

Federation Managed Accounts

ARSN 163 784 432

Annual financial report for the year ended 30 June 2018

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Directors' report

The directors of Australian Unity Funds Management Limited (ABN 60 071 497 115), the Responsible Entity of Federation Managed Accounts (the "Scheme"), present their report together with the financial statements of the Scheme for the year ended 30 June 2018.

Directors

The following persons were directors of the Responsible Entity during the whole of the financial year and up to the date of this report (unless otherwise stated):

Rohan Mead, Chairman and Group Managing Director

David Bryant, Chief Executive Officer, Wealth & Capital Markets and Chief Investment Officer

Esther Kerr-Smith, Group Executive Finance & Strategy (appointed 23 October 2017)

Kevin McCoy, Chief Executive Officer, Independent & Assisted Living (resigned 27 November 2017)

Service Information

The Scheme is an Investor Directed Portfolio Service ("IDPS")-like scheme, registered with the Australian Securities and Investment Commission ("ASIC") as a registered managed investment scheme and is domiciled in Australia. The Scheme holds investment assets at the discretion of the individual investors. Individual investors retain the beneficial ownership in investment assets held in respective portfolio through the Scheme.

Principal activities

The principal activity of the Scheme during the year was the investment of investors' funds in accordance with the direction of investors as outlined in the product disclosure statement, including the maintenance of model portfolios within the stated asset allocation ranges. The asset categories are investments in listed equities securities and unlisted managed investment funds. There has been no significant change in the nature of this activity during the year.

The Scheme did not have any employees during the year.

Review and results of operations

Results

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

	2018 \$'000	2017 \$'000
Profit before finance costs attributable to investors	<u>13,111</u>	<u>8,432</u>

As all net income is directly attributable to the investors, the Scheme does not pay distributions.

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 Scheme that occurred during the year, except those mentioned elsewhere in the report.

Events occurring after end of the year

No matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the operations of the Scheme, the result of operations, or the state of the Scheme's affairs in the future years.

Likely developments and expected results of operations

The Scheme will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

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

Indemnification and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Scheme in regards to insurance cover provided to either the officers of Australian Unity Funds Management Limited or the auditors of the Scheme. So long as the officers of Australian Unity Funds Management Limited act in accordance with the Scheme's Constitution and the *Corporations Act 2001*, the officers remain indemnified out of the assets of the Scheme against losses incurred while acting on behalf of the Scheme. The auditors of the Scheme are in no way indemnified out of the assets of the Scheme.

Fees paid to and interests held in the Scheme by the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of Scheme property during the year are disclosed in note 13 to the financial statements.

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

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the year are disclosed in note 13 to the financial statements.

Interests in the Scheme

As the Scheme is an IDPS-like scheme, individual investors retain the beneficial ownership in investment assets held in respective portfolio through the Scheme.

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

Environmental regulation

The Scheme's operations are not subject to environmental regulations under Australian law.

Rounding of amounts to the nearest thousand dollars

The Scheme is an entity of a kind referred to in ASIC Corporations Instrument 2016/191 issued by Australian Securities and Investments Commissions relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report and financial report have been rounded to the nearest thousand dollars, where indicated.

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 4.

Signed in accordance with a resolution of the directors of Australian Unity Funds Management Limited.



Director



Director

20 September 2018



Auditor's Independence Declaration

As lead auditor for the audit of Federation Managed Accounts 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 'G. Sagonas', is positioned above the printed name.

George Sagonas
Partner
PricewaterhouseCoopers

Melbourne
20 September 2018

Federation Managed Accounts
Statement of comprehensive income
For the year ended 30 June 2018

Statement of comprehensive income

	Notes	2018 \$'000	2017 \$'000
<i>Investment income</i>			
Interest income	3	2,396	1,177
Dividend and distribution income	4	10,520	10,260
Net gains on financial instruments held at fair value through profit or loss	5	5,736	4,111
Total investment income		<u>18,652</u>	<u>15,548</u>
<i>Expenses</i>			
Investment management fees		2,369	2,388
Performance fees		175	1,674
Planning services fees		2,154	2,211
Other expenses		843	843
Total expenses		<u>5,541</u>	<u>7,116</u>
Profit before finance costs attributable to investors		<u>13,111</u>	<u>8,432</u>
<i>Finance costs attributable to investors</i>			
Increase in net assets attributable to investors		<u>(13,111)</u>	<u>(8,432)</u>
Total comprehensive income attributable to investors		<u>-</u>	<u>-</u>

