

Schroder Specialist Private Equity Fund

ARSN 131 418 025

Annual report

for the year ended 30 June 2022

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These financial statements cover Schroder Specialist Private Equity Fund as a registered managed investment scheme. The Responsible Entity of Schroder Specialist Private Equity Fund is Schroder Investment Management Australia Limited. The Responsible Entity's registered office is Level 20, 123 Pitt Street, Sydney NSW 2000.

Directors' report

The directors of Schroder Investment Management Australia Limited ("Schroders"), the Responsible Entity of Schroder Specialist Private Equity Fund, present their report together with the financial statements of Schroder Specialist Private Equity Fund (the "Fund"), for the year ended 30 June 2022.

Principal activities

The Fund continued to invest funds in accordance with the provisions of the Fund Constitution.

The Fund did not have any employees during the year.

There were no significant changes in the nature of the Fund's activities during the year.

Directors

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

M W Conlon

S Doyle

C J Durack (resigned 29 October 2021)

R Mellor-Bessant

M Trinh

S Hallinan

Review and results of operations

There were no significant changes to the Fund's investment strategy. The investment policy of the Fund continues to be in accordance with the provisions of the Fund Constitution.

Results

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

	Year ended	
	30 June 2022	30 June 2021
Operating profit (\$000)	<u>8,003</u>	<u>729</u>
<i>Distributions</i>		
Distributions paid and payable (\$000)	<u>-</u>	<u>-</u>

Directors' report (continued)

Significant changes in state of affairs

Market disruptions associated with current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect asset values and thus the performance of the Fund. Management is continuing to monitor this development and evaluate its impact on the Fund.

There were no other significant changes in the state of affairs of the Fund that occurred during the financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect:

- (i) the operations of the Fund in future financial years, or
- (ii) the results of those operations in future financial years, or
- (iii) the state of affairs of the Fund in future financial years.

Likely developments and expected results of operations

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

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

Indemnity and insurance of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Schroders or the auditors of the Fund. So long as the officers of Schroders act in accordance with the Fund Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund. The auditors of the Fund are in no way indemnified out of the assets of the Fund.

Fees paid to and interests held in the Fund by Schroders or its associates

Fees paid to Schroders and its associates out of the Fund's property during the year are disclosed in Note 13 to the financial statements.

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

The number of interests in the Fund held by Schroders or its associates as at the end of the financial year are also disclosed in Note 13 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 9 to the financial statements.

The value of the Fund's assets and liabilities is disclosed on the balance sheet and derived using the basis set out in Note 2 to the financial statements.

Environmental regulation

The operations of the Fund 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

Amounts in the directors' report have been rounded to the nearest thousand dollars in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise indicated.

Directors' report (continued)


Auditor's independence declaration

A copy of the Auditor's independence declaration as required under Section 307C of the *Corporations Act 2001* is set out on page 4.

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

Director 

M Trinh

Director 

S Hallinan

Sydney
27 October 2022



Auditor's Independence Declaration

As lead auditor for the audit of Schroder Specialist Private Equity Fund for the year ended 30 June 2022, 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 black ink, appearing to read 'BSS Tompsett', is written over a horizontal line.

BSS Tompsett
Partner
PricewaterhouseCoopers

Sydney
27 October 2022

Statement of comprehensive income

	Note	Year ended	
		30 June 2022 \$'000	30 June 2021 \$'000
Investment income			
Net gain on financial instruments at fair value through profit or loss		<u>8,736</u>	<u>756</u>
Total net investment income		<u>8,736</u>	<u>756</u>
Expenses			
Responsible Entity's fees	13	732	27
Other operating expenses		<u>1</u>	<u>-</u>
Total operating expenses		<u>733</u>	<u>27</u>
Operating profit		<u>8,003</u>	<u>729</u>
Profit for the year			
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>8,003</u>	<u>729</u>

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

Balance sheet

	Note	As at	
		30 June 2022 \$'000	30 June 2021 \$'000
Assets			
Cash and cash equivalents	10	4,935	6
Receivables		20	3,895
Financial assets at fair value through profit or loss	6	<u>104,842</u>	<u>7,690</u>
Total assets		<u>109,797</u>	<u>11,591</u>
 Liabilities			
Payables		<u>960</u>	<u>15</u>
Total liabilities		<u>960</u>	<u>15</u>
Net assets attributable to unitholders - Equity	9	<u>108,837</u>	<u>11,576</u>

The above balance sheet should be read in conjunction with the accompanying notes.

