

Australian Governance Masters Index Fund Limited

ABN 48 140 842 397

Half-year financial report - 31 December 2017

Australian Governance Masters Index Fund Limited

Contents

31 December 2017

| | |
|--|----|
| Directors' report | 2 |
| Auditor's independence declaration | 4 |
| Statement of profit or loss and other comprehensive income | 5 |
| Statement of financial position | 6 |
| Statement of changes in equity | 7 |
| Statement of cash flows | 8 |
| Notes to the financial statements | 9 |
| Directors' declaration | 14 |
| Independent auditor's review report to the members of Australian Governance Masters Index Fund Limited | 15 |

Australian Governance Masters Index Fund Limited
Directors' report
31 December 2017

The directors present their report, together with the financial statements, on the company for the half-year ended 31 December 2017.

Directors

The names of directors who held office during or since the end of the half-year:

Mr Jeffrey Whalan – Independent Non-Executive Chairman
Ms Josephine Tan – Independent Non-Executive Director
Dr Ian Watt – Independent Non-Executive Director
Ms Nerida Cole – Non-Executive Director

Directors have been in office since the start of the half-year to the date of this report unless otherwise stated.

Review of operations

The profit for the Company after providing for income tax amounted to \$966,000 (31 December 2016: \$973,000).

Total comprehensive income for the period was \$2,190,000 (31 December 2016: \$4,059,000), for the Company.

As at 31 December 2017, the net asset value, after unrealised gains and tax, of the Company was \$1.86 per ordinary share (30 June 2017: \$1.83).

During the half-year, the Company paid a fully franked dividend of 3 cents per share on 25 September 2017. Total dividends paid during the half-year amounted to \$755,000 of which \$218,000 was reinvested as part of the Company's Dividend Reinvestment Plan.

In accordance with the Company's goal of achieving the most efficient capital structure and optimizing returns to shareholders, during the half-year, the Company bought back 1,030,137 fully paid ordinary shares on market for a total consideration of \$1,965,000.

The directors of the Company reached an agreement with the Investment Manager Walsh & Company Asset Management Pty Limited to revise the fee structure of the company reducing the total expense ratio to 0.19% (Inclusive of GST, net of RITC) of gross assets from 0.49% (exclusive of GST and other expenses) under the current Investment management agreement. The new fee structure will be effective from 1 January 2018. The directors believe the change will be advantageous to existing and future investors.

Rounding of amounts

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable and where noted (\$'000)) under the option available to the Company under ASIC Instrument 2016/191. The Company is an entity to which the ASIC Instrument applies.

Matters subsequent to the end of the financial half-year

The special fully franked dividend of \$0.03 per share announced on 20 November 2017 was paid to shareholders on 12 January 2018. The dividend paid totaled \$747,000 of which \$215,000 was reinvested as part of the Company's Dividend Reinvestment Plan.

Since 31 December 2017, the Company bought back a further 199,480 fully paid ordinary shares for a total consideration of \$388,000. The number and dollar value of shares bought back are as at close of trade 23 February 2018.

On the date of this report, the Company announced a fully franked dividend payment of \$0.03 per share which is anticipated to be paid to shareholders on 29 March 2018. In addition, the Company announced a further fully franked special dividend of \$0.02 per share, which is also expected to be paid on or around 29 March 2018. The record date for determining entitlement to the dividends is 5 March 2018.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Australian Governance Masters Index Fund Limited
Directors' report
31 December 2017

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

This report is made in accordance with a resolution of the Board of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

On behalf of the Directors



Mr Jeffrey Robert Whalan
Chairman

26 February 2018

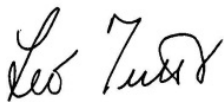
**AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE
CORPORATIONS ACT 2001 TO THE DIRECTORS OF AUSTRALIAN GOVERNANCE
MASTERS INDEX FUND LIMITED**

I declare that, to the best of my knowledge and belief during the half year ended 31 December 2017 there have been:

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

A handwritten signature in black ink that reads 'William Buck'.

