Vaughan Nelson Global Equity SMID Fund

ARSN 657 058 841

Financial report for the period 16 February 2022 to 30 June 2023

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Special financial report for the period 16 February 2022 to 30 June 2023

Contents Page

These financial statements cover Vaughan Nelson Global Equity SMID Fund (ARSN 657 058 841) as an individual entity.

The Responsible Entity of Vaughan Nelson Global Equity SMID Fund is Investors Mutual Limited (ABN 14 078 030 752).

The Responsible Entity's registered office is:

Investors Mutual Limited

Level 24

25 Bligh Street

Sydney, NSW 2000.

Directors' report

The directors of Investors Mutual Limited, the Responsible Entity of Vaughan Nelson Global Equity SMID Fund ("the Scheme"), present their report together with the financial reports of the Scheme, for the financial period 16 February 2022 to 30 June 2023.

Responsible Entity

The Responsible Entity of the Scheme is Investors Mutual Limited (ABN 14 078 030 752). The Responsible Entity's registered office is:

Investors Mutual Limited
Level 24
25 Bligh Street
Sydney, NSW 2000

Principal activities

During the period, the Scheme invested in accordance with target asset allocations as set out in the governing documents of the Scheme and in accordance with the provisions of the Scheme's Constitution.

The Scheme was constituted on 16 February 2022.

The Scheme did not have any employees during the period.

There were no significant changes in the nature of the Scheme's activities during the period.

Directors

The following persons held office as directors of Investors Mutual Limited during the period or since the end of the period and up to the date of this report:

Anton Tagliaferro (resigned 5 January 2023)
Hugh Giddy
Simon Conn
Fabrice Chemouny (resigned 8 May 2023)
Jerome Urvoy (appointed 8 May 2023)
James Orfanos
Damon Hambly
Eric Ward

Review and results of operations

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

	Period 16 February 2022 to 30 June 2023 $'000
Net operating profit/(loss)	1,450

No distribution was paid by the Scheme during the period 16 February 2022 to 30 June 2023.

Directors' report (continued)

Significant changes in state of affairs

The Scheme listed under AQUA Rules of the ASX, quoting the units in Class B on 1 June 2022.

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

Matters subsequent to the end of the financial period

No matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may significantly affect:

(i) the operations of the Scheme in future financial periods, or
(ii) the results of those operations in future financial periods, or
(iii) the state of affairs of the Scheme in future financial periods.

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.

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

Further information on likely developments in the operation of the Scheme and the expected results of these 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 Investors Mutual Limited or the auditors of the Scheme so long as the officers of Investors Mutual Limited act in accordance with the Scheme's Constitution and the Law. 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 the Scheme's property during the financial period are disclosed in Note 9 of the financial report.

No fees were paid out of the Scheme's property to the directors of the Responsible Entity during the financial period.

The number of interests in the Scheme held by the Responsible Entity or its associates as at the end of the financial period are disclosed in Note 9 of the financial report.

Interests in the Scheme

The movement in units on issue in the Scheme during the financial period is disclosed in Note 4 of the financial report.

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 of the financial report.

Directors' report (continued)

Environmental regulation

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

Rounding of amounts to the nearest thousand dollars

The Scheme is entity of the kind referred to in *Australian Securities and Investments Commission ("ASIC") (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with that instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars or nearest dollar, unless otherwise 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 5.

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

Damon Hambly
Director

Sydney
15 September 2023

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Auditor's Independence Declaration to the Directors of Investors Mutual Limited, as Responsible Entity for Vaughan Nelson Global Equity SMID Fund

As lead auditor for the audit of the financial report of Vaughan Nelson Global Equity SMID Fund for the financial period ended 30 June 2023, I declare 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.