Statement of changes in equity

	Note	Year ended	
		30 June	30 June
		2022	2021
		\$'000	\$'000
Total equity at the beginning of the financial year		11,576	276
Comprehensive income for the year			
Profit for the year	9	8,003	729
Other comprehensive income		-	-
Total comprehensive income for the year		<u>8,003</u>	<u>729</u>
Transactions with unitholders			
Applications	9	90,054	10,571
Redemptions	8	<u>(796)</u>	<u>-</u>
Total transactions with unitholders		<u>89,258</u>	<u>10,571</u>
Total equity at the end of the financial year	9	<u><u>108,837</u></u>	<u><u>11,576</u></u>

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

Statement of cash flows

	Year ended	
	30 June 2022	30 June 2021
Note	\$'000	\$'000
<i>Cash flows from operating activities</i>		
Proceeds from sale of financial instruments at fair value through profit or loss	24	-
Purchase of financial instruments at fair value through profit or loss	(88,440)	(6,659)
Responsible Entity's fees paid	(518)	(12)
Payment of other expenses	(20)	-
<i>Net cash outflow from operating activities</i>	11(a) (88,954)	(6,671)
<i>Cash flows from financing activities</i>		
Proceeds from applications by unitholders	93,948	6,677
Payments for redemptions by unitholders	(65)	-
<i>Net cash inflow from financing activities</i>	93,883	6,677
<i>Net increase in cash and cash equivalents</i>	4,929	6
Cash and cash equivalents at the beginning of the year	6	-
<i>Cash and cash equivalents at the end of the year</i>	4,935	6

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

1 General information

These financial statements cover the Fund as a registered managed investment scheme. The Fund was constituted in the original deed poll for the Schroder Cash Plus Fund of 2 June 2008 and the subsequent deed poll amendment on 13 February 2020 to update the fund to the Schroder Specialist Private Equity Fund.

The Responsible Entity of the Fund is Schroders. The Responsible Entity's registered office is Level 20, 123 Pitt Street, Sydney NSW 2000. The financial statements are presented in the Australian currency.

There were no significant changes to the Fund's investment strategy. The investment policy of the Fund continues to be in accordance with the provisions of the Fund Constitution.

The financial statements were authorised for issue by the directors on 27 October 2022. 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 in the following text.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001* in Australia. The Fund is a for-profit unit trust for the purpose 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 balance sheet 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 material balances are expected to be recovered or settled within twelve months, except for investments in financial assets and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months after the end of each reporting year cannot be reliably determined.

The Fund manages financial assets at fair value through profit or loss based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within 12 months, however, an estimate of that amount cannot be determined as at balance sheet date.

In the case of net assets attributable to unitholders, the units are redeemed on demand at the unitholders' option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within 12 months cannot be reliably determined.

(i) Compliance with International Financial Reporting Standards

The financial statements of the Fund also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(ii) New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2021 that have a material impact on the amounts recognised in the prior years or will affect the current or future years.

(iii) New standards, amendments and interpretations effective after 1 July 2022 and have not been early adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2022, 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 Fund.

(b) Financial instruments

(i) Classification

The Fund classifies its investments based on its business model for managing those financial instruments and the contractual cash flow characteristics of the financial instruments. The Fund's portfolio of financial instruments is managed and performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial instruments primarily on a fair value basis, with the supporting use of other related financial information.

Equity securities and derivatives are measured at fair value through profit or loss.

2 Summary of significant accounting policies (continued)

(b) Financial instruments (continued)

(ii) Recognition / derecognition

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

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

(iii) Measurement

Financial assets and liabilities at fair value through profit or loss

At initial recognition, the Fund measures a financial instrument at its fair value. Custody transaction costs of financial instruments carried at fair value through profit or loss are expensed in the statement of comprehensive income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the statement of comprehensive income within net gains/(losses) on financial instruments at fair value through profit or loss in the period in which they arise.

Further details on how the fair values of financial instruments are determined are disclosed in Note 5 to the financial statements.

(iv) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet 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. Refer to Note 4 to the financial statements for further information.

(c) Net assets attributable to unit holders

Units are redeemable at the unitholders' option, however, applications and redemptions may be suspended by the Responsible Entity if it is in the best interests of the unitholders.

The units can be put back to the Fund at any time for cash based on the redemption price, which is equal to a proportionate share of the Fund's net asset value attributable to the unitholders.