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

Federation Managed Accounts
Statement of financial position
As at 30 June 2018

Statement of financial position

	Notes	2018 \$'000	2017 \$'000
Assets			
Cash and cash equivalents	7	30,423	78,323
Receivables	8	923	2,645
Financial assets held at fair value through profit or loss	9	288,633	259,985
Total assets		319,979	340,953
Liabilities			
Payables	10	2,485	5,649
Total liabilities (excluding net assets attributable to investors)		2,485	5,649
Net assets attributable to investors - liability		317,494	335,304

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

Federation Managed Accounts
Statement of changes in net assets attributable to investors - liability
For the year ended 30 June 2018

Statement of changes in net assets attributable to investors - liability

	2018	2017
	\$'000	\$'000
Balance at the beginning of the year	335,304	275,214
Profit before finance costs attributable to investors	13,111	8,432
Contributions in cash	37,089	76,157
Withdrawals in cash	(67,635)	(35,817)
Contributions in kind (in specie)	22,694	11,318
Withdrawals in kind (in specie)	(23,069)	-
Balance at the end of the year	317,494	335,304

The above statement of changes in net assets attributable to investors - liability should be read in conjunction with the accompanying notes.

**Federation Managed Accounts
Statement of cash flows
For the year ended 30 June 2018**

Statement of cash flows

	Notes	2018 \$'000	2017 \$'000
<i>Cash flows from operating activities</i>			
Purchase of financial instruments held at fair value through profit or loss		(325,948)	(265,935)
Proceeds from sale of financial instruments held at fair value through profit or loss		301,289	261,375
Dividends received		10,520	10,373
Interest received		2,396	1,063
Payments of operating expenses		(5,541)	(7,115)
Net cash outflow from operating activities	14	<u>(17,284)</u>	<u>(239)</u>
<i>Cash flows from financing activities</i>			
Proceeds from contributions by investors		37,019	76,157
Payments for withdrawals by investors		(67,635)	(35,817)
Net cash (outflow)/inflow from financing activities		<u>(30,616)</u>	<u>40,340</u>
Net (decrease)/increase in cash and cash equivalents		(47,900)	40,101
Cash and cash equivalents at the beginning of the year		<u>78,323</u>	38,222
Cash and cash equivalents at the end of the year	7	<u>30,423</u>	<u>78,323</u>

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

Notes to the financial statements

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1 General information

These financial statements cover Federation Managed Accounts ("the Scheme") as an individual entity. The Scheme was constituted on 13 May 2013 and will terminate on the 80th anniversary or earlier in accordance with the provisions of the Scheme's Constitution.

The Responsible Entity of the Scheme is Australian Unity Funds Management Limited (ABN 60 071 497 115) ("the Responsible Entity"), a wholly owned subsidiary of Australian Unity Limited (ABN 23 087 648 888). The Responsible Entity's registered office is Level 14, 114 Albert Road, South Melbourne, VIC 3205.

The Responsible Entity is incorporated and domiciled in Australia.

The financial statements are for the year 1 July 2017 to 30 June 2018.

The financial statements were authorised for issue by the directors of the Responsible Entity on 20 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 years presented, unless otherwise stated. Where appropriate, comparatives have been reclassified to enhance comparability with current year disclosures.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards (AASB), other authoritative pronouncements of the AASB and the *Corporations Act 2001*.

The Scheme is a for-profit entity for the purposes of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

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 generally expected to be recovered or settled within twelve months, except for net assets attributable to investors, where the amount expected to be recovered or settled within 12 months after the end of the year cannot be reliably determined.

(i) Compliance with Australian Accounting Standards and International Financial Reporting Standards

The financial statements of the Scheme comply with Australian Accounting Standards as issued by the AASB and also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(ii) New accounting standards amendment adopted by the Scheme

The Scheme applied the following accounting standard amendment that became mandatory for the first time during the year:

AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107
AASB 2016-2 amends AASB 107 Statements of Cash Flows to require entities to provide disclosure that enable users of financial statements to evaluate cash and non-cash changes in their financing activities. The adoption of the new disclosure requirement did not have a material impact on the Scheme's financial statements.