Ernst & Young

Ernst & Young

Luke Slater

Luke Slater
Partner
15 September 2023

Statement of profit or loss and other comprehensive income

	Notes	Period 16 February 2022 to 30 June 2023 $'000
Investment Income		
Interest income	3	26
Dividend and distribution income		285
Net gains/(losses) in the fair value of investments		1,490
Net gains/(losses) on foreign exchange		(90)
Total investment income		1,711
Expenses		
Responsible Entity's fees	9	242
Transaction costs		19
Total operating expenses		261
Operating profit/(loss)		1,450
Total comprehensive income for the financial period		1,450

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

Statement of financial position

	Notes	As at 30 June 2023 $'000
Assets		
Cash and cash equivalents	6	1,052
Other receivables		5
Due from brokers – receivable for securities sold		22
Dividends/distributions receivable		25
Financial assets at fair value through profit or loss	7	20,473
Total assets		21,577
Liabilities		
Other payables		19
Due to brokers – payable for securities purchased		22
Total liabilities		41
Net assets attributable to unitholders - equity	4	21,536

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

Statement of changes in equity

	Notes	**Period 16 February 2022 to 30 June 2023 $'000**
Total equity at the beginning of the financial period		**-**
Comprehensive income for the period		
Profit/(loss) for the period		**1,450**
Total comprehensive income		**1,450**
Transactions with unitholders		
Applications	4	**20,107**
Redemptions	4	**(21)**
Total transactions with unitholders		**20,086**
Total equity at the end of the financial period		**21,536**

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

Statement of cash flows

	Period 16 February 2022 to 30 June 2023 $'000
Cash flows from operating activities	
Proceeds from sale of investments	10,615
Cash paid for purchase of investments	(29,786)
Transaction cost paid	(19)
Dividend/distribution received	260
Interest received	26
Responsible Entity's fee paid	(223)
Payment of other expenses	(5)
Net cash (outflow) from operating activities	**(19,132)**
Cash flows from financing activities	
Proceeds from applications by unitholders	20,107
Payments for redemptions by unitholders	(21)
Net cash inflow from financing activities	**20,086**
Net increase/(decrease) in cash and cash equivalents	**954**
Cash and cash equivalents at the beginning of the period	-
Effects of foreign currency exchange rate changes on cash and cash equivalents	98
Cash and cash equivalents at the end of the period	**1,052**

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

Notes to the financial statements

1 General information

The financial report covers the Vaughan Nelson Global Equity SMID Fund ("the Scheme") which is an Australian registered managed investment Scheme. The Scheme was constituted on 16 February 2022. The Scheme will terminate on 16 February 2102 unless terminated earlier in accordance with the provisions of the Scheme's Constitution.

The Responsible Entity of the Scheme is Investors Mutual Limited (the "Responsible Entity") which is incorporated and domiciled in Australia. The Responsible Entity's registered office is Level 24, 25 Bligh Street, Sydney, NSW 2000.

The Scheme listed under the AQUA Rules of the ASX, quoting the units in Class B on 1 June 2022.

The financial report was authorised for issue by the directors on 15 September 2023. The directors of the Responsible Entity have the power to amend and reissue the financial report.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial report are set out below. These policies have been consistently applied to the period presented, unless otherwise stated.

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Accounting Interpretations, *Corporations Act 2001* in Australia and the Scheme's Constitution.

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

The financial report is prepared on a historical cost basis except for investments which have been measured at fair value.

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, except for financial assets and liabilities at fair value through profit or loss and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months in relation to these balances cannot be reliably determined.

The financial report is presented in Australian dollars.

(i) Compliance with International Financial Reporting Standards

The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(ii) New and amended standards adopted by the Scheme

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial period beginning 16 February 2022 that have a material impact on the amounts recognised in the prior period or will affect the current or future periods.

(b) New accounting standards and interpretations

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2023, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Scheme.

2 Summary of significant accounting policies (continued)

(c) Investments

Financial instruments held at fair value through profit or loss

Investments of the Scheme which are considered to be financial instruments at fair value through profit and loss are equity securities and forward currency contracts which have been acquired principally for the purpose of selling in the near term.

(i) Recognition/derecognition

Purchases and sales of financial instruments that require delivery of assets within the time frame generally established by regulation or convention in the market place are recognised on the trade date, i.e. the date that the Scheme commits to purchase or sell the assets.