The units are carried at the redemption amount that is payable at the balance sheet date if the holder exercises the right to put the unit back to the Fund. This amount represents the expected cash flows on redemption of these units.

Units are classified as equity when they satisfy the following criteria under AASB 132 *Financial instruments: Presentation*:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Fund's liquidation
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund, and it is not a contract settled in the Fund's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

(d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts.

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

2 Summary of significant accounting policies (continued)

(e) Investment income

Interest income from financial assets at amortised cost is recognised on a time-proportionate basis using the effective interest method and includes interest from cash and cash equivalents.

Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities.

Dividend and distribution income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within dividend income and distribution income when the Fund's right to receive payments is established.

Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2(b) of the financial statements.

(f) Expenses

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

(g) Income tax

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

(h) Distributions

Distributions are payable as set out in the Fund's Offer Document. Such distributions are determined by the Responsible Entity of the Fund. 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.

(i) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss.

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

(j) Due to/from 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 year.

2 Summary of significant accounting policies (continued)

(j) Due to/from brokers (continued)

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund measures the loss allowance on amounts due from broker at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund measures the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance.

(k) Receivables and accrued income

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 end of each reporting period from the time of last payment in accordance with the policy set out in Note 2(e) above. Amounts are generally received within 30 days of being recorded as receivables.

(l) Payables

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

A separate distribution payable is recognised in the balance sheet as at the end of each reporting period where this amount remains unpaid as at the end of the reporting period.

(m) Applications and redemptions

Applications received for units in the Fund are recorded at the application value received prior to the issue of units in the Fund. Redemptions from the Fund are recorded at redemption rate payable after the cancellation of units redeemed.

(n) Goods and Services Tax (GST)

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

(o) Comparative revisions

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

(p) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

For the majority of the Fund'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 based on independent valuations from third party pricing vendors. Where independent third party valuations are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Responsible Entity.

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to short-term nature of these financial instruments.

2 Summary of significant accounting policies (continued)

(q) Rounding of amounts

The Fund is an entity of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, relating to the "rounding off" amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

3 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk. These risk disclosures have been prepared on the basis of the Fund's direct investments and not on a look through basis to investments held via interposed investments (if any).

Market disruptions associated with current geopolitical events have had a global impact, and uncertainty exists as to their implications. Such disruptions can adversely affect asset values and thus the performance of the Fund. Management is continuing to monitor this development and evaluate its impact on the Fund.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Offer Document and seeks to achieve the Fund's investment objectives for the level of risk to which the Fund is exposed. The Fund may use derivative financial instruments to moderate and create certain risk exposures. Financial risk management is carried out by the investment management department of Schroders under policies approved by the Board of Directors of the Responsible Entity (the "Board").

Schroders uses different methods to measure different types of risks to which the Fund is exposed. Rating analysis and maturity analysis is used for credit risk and liquidity risk respectively. Sensitivity analysis is used for price risk, foreign exchange risk and interest rate risk. Schroders considers that using Value at Risk (VaR) which measures the level of risk within the portfolio provides a reasonable and objective assessment of the Fund's risk determinants.

(a) Market risk

(i) Price risk

The Fund is exposed to equity securities and derivative price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Where non-monetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates. The foreign exchange risk relating to non monetary assets and liabilities is a component of price risk and reflected in the price risk analysis below. Paragraph (ii) below sets out how this component of price risk is managed and measured. Investments are classified in the balance sheet as at fair value through profit or loss. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments as at 30 June 2022 and 30 June 2021.

At 30 June, the Fund's overall exposure to securities which are subject to price risk including notional exposure on derivative contracts was as follows:

	30 June 2022	30 June 2021
	\$'000	\$'000
Unlisted unit trusts at fair value through profit or loss	<u>104,842</u>	<u>7,690</u>
Net total	<u>104,842</u>	<u>7,690</u>

The table presented in note 3(b) summarises the impact on operating profit attributable to unitholders and liabilities attributable to unitholders from possible changes in market prices that were reasonably based on the risk that the Fund was exposed to at reporting date.

(ii) Foreign exchange risk

The Fund has exposure to foreign assets and holds both monetary and non-monetary assets denominated in currencies other than the Australian dollar. Foreign exchange risk arises as the value of monetary securities denominated in other currencies will fluctuate due to changes in exchange rates. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk not foreign exchange risk. The risk is measured using sensitivity analysis.