2 Summary of significant accounting policies (continued)

(b) Financial instruments

(i) Classification

- *Financial instruments designated at fair value through profit or loss*

The Scheme's investments are classified as held at fair value through profit or loss. They comprise:

- *Financial instruments designated at fair value through profit or loss upon initial recognition*
These include financial assets and liabilities that are not held for trading purposes and which may be sold. These may include investments in listed property trusts, unlisted property trusts and other unlisted 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 Scheme's documented investment strategy. The Scheme'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.

The information on the fair value basis is provided internally to the Scheme's key management personnel. In addition, the designation of financial assets and financial liabilities at fair value through profit or loss will reduce any measurement or recognition inconsistencies and any accounting mismatch that would otherwise arise.

- *Loans and receivables/payables*

Loans and receivables/payables are non-derivative financial assets/liabilities with fixed or determinable payments that are not quoted in an active market. This category includes short term receivables/payables.

(ii) Recognition/derecognition

The Scheme 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.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Scheme retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or
- the Scheme has transferred its rights to receive cash flows from the asset and either:
 - (a) has transferred substantially all the risks and rewards of the asset; or
 - (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) is included in the statement of comprehensive income in the year the asset is derecognised as realised gains or losses on financial instruments.

(iii) Measurement

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

Financial assets and financial liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities held at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(iii) Measurement (continued)

- *Fair value in an active market*

The fair value of financial assets and financial liabilities traded in active markets is based on their quoted market prices at the end of the year without any deduction for estimated future selling costs.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

The Scheme's financial instruments that are valued based on active markets generally include listed property trusts.

- *Fair value in an inactive or unquoted market*

The fair value of financial assets and liabilities not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is the market rate at the end of the reporting period applicable for an instrument with similar terms and conditions. For other pricing models, inputs are based on market data at the end of the year.

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 Scheme recognises 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.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Scheme would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the most appropriate option valuation model.

Investments in unlisted unit trusts are recorded at the net asset value per unit as reported by the managers of such trusts.

The Scheme's financial instruments that are valued based on inactive or unquoted markets generally include investments in unlisted unit trusts and over the counter derivatives, where applicable.

- *Borrowings and receivables/payables*

Borrowings and receivables/payables are measured initially at fair value plus transaction costs.

Subsequently, borrowings are carried at amortised cost using the effective interest method. Short term receivables/payables are carried at their initial fair values.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when, and only when, there is currently 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.

2 Summary of significant accounting policies (continued)

(c) 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 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 Scheme's main income generating activity.

(d) Investment income

Interest income is recognised in the statement of comprehensive income for all financial instruments using the effective interest method. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b).

Trust distributions (including distributions from cash management trusts) are recognised on an entitlements basis.

Net gains/(losses) on financial assets and liabilities held at fair value through profit or loss arising on a change in fair value are calculated as the difference between the fair value at the end of the year and the fair value at the previous valuation point. Net gains/(losses) do not include interest or dividend/distribution income. Realised and unrealised gains/(losses) are shown in the notes to the financial statements.

Dividends are recognised as income on the date the share is quoted ex-dividend with any related foreign withholding tax recorded as a tax expense. In some cases, the Scheme may receive or choose to receive dividends in the form of additional shares rather than cash. In such cases the Scheme recognises the dividend income for the amount of the cash dividend alternative with the corresponding amount treated as an additional investment.

(e) Expenses

All expenses, including Responsible Entity's fees and custodian fees, are recognised in statement of comprehensive income on an accruals basis.

(f) Income tax

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

(g) Distributions

As all net income is attributable to the investors, the Scheme does not pay distributions.

(h) Increase/decrease in net assets attributable to investors

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

(i) Foreign currency translation

(i) Functional and presentation currency

Items included in the Scheme'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 Scheme competes for funds and is regulated. The Australian dollar is also the Scheme's presentation currency.

(ii) Transactions and balances

Income and expense items denominated in a currency other than the functional currency are translated at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the balance date, with the exchange gains and losses recognised in the Statement of comprehensive 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.

2 Summary of significant accounting policies (continued)

(j) Receivables

Receivables may include amounts for dividends, interest, trust distributions and securities sold where settlement has not yet occurred. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each year from the time of last payment in accordance with the policy set out in note 2(d) above. Amounts are generally received within 30 days of being recorded as receivables.

Collectability 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 Scheme 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 property expenses in the statement of comprehensive income.

(k) Payables

Payables are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the Scheme, and include outstanding settlements on the purchase of the financial instruments. Payables are measured at their nominal amounts. Amounts are generally paid within 30 days of being recognised as payables. Given the short-term nature of most payables, the nominal amount approximates fair value.