(ii) Initial Measurement

All investments are initially recognised at fair value, being the fair value of the consideration paid excluding transaction costs.

(iii) Subsequent Measurement

After initial recognition, the financial instruments are revalued to fair value at each reporting date.

For investments that are actively traded in organised financial markets, fair value is determined by reference to exchange quoted market bid prices at the close of business on the reporting date.

For investments with no active market, fair values are determined using valuation techniques. Such techniques include: using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flows analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgemental inputs to a minimum.

The fair value of units in a managed investment scheme is determined by reference to published bid prices at the close of business on the reporting date being the redemption prices as established by the underlying Scheme's Responsible Entity. The floating rate notes are valued at gross (including interest) rather than net of interest.

Changes in fair value of investments are recognised in the statement of profit or loss and other comprehensive income.

The Scheme does not designate any derivatives as hedges in a hedging relationship.

(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.

(d) Net assets attributable to unitholders

Net assets attributable to unitholders comprise units on issue and undistributed reserves. In order to allow the Scheme to elect into the Attribution Managed Investment Trust ("AMIT") tax regime, the Scheme's Constitution has been amended and other conditions required to adopt the AMIT tax regime have also been met. The amendment of the Scheme's Constitution removes the Responsible Entity's contractual obligation to distribute trust income to unitholders. As the Responsible Entity no longer has any contractual obligations to pay distributions, and the units on issue comprise one class of units with identical features which are equally subordinate to any other financial instruments on issue, the Scheme's net assets attributable to unitholders have been classified as equity in accordance with *AASB 132 Financial instruments: Presentation*.

2 Summary of significant accounting policies (continued)

(d) Net assets attributable to unitholders (continued)

The Scheme's capital is represented by the units, which are redeemable at the unitholders' option however the Responsible Entity may suspend redemption if it is in the best interest of unitholders.

Quantitative information about the Scheme's capital is provided in the statement of changes in equity and in Note 4. The units are entitled to dividends when declared and to payment of a proportionate share of the Scheme's net asset value on the redemption date or upon winding up of the Scheme.

A reconciliation of the number of units outstanding at the beginning and the end of each reporting period is provided in Note 4.

(e) Cash and cash equivalents

For statement of cash flows presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, high 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 on 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.

At 30 June 2023, all receivables, amounts due from brokers and cash and cash equivalents are either callable on demand or due to be settled within 6 months. Management consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Schemes.

(f) Investment income

Interest income is recognised in the statement of profit or loss and other comprehensive income for all financial instruments that are not at fair value through profit or loss using the effective interest method.

Interest income from financial assets measured at amortised cost is earned on cash and cash equivalents and margin accounts and is recognised on an accrual basis.

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 life of a financial asset or financial liability. 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 rate, the Scheme estimate 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.

Interest income from financial assets measured at fair value through profit or loss is income earned on fixed interest securities and floating rate note and is recognised on the date that the Scheme is entitled to receive the interest coupon.

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense.

Dividends declared on securities sold short are recorded as a dividend expense on the ex-dividend date.

Trust distributions are recognised on an entitlement basis.

2 Summary of significant accounting policies (continued)

(g) Expenses

All expenses, including Responsible Entity's fees, performance fees and reimbursable expenses, are recognised in the statement of profit or loss and other comprehensive income on an accrual basis.

(h) Income tax

Under current legislation, the Scheme is not subject to income tax as it attributes the entirety of its taxable income to the unitholders.

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 Scheme is not subject to capital gains tax.

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

The Scheme currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded net of withholding tax in the statement of profit or loss and other comprehensive income.

(i) Distributions

Distributions are payable as set out in the Scheme's Constitution. Such distributions are determined by the Responsible Entity of the Scheme. Distributable income includes capital gains arising from the disposal of financial assets and liabilities held for trading. Unrealised gains and losses on financial assets and liabilities held for trading that are recognised as income are transferred to net assets attributable to unitholders and are not assessable and distributable until realised. Capital losses are not distributed to unitholders but are retained to be offset against any realised capital gains.