William Buck
Chartered Accountants
ABN 16 021 300 521

A handwritten signature in black ink that reads 'L. E. Tutt'.

L. E. Tutt
Partner

Sydney, 26 February 2018

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& ADVISORS**

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Australian Governance Masters Index Fund Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2017

| | Note | 31 December 2017 \$'000 | 31 December 2016 \$'000 |
|---|------|-------------------------------|-------------------------------|
| Revenue | 3 | 1,145 | 1,143 |
| Expenses | | | |
| Management fee | 9 | (83) | (78) |
| Directors' fees | | (50) | (49) |
| Other expenses | | (40) | (11) |
| Profit before income tax expense | | 972 | 1,005 |
| Income tax expense | 4 | (6) | (32) |
| Profit after income tax expense for the half-year attributable to the owners of Australian Governance Masters Index Fund Limited | | 966 | 973 |
| Other comprehensive income | | | |
| <i>Items that will not be reclassified subsequently to profit or loss</i> | | | |
| Gain on revaluation of investments | | 2,086 | 4,409 |
| Provision for tax on the above | | (862) | (1,323) |
| Other comprehensive income for the half-year, net of tax | | 1,224 | 3,086 |
| Total comprehensive income for the half-year attributable to the owners of Australian Governance Masters Index Fund Limited | | 2,190 | 4,059 |
| | | Cents | Cents |
| Basic earnings per share | | 3.89 | 3.67 |
| Diluted earnings per share | | 3.89 | 3.67 |

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

Australian Governance Masters Index Fund Limited
Statement of financial position
As at 31 December 2017

| | Note | 31 December 2017 \$'000 | 30 June 2017 \$'000 |
|--------------------------------------|-------------|--|--------------------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | | 1,330 | 1,204 |
| Trade and other receivables | | 111 | 464 |
| Other | | 3 | - |
| Total current assets | | <u>1,444</u> | <u>1,668</u> |
| Non-current assets | | | |
| Financial assets | 6 | <u>49,058</u> | <u>48,259</u> |
| Total non-current assets | | <u>49,058</u> | <u>48,259</u> |
| Total assets | | <u>50,502</u> | <u>49,927</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Dividends payable | | 758 | - |
| Provision for income tax | | 290 | - |
| Trade and other payables | | 57 | 40 |
| Total current liabilities | | <u>1,105</u> | <u>40</u> |
| Non-current liabilities | | | |
| Deferred tax | 7 | <u>3,181</u> | <u>2,606</u> |
| Total non-current liabilities | | <u>3,181</u> | <u>2,606</u> |
| Total liabilities | | <u>4,286</u> | <u>2,646</u> |
| Net assets | | <u>46,216</u> | <u>47,281</u> |
| Equity | | | |
| Issued capital | 8 | 36,666 | 38,419 |
| Reserves | | 9,029 | 7,805 |
| Retained profits | | 521 | 1,057 |
| Total equity | | <u>46,216</u> | <u>47,281</u> |

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

Australian Governance Masters Index Fund Limited
Statement of changes in equity
For the half-year ended 31 December 2017