Payables include liabilities and accrued expenses owed by the Scheme which are unpaid as at the end of the year.

(l) Applications and redemptions

Funds contributed to the Scheme provide the investors with the right to require withdrawals for cash and/or securities and give rise to a financial liability. In accordance with the product disclosure statement, investors can withdraw from their portfolio at anytime. If investors choose to close their portfolio, they may be able to receive their withdrawal amount as an in specie transfer of securities and/or managed fund units, as cash or as a combination of the two.

(m) Goods and Services Tax (GST)

The statement of comprehensive income is shown exclusive of GST, unless the GST incurred (or part thereof) on expenses that are not recoverable. Expenses of various services provided to the Scheme by third parties, such as custodial services and investment management fees, may have non-recoverable GST components, as applicable. In these cases, the non-recoverable GST component is recognised as part of the particular expense in the statement of comprehensive income.

Accounts payable and receivable are stated inclusive of the GST receivable and payable, respectively. The net amount of GST recoverable, or payable, is included in receivables or payables in the statement of financial position.

Cash flows relating to GST are included in the statement of cash flows on a gross basis.

All income, expenses and assets are recognised net of any GST paid, except where they relate to products and services which are input taxed for GST purposes or where the GST incurred is not recoverable from the relevant tax authorities. In such circumstances, the GST paid is recognised as part of the cost of acquisition of the assets or as part of the relevant expense.

Receivables and payables are recognised with the amount of GST included. The net amount of GST recoverable from or payable to the tax authorities is included as either a receivable or payable in statement of financial position.

2 Summary of significant accounting policies (continued)

(m) Goods and Services Tax (GST) (continued)

Cash flows are reported on a gross basis reflecting any GST paid or collected. The GST component of cash flows which are recoverable from, or payable to, local tax authorities are classified as operating cash flows.

(n) Use of judgements and estimates

The preparation of the Scheme's financial statements requires it to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. However, estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant accounting judgements, estimates and assumptions are made by the Scheme include and are not limited to the fair value measurement of investments in financial instruments.

The majority of the Scheme's investments are in the financial instruments held for trading and are measured at fair value through profit or loss. Where available, quoted market prices for the same or similar instrument are used to determine fair value. Where there is no market price available for an instrument, a valuation technique is used. Judgement is applied in selecting valuation techniques and setting valuation assumptions and inputs. Further details on the determination of fair value of financial assets is set out in note 2(b).

(o) New accounting standards and interpretations not yet adopted

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

(i) AASB 9 Financial Instruments (and applicable amendments) (effective 1 January 2018)

AASB 9 *Financial Instruments* addresses the classification, measurement, recognition and derecognition of financial assets and financial liabilities. It has now also introduced revised rules for hedge accounting and impairment. The Standard is not applicable until 1 January 2018 but is available for early adoption. The Scheme does not expect this to have a significant impact on the recognition and measurement of the Scheme's financial instruments as they are carried at fair value through profit or loss. The derecognition rules have not been changed from the previous requirements and the Scheme does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Scheme's investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Scheme. The Scheme does not intend to early adopt AASB 9. The Scheme will apply AASB 9 in its financial statements for the year commencing 1 July 2018.

(ii) AASB 15 Revenue from Contracts with Customers (effective 1 January 2018)

AASB 15 sets out the requirements for recognising revenue that apply to all contracts with customers, except for contracts that are within the scope of the accounting standards for leases, insurance contracts and financial instruments. AASB 15 outlines a single, principles based five-step model for entities to use in accounting for revenue arising from contracts with customers. The core principle is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Revenue is recognised only when the control of a good or service transfers to a customer. This notion of control replaces the existing notion of risks and rewards. The Scheme's main source of income includes interest, dividends/distributions and gains on financial instruments held at fair value through profit or loss. All of these are outside the scope of the Revenue standard. Consequently, the Scheme does not expect AASB 15 to have a significant impact on the Scheme's financial statements. The Scheme does not intend to early adopt AASB 15. The Scheme will apply AASB 15 in its financial statements for the year commencing 1 July 2018.

(iii) AASB 2016-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 107 (effective 1 January 2017)

AASB 2016-2 amends AASB 107 *Statements of Cash Flows* to require entities to provide disclosure that enable users of financial statements to evaluate cash and non-cash changes in their financing activities. No significant impact is expected upon adoption of the amendments. The Scheme will apply AASB 2016-2 in its financial statements for the year commencing 1 July 2017.