(j) Unit prices

The unit price is based on unit price accounting outlined in the Scheme's Constitution and Product Disclosure Statement.

(k) Foreign currency translation

(i) Functional and presentation currency

Items included in the Scheme's financial report 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

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 period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss and other comprehensive income.

(l) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the period. Trades are recorded on trade date, and for equities normally settled within two business days. The due from brokers balance is held for collection and are recognised initially at fair value and subsequently measured at amortised cost. Refer to Note 2(e) for detail around estimated credit losses treatment.

(m) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date 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. Refer to Note 2(e) for detail around estimated credit losses treatment.

2 Summary of significant accounting policies (continued)

(n) Payables

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

Trades are recorded on trade date, and normally settled within two business days. Purchases of financial instruments that are unsettled at reporting date are included in payables.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the statement of financial position when distributions to unitholders are declared.

(o) Applications and redemptions

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

(p) Goods and Services Tax ("GST")

The GST incurred on the costs of various services provided to the Scheme by third parties such as custodial services and investment management fees have been passed onto the Scheme. The Scheme qualifies for Reduced Input Tax Credits ("RITC") at a rate of 55% or 75%; hence investment management fees, custodial fees and other expenses have been recognised in the statement of profit or loss and other 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.

(q) Use of estimates

The Scheme makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial period. 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.

For the majority of the Scheme's financial instruments, quoted market prices are readily available. However, certain financial instruments, for example, over-the-counter derivatives or unquoted securities are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity, independent of the area that created them.

Models use observable data, to the extent practicable. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(r) Rounding of amounts

The Scheme is entity of the kind referred to in *Australian Securities and Investments Commission ("ASIC") (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with that instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars or nearest dollar, unless otherwise indicated.

3 Interest income

	30 June 2023		
	Average balance	Interest	Average rate
	$'000	$'000	%
Cash and cash equivalents	2,338	26	1.13

Refer to Note 2(f) to the financial report on interest income recognition. Cash and cash equivalent balance is calculated using the EIR method.

4 Net assets attributable to unitholders

Under AASB 132 *Financial instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Scheme classifies a financial instrument as an equity instrument from the inception date as the instrument has all the features and meets the conditions.

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

	As at	
	30 June 2023 No.('000)	30 June 2023 $'000
Class A		
Opening	–	–
Applications	10,030	10,030
Redemptions	–	–
Total comprehensive income for the period	–	724
Closing balance	**10,030**	**10,754**
Class B**		
Opening	–	–
Applications	4,031	10,077
Redemptions	(8)	(21)
Total comprehensive income for the period	–	726
Closing balance	**4,023**	**10,782**
Total net assets attributable to unitholders	**14,053**	**21,536**

As stipulated within the Scheme's Constitution, each unit represents a right to an individual share in the Scheme and does not extend to a right to the underlying assets of the Scheme. For the period 16 February 2022 to 30 June 2023, there were two separate classes of units and each unit has the same right attaching to it as all other units in the same class. Unitholders of Class A and Class B units are both entitled to being notified of any general meetings regarding of the scheme, voting rights and dividends. The difference between the class units is in regards to fees as outlined in the Product Disclosure Statement and Information Memorandum.

Units are redeemed on demand at the unitholder's option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within twelve months after the end of the reporting period cannot be reliably determined.

**Class B units are listed on the ASX under ASX ticker:VNGS.

4 Net assets attributable to unitholders (continued)

Capital risk management

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

The Responsible Entity monitors the impact of applications and redemptions relative to the liquid assets in the Scheme.

Capital gains/(losses)

At the reporting date, the Scheme had the following net unrealised taxable capital gains/(losses), and realised capital losses available to offset against future assessable capital gains.

