responsible Entity of the Registered Scheme are responsible for the preparation of the financial report that gives a true and fair view and have determined that the basis of preparation described in Note 2 to the financial report is appropriate to meet the requirements of the *Corporations Act 2001* and is appropriate to meet the needs of the unitholders. The directors of the Responsible Entity's responsibility also includes such internal control as the directors of the Responsible Entity determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Registered Scheme to continue as a going concern, disclosing, as applicable, matters



In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Registered Scheme to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intend to liquidate the Registered Scheme or to cease operations, or have no realistic alternative but to do so.

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*Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:  
[http://www.auasb.gov.au/auditors\\_responsibilities/ar4.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf). This description forms part of our auditor's report.

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

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to be 'Joe Sheeran'.

Joe Sheeran  
Partner

Sydney  
25 September 2018