As at 30 June 2022, the Fund has no significant direct foreign exchange risk exposure (2021: Nil).

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Cash flow and fair value 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 Fund is exposed to cash flow interest rate risk on financial instruments with variable interest rates. Financial instruments with fixed rates expose the Fund to fair value interest rate risk.

The Fund's interest bearing financial assets and financial liabilities expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The risk is measured using sensitivity analysis.

The tables below summarise the Fund's year end assets and liabilities that have floating interest rates or are non interest bearing. The Fund has no assets or liabilities that have fixed interest rates.

30 June 2022	Floating interest rate \$'000	Non interest bearing \$'000	Total \$'000
Financial assets			
Cash and cash equivalents	4,935	-	4,935
Receivables	-	20	20
Financial assets at fair value through profit or loss	-	104,842	104,842
Total financial assets	4,935	104,862	109,797
Financial liabilities			
Payables	-	960	960
Total financial liabilities	-	960	960
Net assets attributable to unitholders - equity	4,935	103,902	108,837
Net exposure	4,935	103,902	108,837
30 June 2021	Floating interest rate \$'000	Non interest bearing \$'000	Total \$'000
Financial assets			
Cash and cash equivalents	6	-	6
Receivables	-	3,895	3,895
Financial assets at fair value through profit or loss	-	7,690	7,690
Total financial assets	6	11,585	11,591
Financial liabilities			
Payables	-	15	15
Total financial liabilities	-	15	15
Net assets attributable to unitholders - equity	6	11,570	11,576
Net exposure	6	11,570	11,576

An analysis of financial liabilities by maturities is provided in Note 3(d).

3 Financial risk management (continued)

(b) Summarised sensitivity analysis

For the year ended 30 June 2022, Schroders has adopted the VaR model to determine the impact of price risk, interest rate risk and foreign exchange risk on the net assets of the Fund. VaR is a statistical technique that estimates the exposure of a given portfolio to market risk by making assumptions about the expected probability distribution of future portfolio returns. VaR represents an estimate of the minimum loss that could be experienced during a given period to a given confidence level. Importantly, it does not represent the maximum loss that an investor could experience.

To calculate VaR, the Responsible Entity uses a Monte Carlo simulation model to generate a distribution around the expected return. This model is based on certain assumptions including expected returns, volatility, skewness and kurtosis. These statistics are then extrapolated into the future using the assumption of non-normal distribution to calculate an expected loss if the future portfolio return volatility behaves according to these assumptions.

Schroders' VaR model utilises over 3,000 risk factors to calculate risk measures including portfolio risk, tracking error (ex-ante) and stress testing across fixed income, equity, foreign exchange and alternative products. Its valuation models decompose securities into a vector of exposures to risk factors. The model then calculates each instrument's standalone risk and contribution to portfolio risk with a higher weight given to the volatility experienced over the most recent 12 month period. The VaR values used in the sensitivity analysis are based on a 12 month interval at a 90% confidence level. In relation to sensitivity of the Fund's operating profit and net assets attributable to unitholders to price risk, interest rate risk and foreign exchange risk, this means there is a 10% probability of incurring losses in excess of the statistical VaR value as summarised in the table below.

	30 June 2022	30 June 2021
Value at Risk at 90% confidence	7.9%	7.5%
Minimum impact to net assets attributed to unitholders (\$000)	8,598	868

(c) Credit risk

The Fund may be exposed to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when they fall due.

The main concentration of credit risk, to which the Fund may be exposed, arises from the Fund's investments in debt securities. The Fund may also be exposed to counterparty credit risk on derivative financial instruments, cash and cash equivalents, amounts due from brokers and other receivables. If held, none of these assets are impaired nor past due but not impaired.

Credit risk is managed by ensuring that:

- Counterparty credit limits are established and approved by Schroders as the Responsible Entity
- Exposures in derivative positions are fully collateralised; and
- Transactions are undertaken with a number of counterparties to address concentration risk.

As at 30 June 2022, the Fund has no significant direct concentrations of credit risk to counterparties (2021: Nil).

3 Financial risk management (continued)

(d) Liquidity risk

Liquidity risk is the risk that the Fund may not be able to generate sufficient cash resources to settle its obligations in full as they fall due or can only do so on terms that are materially disadvantageous.

The Fund is exposed to daily cash redemptions of redeemable units.