	Period 16 February 2022 to 30 June 2023 $'000
Unrealised capital gains	1,682
Realised capital losses	(233)
	1,449

5 Distributions to unitholders

No distribution was paid by the Scheme during the period 16 February 2022 to 30 June 2023.

6 Cash and cash equivalents

	As at 30 June 2023 $'000
Cash and cash equivalents	
Cash at bank	1,052
	1,052

7 Financial assets at fair value through profit or loss

	As at 30 June 2023 $'000
Financial assets at fair value through profit and loss	
Listed equities	19,870
Listed unit trusts	603
Total financial assets at fair value through profit and loss	20,473

8 Derivative financial instruments

In the normal course of business, the Scheme enters into transactions in various derivative financial instruments which have certain risks. A derivative is a financial instrument or other contract which is settled at a future date and whose value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable.

Derivative financial instruments require no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

Derivative transactions include many different instruments such as forwards, futures and options. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Scheme's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Scheme against a fluctuation in market values or to reduce volatility.
- a substitution for trading of physical securities.
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Scheme.

There were no derivative instruments held by the Scheme as at 30 June 2023.

9 Related party transactions

Responsible entity

The Responsible Entity of Vaughan Nelson Global Equity SMID Fund is Investors Mutual Limited, whose immediate and ultimate holding company is Natixis Global Asset Management.

Details of key management personnel

(a) Responsible Entity

Investors Mutual Limited, the Responsible Entity of the Scheme, is considered to be key management personnel with the authority for the strategic direction and management of the Scheme.

(b) Directors

The following persons held office as directors of Investors Mutual Limited from during the period end and up to the date of this report.

Anton Tagliaferro (resigned 5 January 2023)
Hugh Giddy
Simon Conn
Fabrice Chemouny (resigned 8 May 2023)
Jerome Urvoy (appointed 8 May 2023)
James Orfanos
Damon Hambly
Eric Ward

9 Related party transactions (continued)

Responsible entity's fees and other transactions

For the period ended 30 June 2023, in accordance with the Scheme's Constitution, the Responsible Entity received management fees percentage of 1.12% of the Scheme's net asset value (inclusive of GST, net of RITC available to the Scheme) per annum.

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the period and amounts payable at period end between the Scheme and the Responsible Entity were as follows:

	Period 16 February 2022 to 30 June 2023 $
Fees earned by the Responsible Entity for the management of investments	**242,278**
Fees payable to the Responsible Entity as at reporting date	**19,407**

Key management personnel unitholding

At 30 June 2023, no key management personnel held units in the Scheme.

Investments

The Scheme did not hold any investments in Investors Mutual Limited or its related parties during the period.

Key management personnel compensation

No amount is paid by the Scheme directly to the Directors of the Responsible Entity. Consequently, no compensation as defined in *AASB 124 Related Party Disclosures* is paid by the Scheme to the Directors as key management personnel.

Key management personnel loan disclosures

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

Other transactions within the Scheme

From time to time directors of the Responsible Entity, 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 not material in nature.

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

10 Financial risk management

The Scheme's overall risk management program focuses on ensuring compliance with the Scheme's Product Disclosure statements and seek to maximize the returns derived from the level of risk to which the Scheme is exposed. Financial risk management is carried out by an investment manager under policies approved by the investment manager.

10 Financial risk management (continued)

(a) Strategy in using financial instruments

The allocation of assets between the various types of financial instruments is determined by the Scheme's investment manager as identified in the Scheme's Product Disclosure Statement who manages the Scheme's assets to achieve the Scheme's investment objectives. The monitoring of asset allocations and the composition of the assets is also monitored by the Scheme's investment manager on at least a monthly basis. The custody of assets is outsourced to Citigroup Pty Limited.

Financial instruments of the Scheme comprise of investments in financial assets for the purpose of generating a return on the investment made by the unitholders, in addition to derivatives (used from time to time), cash and cash equivalents, net assets attributable to unitholders, and other financial instruments such as trade debtors and creditors, which arise directly from its operations.