2 Summary of significant accounting policies (continued)

(o) New accounting standards and interpretations not yet adopted (continued)

(iv) AASB 2016-3 *Amendments to Australian Accounting Standards - Clarifications to AASB 15* (effective 1 January 2018)

AASB 2016-3 amends AASB 15 *Revenue from Contracts with Customers* to clarify the requirements on identifying performance obligations, principal versus agent considerations and the timing of recognising revenue from granting a licence. It also provides further practical expedients on transition to AASB 15. No significant impact is expected upon adoption of the amendments. The Scheme does not intend to early adopt AASB 2016-3. The Scheme will apply AASB 2016-3 in its financial statements for the year commencing 1 July 2018.

(p) Rounding of amounts

The Scheme is an entity of the kind referred to in ASIC Corporations Instrument 2016/191 issued by Australian Securities and Investment Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars, where indicated.

3 Interest income

	2018 \$'000	2017 \$'000
Cash and cash deposits	1,802	503
Fixed interest securities	594	674
Total interest income	<u>2,396</u>	<u>1,177</u>

4 Dividend and distribution income

	2018 \$'000	2017 \$'000
Dividend income	4,710	6,739
Distribution income	5,810	3,521
	<u>10,520</u>	<u>10,260</u>

5 Net gains on financial instruments held at fair value through profit or loss

	2018 \$'000	2017 \$'000
Financial assets		
Listed equity securities	12,474	(11,629)
Unlisted managed investment scheme	(5,694)	(1,577)
Fixed interest securities	1,299	238
Foreign equities	10,865	2,509
Net unrealised gains/(losses) on financial assets held at fair value through profit or loss	18,944	(10,459)
Listed equity securities	(13,048)	12,940
Unlisted managed investment scheme	2,489	496
Fixed interest securities	(440)	(35)
Foreign equities	(2,209)	1,169
Net realised (losses)/gains on financial assets held at fair value through profit or loss	(13,208)	14,570
Net gains in financial instruments held at fair value through profit or loss	5,736	4,111

6 Auditors' remuneration

The auditor's remuneration is paid directly by the Responsible Entity.

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

	2018 \$	2017 \$
<i>Audit services - PricewaterhouseCoopers</i>		
Audit and review of financial statements	10,300	10,000

7 Cash and cash equivalents

	2018 \$'000	2017 \$'000
Cash at bank - AUD	19,946	67,440
Cash in bank - Foreign currency holdings	10,477	10,883
	30,423	78,323

8 Receivables

	2018 \$'000	2017 \$'000
Trade receivables	921	2,645
Other receivables	2	-
	923	2,645

9 Financial assets held at fair value through profit or loss

	2018 \$'000	2017 \$'000
Listed equity securities	159,443	171,697
Fixed interest securities	53,109	23,783
Unlisted managed investment schemes	19,586	34,962
Foreign equities	56,495	29,543
Total financial assets held at fair value through profit or loss	<u>288,633</u>	<u>259,985</u>

An overview of the risk exposures and fair value measurements relating to financial assets and liabilities at fair value through profit or loss is included in note 11.

10 Payables

	2018 \$'000	2017 \$'000
Outstanding settlements payable	<u>2,485</u>	<u>5,649</u>
	<u>2,485</u>	<u>5,649</u>

11 Financial risk management

(a) Objectives, strategies, policies and processes

Financial instruments of the Scheme comprise of listed equity securities and unlisted managed investment funds. It holds these investment assets at the discretion of the individual investors and they are managed by the Scheme in accordance with the direction of investors in line with the Product Disclosure Statement.

The allocation of assets between the various types of financial instruments described above is determined by the Scheme's investors and, for the model portfolios, the Responsible Entity by reference to external managers' asset allocations. The Scheme's portfolio of assets is managed to achieve the investment objectives and strategies set out by the investors. Divergence from target asset allocations and the composition of the portfolio is monitored by the Responsible Entity on a regular basis.

The financial instruments held by the Scheme are exposed to the following risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

Concentrations of risk arise when a number of financial instruments or contracts are entered into with the same counterparty, or where a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The individual investors and the Responsible Entity are responsible for identifying and controlling the risks that arise from these financial instruments.

As the Scheme is an IDPS-like scheme, it is the responsibility of each individual investor to manage their own concentrations of risk. The Scheme does not have any externally imposed capital requirements.