Schroders monitors liquidity of the Fund on a daily basis. In order to manage the Fund's overall liquidity, the Fund has the ability to suspend unit pricing and hence suspend redemption requests. The Fund did not suspend redemptions as a result of suspending unit pricing in the current or prior year.

The table below analyses the Fund's financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period. The amounts in the table are contractual undiscounted cash flows.

30 June 2022	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
Payables	960	-	-	-	960
Total	960	-	-	-	960

30 June 2021	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
Payables	15	-	-	-	15
Total	15	-	-	-	15

4 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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. The Fund has not offset any financial assets and liabilities at 30 June 2022 or 30 June 2021, nor are there significant amounts subject to enforceable netting arrangements at those dates.

5 Fair value measurement

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis

- Financial assets at fair value through profit or loss (FVPL) (see note 6)

AASB 13 requires disclosure of fair value measurements by level of the following fair value 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 or indirectly (level 2); and
- inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).
 - 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 Fund values its investments in accordance with the accounting policies set out in Note 2. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Fund 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.

5 Fair value measurement (continued)

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.

(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 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 reporting period. 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 Fund 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.

Investments in other unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such funds.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

The carrying value less impairment provision 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 Fund for similar financial instruments.

(a) Fair value hierarchy

Recognised fair value measurements

The tables below set out the Fund's financial assets and financial liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2022 and 30 June 2021.

30 June 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets at fair value through profit or loss:				
Unlisted unit trusts	-	-	<u>104,842</u>	<u>104,842</u>
Total	<u>-</u>	<u>-</u>	<u>104,842</u>	<u>104,842</u>
30 June 2021	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets at fair value through profit or loss:				
Unlisted unit trusts	-	7,690	-	7,690
Total	<u>-</u>	<u>7,690</u>	<u>-</u>	<u>7,690</u>

5 Fair value measurement (continued)

The level 3 investment of \$104,842,000 (30 June 2021: \$7,690,000) relates to Schroder GAIA II Global Private Equity ("Underlying Fund") which directly and indirectly holds a range of private equity investments worldwide. The significant unobservable input used in the fair value measurement is the unit price. An increase/(decrease) in the unit price by 10% would increase/(decrease) the fair value by \$10,484,200.

Investments in unlisted unit trusts are classified as level 2 as they are not traded on an active market. Whilst not traded on an active market, units in the unlisted trusts are open to monthly applications and quarterly redemptions.

The Fund did not hold any level 3 instruments during the year ended 30 June 2021.

(iii) Transfers between levels

The investment in the Underling Fund of \$104,842,000 was transferred from level 2 to level 3 during the year ended 30 June 2022. The assets of the Underlying Fund as at 30 June 2022 are predominantly not actively traded in a public market. Accordingly its unit price is considered to be unobservable.

Fair value measurements using significant unobservable inputs (level 3)

The following table present the movement in level 3 instruments by class of financial instrument.

30 June 2022	Unlisted unit trust \$'000
Opening balance	-
Purchases	-
Sales	-
Transfers into Level 3	104,842
Gain recognised in the Statement of Comprehensive Income	-
Closing balance 30 June 2022	<u>104,842</u>
Total unrealised gains or losses for the year included in the statement of comprehensive income for financial assets and liabilities at the end of the year	-

6 Financial assets at fair value through profit or loss

	As at	
	30 June 2022	30 June 2021
	Fair value \$'000	Fair value \$'000
Financial assets at fair value through profit or loss		
Unlisted unit trusts	<u>104,842</u>	<u>7,690</u>
Total financial assets at fair value through profit or loss	<u>104,842</u>	<u>7,690</u>
Comprising:		
Unlisted unit trusts		
International unlisted equity trusts	<u>104,842</u>	<u>7,690</u>
Total unlisted unit trusts	<u>104,842</u>	<u>7,690</u>
Total financial assets at fair value through profit or loss	<u>104,842</u>	<u>7,690</u>

An overview of the risk exposures relating to financial assets at fair value through profit or loss is included in Note 3.

7 Financial assets and financial liabilities at amortised cost

The following financial assets disclosed in the balance sheet are measured at amortised cost: cash and cash equivalents; receivables; accrued income; due from brokers - receivable for securities sold; distribution payable; payables; and due to brokers - payable for securities purchased.