The Responsible Entity is responsible for identifying and controlling the risks that arise from these financial instruments. The Scheme's investing activities expose it to the following risks from its use of financial instruments:

- market risk
- credit risk
- liquidity risk

This note presents information about the Scheme's exposure to each of the above risks, the Scheme's objectives, policies and processes for measuring and managing risk.

The Responsible Entity has overall responsibility for the establishment and oversight of the Scheme's financial risk management framework.

The Responsible Entity oversees how management monitors compliance with the Scheme's financial risk management policies and procedures. The Responsible Entity also ensures the continued adequacy of the financial risk management framework.

Information is prepared and reported to relevant parties within the Responsible Entity on a regular basis as deemed appropriate, including the investment manager, compliance manager, other key management and ultimately the directors of the Responsible Entity.

The use of derivatives is considered to be part of the investment and asset management processes and is not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- As a substitute for physical securities until the physical position can be established;
- Adjusting asset exposures within the parameters set in the investment strategy; and
- Adjusting the duration of fixed interest assets or the weighted *average* maturity of cash assets.

Derivatives are not used to gear (leverage) an asset. Gearing an asset would occur if the level of exposure to the markets exceeds the underlying value of the Scheme.

10 Financial risk management (continued)

(b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Scheme's income or the carrying value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The Scheme is exposed, particularly in equity assets, to market risks. The Scheme also utilises derivatives. The Scheme invests in securities traded on global markets, market risk is a risk to which exposure is unavoidable. The risk is mitigated through diversification of the portfolio that is captured by investments in various industries.

(i) Foreign exchange risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Scheme holds assets denominated in currencies other than the Australian dollar, the functional currency. It is therefore exposed to foreign exchange risk, as the value of the securities denominated in other currencies will fluctuate due to changes in exchange rates.

The table below summarises the Scheme's financial assets and liabilities, monetary and non-monetary, which are denominated in a currency other than Australian dollar.

30 June 2023	**US Dollars A$'000**	**Japanese Yen A$'000**	**Pound Sterling A$'000**	**Euro A$'000**	**Other currencies A$'000**
Cash and cash equivalents	6	6	4	–	9
Financial assets at fair value through profit or loss	12,874	2,485	1,509	1,485	1,581
Receivables	3	8	5	5	–
	12,883	2,499	1,518	1,490	1,590
Due to brokers - payable for securities purchased	6	6	1	–	9
	6	6	1	–	9
Net increase/(decrease) in exposure from currency contracts	–	–	–	–	–
Net exposure including currency contracts	12,877	2,493	1,517	1,490	1,581

The table on Note 10(b) summarises the sensitivities of the Scheme's monetary assets and liabilities to foreign exchange risk. The analysis is based on the assumption that the Australian dollar weakened and strengthened by 10% against the material foreign currencies to which the Scheme is exposed.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Scheme is exposed to interest rate risk on its cash holdings and margin accounts. Interest income from cash holdings is earned at variable interest rates. Investments in cash holdings are at call.

10 Financial risk management (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Period 30 June 2023	Weight Average interest rate %	Floating interest rate $'000	Less than 1 year $'000	More than 1 and less than 3 months $'000	More than 3 and less than 12 months $'000	1 to 5 years $'000	Greater than 5 years $'000	Total $'000
Financial Assets								
Cash and cash equivalents	1.13	1,052	–	–	–	–	–	1,052
Net exposure		1,052	–	–	–	–	–	1,052

Sensitivity analysis

An increase of 0.75% in interest rates applicable at reporting date would have increased operating profit or loss in 2023 by $13,150. A decrease of 0.75% would have the equal but opposite effect to the amounts shown. There will be no impact on net assets attributable to unitholders other than the change in operating profit or loss. This analysis assumes that all other variables remain constant.

(iii) Price risk

Price risk is the risk that the fair values of equities, listed unit trusts or equity-linked derivatives decrease as a result of changes in the levels of market indices and the value of individual shares. The price risk exposure arises from the Scheme's investments in financial instruments.