(b) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises two types of risk: price risk and interest rate risk. Market risk is managed and monitored using sensitivity analysis, and minimised through ensuring that all investment activities are undertaken in accordance with established mandates and investment strategies.

11 Financial risk management (continued)

(b) Market risk (continued)

(i) Price risk

Price risk is the risk that the fair value or future cash flows of equities will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Price risk exposure arises from the Scheme's investment in listed and unlisted property securities. The investments are classified on the statement of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital.

Price risk is mitigated by the Scheme's individual investors, and the Responsible Entity through model portfolios, by constructing diversified portfolios of instruments traded on various markets.

The analysis below demonstrates the impact of a 10% movement in equity securities and managed investment funds. This sensitivity analysis has been performed to assess the total investors' direct risk of holding equity securities and managed investment funds with all other variables held constant. It is assumed that the relevant change occurs at the balance date.

	2018	2017
	\$'000	\$'000
Assets		
Listed equity securities	159,443	171,697
Unlisted managed investment funds	19,586	34,962
Foreign equities	56,495	29,543
Net exposure	235,524	236,202

	Impact on profit and net assets attributable to unitholders	
Sensitivity	2018	2017
	\$'000	\$'000
Securities prices + 10% (2017: +10%)	23,552	23,620
Securities prices - 10% (2017: -10%)	(23,552)	(23,620)

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Scheme's individual investors do not invest in floating rate debt securities, there is no significant direct interest rate risk in the Scheme.

As the Scheme has no directly held interest bearing securities at balance date, interest rate risk sensitivity has not been presented.

(iii) Foreign exchange risk

Foreign exchange risk is the risk that the value of monetary securities denominated in currencies other than the Australian dollar will fluctuate due to changes in exchange rates.

The Scheme's individual investors may hold assets denominated in currencies other than the Australian dollar, the functional currency. They are therefore exposed to foreign exchange risk, as the value of the future cash flows of the securities denominated in other currencies will fluctuate due to changes in exchange rates. The risk is measured using sensitivity analysis.

11 Financial risk management (continued)

(b) Market risk (continued)

(iii) Foreign exchange risk (continued)

The table below summarises the Scheme's assets and liabilities which are denominated in non-Australian currencies:

	2018		2017	
	Cash and cash equivalents	Financial assets held through profit or loss	Cash and cash equivalents	Financial assets held through profit or loss
	A\$'000	A\$'000	A\$'000	A\$'000
US Dollars	10,469	42,191	10,825	22,789
Hong Kong Dollars	4	2,194	5	969
British Pounds	1	3,163	43	3,344
Norwegian Kroner	-	1,646	6	887
Japanese Yen	1	2,704	-	-
Canadian Dollar	-	2,188	-	-
Other currencies	2	2,409	4	739
	10,477	56,495	10,883	28,728

As the Scheme has no direct exposure to monetary securities denominated in currencies other than the Australian dollar, foreign exchange risk sensitivity has not been presented.

(c) Credit risk

Credit risk is the risk that a contracting entity will not complete its obligations under a financial instrument and cause the Scheme to make a financial loss. The Scheme has exposure to credit risk on all of its financial assets included in the Scheme's statement of financial position.

In relation to equity securities and managed investment funds, the risk associated with these contracts is minimised by undertaking transactions with counterparties on recognised exchanges, and ensuring that transactions are undertaken with a large number of counterparties to avoid a concentration of credit risk.

The Scheme holds no collateral as security or any other credit enhancements. There are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated.

Credit risk is not considered to be significant to the Scheme except in relation to investments in interest bearing securities. As the Scheme does not directly hold investments in interest bearing securities, credit risk sensitivity analysis has not been presented.

(d) Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. This risk is controlled through the Scheme's investment in financial instruments, which under normal market conditions are readily convertible to cash. In addition, the Scheme maintains sufficient cash and cash equivalents to meet normal operating requirements.

11 Financial risk management (continued)

(d) Liquidity risk (continued)

Maturities analysis of financial liabilities

The table below analyses the Scheme's financial liabilities into relevant maturity groupings based on the remaining period at the end of the year to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Financial liabilities such as trade payables, where there are no specific contractual settlement dates, have been grouped into the 'less than 1 year' maturity grouping as such liabilities are typically settled within 30 days.