| | Issued capital \$'000 | Asset revaluation reserve \$'000 | Capital profits reserves \$'000 | Retained profits \$'000 | Total equity \$'000 |
|---|--------------------------------------|---|--|--|--------------------------------|
| Balance at 1 July 2016 | 44,792 | 4,406 | (222) | 1,319 | 50,295 |
| Profit after income tax expense for the half-year | - | - | - | 973 | 973 |
| Other comprehensive income for the half-year, net of tax | - | 3,086 | - | - | 3,086 |
| Total comprehensive income for the half-year | - | 3,086 | - | 973 | 4,059 |
| Transfer to Capital profits reserve of cumulative realised gain on disposal of investments (net of tax) | - | 1,166 | (1,166) | - | - |
| Shares issued | 250 | - | - | - | 250 |
| Shares bought back | (5,212) | - | - | - | (5,212) |
| Issue and buy-back costs (net of tax) | (12) | - | - | - | (12) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | |
| Dividends paid (note 5) | - | - | - | (1,409) | (1,409) |
| Balance at 31 December 2016 | <u>39,818</u> | <u>8,658</u> | <u>(1,388)</u> | <u>883</u> | <u>47,971</u> |
| | Issued capital \$'000 | Asset revaluation reserve \$'000 | Capital profits reserves \$'000 | Retained profits \$'000 | Total equity \$'000 |
| Balance at 1 July 2017 | 38,419 | 6,905 | 900 | 1,057 | 47,281 |
| Profit after income tax expense for the half-year | - | - | - | 966 | 966 |
| Other comprehensive income for the half-year, net of tax | - | 1,224 | - | - | 1,224 |
| Total comprehensive income for the half-year | - | 1,224 | - | 966 | 2,190 |
| Transfer to Capital profits reserve of cumulative realised gain on disposal of investments (net of tax) | - | 959 | (959) | - | - |
| Shares issued | 218 | - | - | - | 218 |
| Shares bought back | (1,965) | - | - | - | (1,965) |
| Issue and buy-back costs (net of tax) | (6) | - | - | - | (6) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | |
| Dividends paid (note 5) | - | - | - | (1,502) | (1,502) |
| Balance at 31 December 2017 | <u>36,666</u> | <u>9,088</u> | <u>(59)</u> | <u>521</u> | <u>46,216</u> |

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

Australian Governance Masters Index Fund Limited
Statement of cash flows
For the half-year ended 31 December 2017

| | 31 December 2017 \$'000 | 31 December 2016 \$'000 |
|---|--|--|
| Cash flows from operating activities | | |
| Payments to suppliers | (79) | (35) |
| Management fee paid | (76) | (85) |
| Interest received | 6 | 8 |
| Dividends received | 1,491 | 1,583 |
| | <u>1,342</u> | <u>1,471</u> |
| Cash flows from investing activities | | |
| Proceeds from disposal of investments | 4,606 | 7,580 |
| Payments for purchase of investments | (3,322) | (1,711) |
| | <u>1,284</u> | <u>5,869</u> |
| Cash flows from financing activities | | |
| Dividends paid | (524) | (601) |
| Payments for share buy-backs | (1,965) | (5,299) |
| Payments of issue and buy-back costs | (11) | (14) |
| | <u>(2,500)</u> | <u>(5,914)</u> |
| Net increase in cash and cash equivalents | 126 | 1,426 |
| Cash and cash equivalents at the beginning of the financial half-year | 1,204 | 206 |
| Cash and cash equivalents at the end of the financial half-year | <u><u>1,330</u></u> | <u><u>1,632</u></u> |

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

Australian Governance Masters Index Fund Limited
Notes to the financial statements
31 December 2017

1. Statement of significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2017 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

The half-year financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement of fair value of selected non-current assets, financial assets and financial liabilities.

The half-year financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) in accordance with ASIC Instrument 2016/191.

These half-year financial statements were approved by the Board of Directors on 26 February 2018.

New or amended Accounting Standards and Interpretations adopted

The Company has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (**AASB**) that are relevant to their operations and effective for the current half-year.

No new or revised Standards and Interpretations effective for the period under review are considered to be applicable to the Company.

2. Segment reporting

The Company is engaged in investing activities conducted in Australia and has one business operation, that being holding investments in Australian listed equities for long-term appreciation.

The Company operates as a listed investment company in Australia.