Management's best estimate of the effect on profit/(loss) for the year due to a reasonably possible change in market indices, with all other variables held constant is indicated in the table below. There is no effect on 'other comprehensive income' as the Scheme has no assets classified as fair value through other comprehensive income or designated hedging instruments. In practice the actual trading results may differ from the sensitivity analysis below and the difference could be material.

As the majority of the Scheme's investments are carried at fair value with fair value changes recognised in the statement of profit or loss and other comprehensive income, all changes in market conditions will directly affect net investment income.

Risk management techniques are used in the selection of investments. Securities/investments (including derivatives) are only purchased that meet investment criteria.

	As at 30 June 2023 $'000
Financial assets at fair value through profit and loss	
Listed equities	19,870
Listed unit trusts	603
Total financial assets	20,473

At 30 June 2023, if the equity prices had increased by 10% with all other variables held constant, this would have increased net assets attributable to unitholders (and net operating profit/(loss)) by approximately $2,047,368. Conversely, if the equity prices had decreased by 10%, this would have decreased net assets attributable to unitholders (and net operating profit/(loss)) by approximately $2,047,368.

10 Financial risk management (continued)

(d) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Scheme. The Scheme's investment manager has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis.

With respect to credit risk arising from the financial assets of the Scheme, other than derivatives, the Scheme's exposure to credit risk arises from default of the counterparty, with the current disclosure equal to the fair value of these instruments as disclosed on the statements of financial position. This does not represent the maximum risk exposure that could arise in the future as a result of changes in values, but best represents the current maximum exposure at the reporting date.

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

Credit risk is not considered to be a major risk to the Scheme as any cash held by the Scheme is invested with financial institutions that have very strong credit ratings. The balance of investments are held in listed securities and derivatives are entered into with reputable financial institutions.

Other credit risk arises from cash and cash equivalents and amounts due from brokers. At 30 June 2023, all receivables, amounts due from brokers and cash and cash equivalents are either callable on demand or due to be settled within 6 months. Management consider the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Scheme.

The clearing and depository operations for the Schemes' security transactions are mainly concentrated with one counterparty, namely Citigroup Pty Limited. Citigroup Pty Limited at 30 June 2023 had a credit rating of A. At 30 June 2023, substantially all cash and cash equivalents, balances due from broker and investments are held in custody by Citigroup Pty Limited.

(e) Liquidity risk

Liquidity risk is the risk that the Scheme will not be able to meet their financial obligations as they fall due. The 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.

Financial liabilities of the Scheme comprise of trade and other payables and distributions payable. Trade and other payables and distributions payable have no contractual maturities but are typically settled within 30 days.

Net assets attributable to unitholders are entirely payable on demand.

Maturity analysis for financial liabilities

The tables below summarise the maturity profile of the Scheme's financial liabilities, gross settled derivatives and redeemable shares based on contractual undiscounted cash flows.

30 June 2023	Contractual cash flow $'000	Less than a month $'000	1-6 months $'000	6-12 months $'000	1-5 years $'000	More than 5 years $'000
Non-Derivative financial liabilities						
Other payables	19	19	–	–	–	–
Due to brokers – payable for securities purchased	22	22	–	–	–	–
Total	41	41	–	–	–	–

11 Fair value measurements

The Scheme measures and recognises financial assets and liabilities at fair value through profit or loss on a recurring basis.

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- 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 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Fair value estimation

The carrying amounts of the Scheme's assets and liabilities at the end of each reporting year approximate their fair values.

All financial assets and financial liabilities included in the statement of financial position are carried at fair value.

Financial assets and 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 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 statement of profit or loss and other comprehensive income.

(i) Fair value in an active market (Level 1)

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

The quoted market price used for financial assets held by the Scheme is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Scheme holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

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.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

(ii) Fair value in an inactive or unquoted market (Level 2 and Level 3)

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques.These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, 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 a market rate at the end of the reporting year applicable for an instrument with similar terms and conditions.