	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3+ years \$'000
2018				
Payables	2,485	-	-	-
Net assets attributable to investors	317,494	-	-	-
Total financial liabilities	319,979	-	-	-
	Less than 1 year \$'000	1-2 years \$'000	2-3 years \$'000	3+ years \$'000
2017				
Payables	5,649	-	-	-
Net assets attributable to investors	335,304	-	-	-
Total financial liabilities	340,953	-	-	-

As disclosed above, the Scheme manages its liquidity risk by investing in liquid assets that it expects to be able to liquidate within seven days or less. Liquid assets include cash and cash equivalents. As at 30 June 2018, these assets amounted to \$30,423,384 (2017: \$78,322,538).

(e) Capital management

As the Scheme is an IDPS-like Scheme it is the responsibility of each individual investor to manage their own capital requirements. The Scheme does not have any externally imposed capital requirements.

12 Fair value hierarchy

The Scheme measures and recognises the financial assets/(liabilities) held at fair value through profit or loss and investment properties at fair value on a recurring basis.

(a) Fair value hierarchy

The Scheme is required to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

12 Fair value hierarchy (continued)

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

The table below sets out the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at the reporting date.

2018	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial assets				
<i>Financial assets held at fair value through profit or loss</i>				
Listed equity securities	159,443	-	-	159,443
Unlisted managed investment funds	-	19,586	-	19,586
Fixed interest securities	-	53,109	-	53,109
Foreign equities	56,495	-	-	56,495
Total financial assets	215,938	72,695	-	288,633
2017	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
Financial assets				
<i>Financial assets held at fair value through profit or loss</i>				
Listed equity securities	171,697	-	-	171,697
Unlisted managed investment funds	-	34,962	-	34,962
Fixed interest securities	-	23,783	-	23,783
Foreign equities	29,543	-	-	29,543
Total financial assets	201,240	58,745	-	259,985

The Scheme's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of the year. There are no transfers between levels 1, 2 and 3 for fair value measurements during the year.

12 Fair value hierarchy (continued)

(b) Valuation techniques

(i) Financial instruments

The pricing for the majority of the Scheme's investments is generally sourced from independent pricing sources, the relevant Investment Managers or reliable brokers' quotes.

Investments whose values are based on quoted market prices in active markets, and therefore classified within level 1, include active listed equity securities and exchange traded derivatives. Financial assets are priced at bid prices, while financial liabilities are priced at asking prices.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices or alternative pricing sources supported by observable inputs are classified within level 2. These include unlisted property trusts and over-the-counter derivatives.

The stated fair value of each financial instruments at the end of the year represents the Responsible Entity's best estimate at the end of the year.

(c) Fair value of other financial instruments

Due to their short-term nature, the carrying amounts of the receivables and payables are assumed to approximate their fair values.

13 Related party transactions

Responsible entity

The Responsible Entity of Federation Managed Accounts is Australian Unity Funds Management Limited (ABN 60 071 497 115) whose immediate and ultimate parent entity is Australian Unity Limited (ABN 23 087 648 888).

Key management personnel

(a) Directors

Key management personnel includes persons who were directors of Australian Unity Funds Management Limited at any time during the year as follows:

Rohan Mead, Chairman and Group Managing Director

David Bryant, Chief Executive Officer, Wealth & Capital Markets and Chief Investment Officer

Esther Kerr-Smith, Group Executive Finance & Strategy (appointed 23 October 2017)

Kevin McCoy, Chief Executive Officer, Independent & Assisted Living (resigned 27 November 2017)

(b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Scheme, directly or indirectly during the year.

Other transactions within the Scheme

From time to time directors of Australian Unity Funds Management Limited, or their director related entities, may invest in or withdraw from the Scheme. These investments or withdrawals are on the same terms and conditions as those entered into by other Scheme investors and are trivial in nature.

Responsible Entity's fees and other transactions

The Responsible Entity is entitled to receive fees monthly calculated daily by reference to the total assets of the Scheme as follows. The Scheme's Constitution sets out maximum fees can be charged. Currently, the Scheme sets the fee structures for its units at a level below the maximum allowed for in the Constitution.

- (i) 0.44% pa from \$0 to \$250,000;
- (ii) 0.33% pa from \$250,001 to \$500,000;
- (iii) 0.12% pa from \$500,001 to \$1,000,000; and
- (iv) 0.11% pa for amounts above \$1,000,001.

The Responsible Entity is entitled to receive an investment fee from nil to 2.50% p.a. of net asset value, calculated as disclosed within the Disclosure Document.