3. Revenue

| | 31 December 2017 \$'000 | 31 December 2016 \$'000 |
|-----------|--|--|
| Dividends | 1,139 | 1,135 |
| Interest | 6 | 8 |
| Revenue | <u>1,145</u> | <u>1,143</u> |

Australian Governance Masters Index Fund Limited
Notes to the financial statements
31 December 2017

4. Income tax expense

| | 31 December 2017 \$'000 | 31 December 2016 \$'000 |
|---|--|--|
| Income tax expense | | |
| The components of tax expense comprise: | | |
| Deferred tax | <u>6</u> | <u>32</u> |

5. Equity - dividends

Dividends paid during the financial half-year were as follows:

| | 31 December 2017 \$'000 | 31 December 2016 \$'000 |
|---|--|--|
| Total dividends paid during the half-year | 755 | 862 |
| Dividends payable | <u>747</u> | <u>547</u> |
| | <u>1,502</u> | <u>1,409</u> |

- Fully franked dividend of 3 cents per share paid on 25 September 2017 totaling \$755,000.
- Fully franked special dividend of 3 cents per share announced on 20 November 2017 totaling \$747,000.

The tax rate at which paid dividends have been franked is 30% (2016: 30%).

6. Non-current assets - Financial assets

| | 31 December 2017 \$'000 | 30 June 2017 \$'000 |
|---|--|--------------------------------|
| Non-current | | |
| Equity Investments | | |
| Fair value through other comprehensive income | <u>49,058</u> | <u>48,259</u> |

7. Non-current liabilities - deferred tax

| | 31 December 2017 \$'000 | 30 June 2017 \$'000 |
|--|--|--------------------------------|
| <i>Deferred tax liabilities/(assets) comprise:</i> | | |
| Transaction costs | (13) | (12) |
| Unrealised fair value adjustments | <u>3,194</u> | <u>2,618</u> |
| Deferred tax liability | <u>3,181</u> | <u>2,606</u> |

Australian Governance Masters Index Fund Limited
Notes to the financial statements
31 December 2017

8. Equity - issued capital

| | 31 December 2017 Shares | 30 June 2017 Shares | 31 December 2017 \$'000 | 30 June 2017 \$'000 |
|------------------------------|--|--------------------------------|--|--------------------------------|
| Ordinary shares - fully paid | <u>24,857,283</u> | <u>25,770,370</u> | <u>36,666</u> | <u>38,419</u> |

Movements in ordinary share capital

| Details | Date | Shares | \$'000 |
|--------------------------------------|-------------------|-------------------|---------------|
| Balance | 1 July 2017 | 25,770,370 | 38,419 |
| Issue of ordinary shares (i) | 25 September 2017 | 117,050 | 218 |
| Ordinary shares bought back | | (1,030,137) | (1,965) |
| Issue and buyback costs (net of tax) | | - | (6) |
| Balance | 31 December 2017 | <u>24,857,283</u> | <u>36,666</u> |

The following ordinary shares issues were made as part of the Company's Dividend Reinvestment Plan:

(i) In respect of the dividend paid on 25 September 2017, 117,050 ordinary shares were issued at \$1.87 per share.

The Company's current buyback program will continue until close of trade on 30 November 2018, unless terminated earlier by the Company.

9. Related party transactions

The names of persons who were directors of the Company at any time during the half-year and to the date of these financial statements are:

Mr Jeffrey Whalan – Independent Non-Executive Chairman
Ms Josephine Tan – Independent Non-Executive Director
Dr Ian Watt – Independent Non-Executive Director
Ms Nerida Cole – Non-Executive Director

Transactions between related parties are on normal commercial terms and conditions unless otherwise stated and are as follows:

a) Management Fee

The Manager is entitled to receive an annualised management fee of 0.49%, calculated with reference to the gross value of the Portfolio less fees payable to directors of the Company for their duties as directors and fees payable to the Auditor in connection with the audit of the annual financial statements and the review of the half-year financial statements of the Company.

Management fees paid or payable to Walsh & Company Asset Management Pty Limited for the half-year ended 31 December 2017 were \$76,000 (31 December 2016: \$83,000), inclusive of GST. The management fee owed by the Company to Walsh & Company Asset Management Pty Limited at 31 December 2017 was \$13,000 (30 June 2017: \$13,000).