11 Fair value measurements (continued)

Fair value estimation (continued)

For other pricing models, inputs are based on market data at the end of the reporting year. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

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 year taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties and the Scheme. 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.

Valuation process for Level 3 valuations

Valuations are the responsibility of the Board of Directors of the Responsible Entity.

The investment committee considers the appropriateness of the valuation methods and inputs, and may request that alternative valuation methods are applied to support the valuation arising from the method chosen. Any changes in valuation methods are discussed and agreed with the responsible entity's Board of Directors.

The valuations are also subject to quality assurance procedures performed within the valuation department. The valuation department verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to relevant documents and market information. In addition, the accuracy of the computation is tested. The latest valuation is also compared with the valuations in the four preceding quarters as well as with the valuations of the two preceding annual periods. If fair value changes (positive or negative) are more than certain thresholds set, the changes are further considered by the investment committee.

There were no changes in valuation techniques during the period.

(iii) Recognised fair value measurements

The tables below set out the Scheme's financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy as at 30 June 2023:

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
As at 30 June 2023				
Financial assets				
Financial assets at fair value through profit or loss:				
Listed equities	19,870	-	-	19,870
Listed unit trusts	603	-	-	603
Total	20,473	-	-	20,473

(iv) Transfers between levels

During the period there were no transfers between levels.

There were no level 3 instruments held during the period ended 30 June 2023.

(v) Fair value of financial instruments not carried at fair value

The carrying value less expected credit loss of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Scheme for similar financial instruments.

12 Reconciliation of profit to net cash (outflow) from operating activities

	Period ended 30 June 2023 $'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities	
(Loss)/Profit for the year	1,450
Net changes in the fair value of assets	(1,490)
Proceeds from sale of investments	10,615
Purchase of financial instruments	(29,786)
Net foreign exchange losses	90
Net change in other receivables	30
Net change in payables and other liabilities	19
Net cash outflow from operating activities	(19,132)
(b) Cash and cash equivalents	
Cash at bank	1,052
	1,052
(c) Non-cash financing and investing activities	
Distributions reinvested	-

13 Auditor's remuneration

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

	As at 30 June 2023 $
Audit and other assurance service	
Audit and review of financial reports	15,050
Audit of compliance plan	5,210
Total remuneration for audit services	20,260

Auditor's remuneration is payable by the Responsible Entity. The auditor of the Scheme is Ernst & Young.

14 Events occurring after the reporting year

No significant events have occurred since the end of the reporting year which would impact on the financial position of the Scheme as disclosed in the statement of financial position as at 30 June 2023 or on the results and cash flows of the Scheme for the year ended on that date.

15 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2023.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

(a) the financial statements and notes set out on pages 6 to 26 are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the Scheme's financial position as at 30 June 2023 and of its performance for the period ended on that date; and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(b) the financial statements and notes also comply with International Financial Reporting Standards as issued by International Accounting Standards Board and disclosed in Note 2(a); and

(c) there are reasonable grounds to believe that the Scheme will be able to pay its debts as and when they become due and payable.

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

Damon Hambly
Director

Sydney
15 September 2023

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent auditor's report to the unitholders of VAUGHAN NELSON GLOBAL EQUITY SMID FUND

Opinion

We have audited the financial report of VAUGHAN NELSON GLOBAL EQUITY SMID FUND ("the Scheme") which comprises the statement of financial position as at 30 June 2023, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the period covered, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of 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 2023 and of its financial performance for the period ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 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 (including Independence Standards)* (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.

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

Information other than the financial report and auditor's report thereon

The directors of Investors Mutual Limited as Responsible Entity ("Responsible Entity") are responsible for the other information. The other information is the directors' report accompanying the financial report.

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 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, 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 for the financial report

The directors of the Responsible Entity are responsible for the preparation of the 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 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 are responsible for assessing the Scheme's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Scheme's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Scheme's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Scheme to cease to continue as a going concern.

Building a better working world

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the business activities within the Scheme to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young

Ernst & Young

Luke Slater

Luke Slater
Partner
Melbourne
15 September 2023