13 Related party transactions (continued)

Responsible Entity's fees and other transactions (continued)

	2018	2017
	\$	\$
Fees paid to the Responsible Entity	<u>286,576</u>	101,496
Fees paid to Federation Alliance Limited	<u>209,183</u>	219,672
Fees paid to FedInvest	<u>181,052</u>	232,612

The Scheme, in accordance with the Constitution, has reimbursed other administration expenses incurred by the Responsible Entity in full.

Related party arrangements

Australian Unity Funds Management Limited ("AUFM") has appointed FedInvest Pty Ltd (ABN 12 131 346 168) ("FedInvest") to provide investment advisory services to AUFM in relation to Federation Managed Accounts, FedInvest is also a Corporate Authorised Representative of AUFM. FedInvest may act as an Investment Manager in relation to a Model Portfolio.

The Australian Unity Group holds shares in FedInvest.

FedInvest holds ordinary shares in the Promoter Federation Alliance Limited.

FedInvest and Federation Alliance Limited have some directors in common.

Fees to FedInvest and Federation Alliance Limited for their services will be paid by AUFM out of the fees it receives.

Investments

The Scheme held investments in schemes which are also managed by Australian Unity Funds Management Limited or its related parties:

	No. of units held opening	No. of units held closing	Fair value of investment	Interest held	No. of units acquired	No. of units disposed	Distributions received/receivable
2018	'000	'000	\$'000	%	'000	'000	\$'000
Australian Unity Property Income Fund	1,377	1,310	1,332	0.95	246	(313)	143
Australian Unity Healthcare Property Trust (Wholesale)	14	5	9	0.00	-	(9)	1
	<u>1,391</u>	<u>1,315</u>	<u>1,341</u>		<u>246</u>	<u>(322)</u>	<u>144</u>

13 Related party transactions (continued)

Investments (continued)

2017	No. of units held opening '000	No. of units held closing '000	Fair value of investment \$'000	Interest held %	No. of units acquired '000	No. of units disposed '000	Distributions received/ receivable \$'000
Australian Unity Property Income Fund	22	1,377	1,405	1.07	1,381	(26)	50
Australian Unity Healthcare Property Trust (Wholesale)	14	14	23	0.00	-	-	2
	<u>36</u>	<u>1,391</u>	<u>1,428</u>		<u>1,381</u>	<u>(26)</u>	<u>52</u>

14 Reconciliation of profit to net cash outflow from operating activities

	2018 \$'000	2017 \$'000
Profit for the year attributable to investors	-	-
Increase in net assets attributable to investors	13,111	8,432
Proceeds from sale of financial instruments held at fair value through profit or loss	301,289	261,375
Purchase of financial instruments held at fair value through profit or loss	(325,948)	(265,935)
Net changes in financial instruments held at fair value through profit or loss	(5,736)	(4,111)
Net cash outflow from operating activities	(17,284)	(239)

15 Events occurring after end of the financial year

The directors of the Responsible Entity are not aware of any matter or circumstance arising since 30 June 2018 which has significantly affected or may significantly affect the financial position of the Scheme disclosed in the statement of financial position as at 30 June 2018 or on the results and cash flows of the Scheme for the year ended on that date.

16 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 5 to 25 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Scheme's financial position as at 30 June 2018 and of its performance, as represented by the results of its operations and cash flows for the year ended on that date.
- (b) There are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.
- (c) The financial statements are in accordance with the Scheme's Constitution, and
- (d) Note 2(a) confirms that the financial statements 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



Director

20 September 2018



Independent auditor's report

To the investors of Federation Managed Accounts

Our opinion

In our opinion:

The accompanying financial report of Federation Managed Accounts (the Scheme) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the 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 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 net assets attributable to investors - liability 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 of the Responsible Entity's declaration.

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 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.

Other information

The Directors of Australian Unity Funds Management Limited (the "Responsible Entity") are responsible for the other information. The other information comprises the information included in the annual financial report for the year ended 30 June 2018, including the directors' report, but does not include the financial report and our auditor's report thereon.

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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.

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

The directors of the Responsible Entity of the Scheme are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for 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 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 Scheme or to cease operations, or have no realistic alternative but to do so.

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. This description forms part of our auditor's report.



Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report of Federation Managed Accounts for the year ended 30 June 2018 included on Australian Unity's web site. The directors of the Responsible Entity of the Scheme are responsible for the integrity of Australian Unity's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'George Sagonas', with a horizontal line extending to the right.

George Sagonas
Partner

Melbourne
20 September 2018