The directors of the Company reached an agreement with the Investment Manager Walsh & Company Asset Management Pty Limited to revise the fee structure of the company reducing the total expense ratio to 0.19% (Inclusive of GST, net of RITC) of gross assets from 0.49% (exclusive of GST and other expenses) under the current Investment management agreement. The new fee structure will be effective from 1 January 2018.

Australian Governance Masters Index Fund Limited
Notes to the financial statements
31 December 2017

9. Related party transactions (continued)

b) Brokerage

Dixon Advisory & Superannuation Services Limited, as broker acting on behalf of the Company receives brokerage of 0.25% on all transactions undertaken as part of the Company's buyback program and in managing its investment portfolio. During the period, the brokerage paid was \$27,000, (31 December 2016: \$36,000), inclusive of GST. The directors of the Company are satisfied that the brokerage is in line with market rates.

10. Financial instruments

The aggregate net fair values and carrying amounts of financial assets and financial liabilities at the end of the reporting period are disclosed in the statement of financial position and in the notes to the financial statements.

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

- (a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- (b) Level 2: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- (c) Level 3: inputs for the asset or liabilities that are not based on observable market data (unobservable inputs).

| | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|--|-------------------|-------------------|-------------------|-----------------|
| 31 December 2017 | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| Equity investments | 49,058 | - | - | 49,058 |
| 30 June 2017 | | | | |
| Financial assets at fair value through other comprehensive income | | | | |
| Equity investments | 48,259 | - | - | 48,259 |

Valuation technique and key input

Valuation is based on quoted prices on the ASX.

There were no transfers between levels during the financial period.

11. Contingent liabilities

No material amounts of contingent liabilities or capital commitments exist at the end of the reporting period.

Australian Governance Masters Index Fund Limited
Notes to the financial statements
31 December 2017

12. Events after the reporting period

The special fully franked dividend of \$0.03 per share announced on 20 November 2017 was paid to shareholders on 12 January 2018. The dividend paid totaled \$747,000 of which \$215,000 was reinvested as part of the Company's Dividend Reinvestment Plan.

Since 31 December 2017, the Company bought back a further 199,480 fully paid ordinary shares for a total consideration of \$388,000. The number and dollar value of shares bought back are as at close of trade 23 February 2018.

On the date of this report, the Company announced a fully franked dividend payment of \$0.03 per share which is anticipated to be paid to shareholders on 29 March 2018. In addition, the Company announced a further fully franked special dividend of \$0.02 per share, which is also expected to be paid on or around 29 March 2018. The record date for determining entitlement to the dividends is 5 March 2018.

No other matter or circumstance has arisen since 31 December 2017 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Australian Governance Masters Index Fund Limited
Directors' declaration
31 December 2017

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the company's financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



Mr Jeffrey Robert Whalan
Chairman

26 February 2018

Australian Governance Masters Index Fund Limited

Independent auditor's review report to members

Report on the Review of the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Australian Governance Masters Index Fund Limited (the company) on pages 5 to 14, which comprises the statement of financial position as at 31 December 2017, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the company on pages 5 to 14 is not in accordance with the Corporations Act 2001 including:

- a) giving a true and fair view of the company's financial position as at 31 December 2017 and of its performance for the half year ended on that date; and
- b) complying with Australian Accounting Standard 134 Interim Financial Reporting and the Corporations Regulations 2001.

Responsibilities of the Directors for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibilities for the Review of the Half-Year Financial Report

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including:

- giving a true and fair view of the company's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and
- complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

CHARTERED ACCOUNTANTS & ADVISORS

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As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

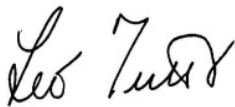
A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of the company, would be in the same terms if given to the directors as at the time of this auditor's review report.

A handwritten signature in black ink that reads 'William Buck'.

William Buck
Chartered Accountants
ABN: 16 021 300 521

A handwritten signature in black ink that reads 'L.E. Tutt'.

L.E. Tutt
Partner

Sydney, 26 February 2018