Credit risk

The Fund measures credit risk and expected credit losses using probability of default, exposure at default and loss given default. Management consider both historical analysis and forward looking information in determining any expected credit loss. At 30 June 2022 and 30 June 2021, all receivables, amounts due from brokers, and cash with counterparties with investment grade rating and are either callable on demand or due to be settled within 1 week. 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 Fund.

8 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual arrangements.

An interest in a structured entity is any form of contractual or non contractual arrangement with an entity which creates variability in returns from the performance of the arrangement for the Fund.

The Fund may invest in related and unrelated managed funds and considers these underlying fund investments to be interests in structured entities. The Fund generally has no involvement with these structured entities other than the securities it holds as part of its investments. The maximum exposure to loss on investments in structured entities is restricted to the carrying value of the asset.

The exposure to investments in related investment funds are summarised in Note 13. These investments are managed in accordance with financial risk management practices as set out in Note 3.

9 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 Fund shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions in Note 2(c).

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

	As at			
	30 June 2022	30 June 2021	30 June 2022	30 June 2021
	No.'000	No.'000	\$'000	\$'000
Opening balance	8,802	283	11,576	276
Applications	63,545	8,519	90,054	10,571
Redemptions	(528)	-	(796)	-
Profit for the year	-	-	8,003	729
Closing balance	<u>71,819</u>	<u>8,802</u>	<u>108,837</u>	<u>11,576</u>

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right to the underlying assets of the Fund. There are no separate classes of units and each unit has the same rights attaching to it as other units of the Fund.

Capital Risk Management

The Fund considers its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as equity. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

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

10 Cash and cash equivalents

	As at	
	30 June 2022	30 June 2021
	\$'000	\$'000
Domestic cash at bank	4,935	6
Total cash and cash equivalents	4,935	6

11 Reconciliation of operating income to net cash outflow from operating activities

	Year ended	
	30 June 2022	30 June 2021
	\$'000	\$'000
(a) Reconciliation of operating income to net cash outflow from operating activities		
Operating income for the year	8,003	729
Net gain on financial instruments at fair value through profit or loss	(8,736)	(756)
Proceeds from sale of financial instruments at fair value through profit or loss	24	-
Purchase of financial instruments at fair value through profit or loss	(88,440)	(6,659)
Net change in accrued income and receivables	(19)	-
Net change in payables	214	15
Net cash outflow from operating activities	(88,954)	(6,671)

12 Remuneration of auditors

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

	Year ended	
	30 June 2022	30 June 2021
	\$	\$
PricewaterhouseCoopers		
Audit and other assurance services		
Audit and review of financial reports	16,003	15,025
Total remuneration for audit and other assurance services	16,003	15,025
Other non-audit services		
Tax compliance services*	4,125	-
Total remuneration for other non-audit services	4,125	-
Total remuneration of PricewaterhouseCoopers	20,128	15,025

All audit fees were borne by Schroders during the years ended 30 June 2022 and 30 June 2021.

*This includes tax services provided by Greenwoods & Herbert Smith Freehills which was acquired by PricewaterhouseCoopers during the year ended 30 June 2022.

13 Related party transactions

Responsible Entity

The Responsible Entity of the Fund is Schroders, a wholly owned subsidiary of Schroder Australia Holdings Pty Limited (ABN 83 008 423 738).

Key management personnel

Key management personnel include persons who were directors of Schroders at any time during the financial year as follows:

M W Conlon
S Doyle
C J Durack (resigned 29 October 2021)
R Mellor-Bessant
M Trinh
S Hallinan

There was no other persons with responsibility for planning, directing and controlling the activities of the Responsible Entity of the Fund, directly or indirectly during the financial year.

Responsible Entity's fees and other transactions

During the year ended 30 June 2022, Schroders received an all inclusive management fee of 1.48% of Net Asset Value (inclusive of GST net of RITC available to the Fund), (2021: 1.48%).

All related party transactions are conducted on arm's length commercial terms and conditions. The transactions during the year and amounts payable at year end between the Fund and Schroders are as follows:

	30 June 2022	30 June 2021
	\$	\$
Management fees for the year incurred by the Fund	574,875	26,516
Management fees payable to Schroders at the reporting date	71,049	14,492

Key management personnel unitholdings

The key management personnel of Schroders directly or indirectly through a related party held units or an interest in units in the Fund as follows:

30 June 2022	Number of units held closing Units	Fair value of investments \$	Interest held %	Number of units acquired Units	Number of units disposed Units
Key management personnel*	58,825	89,273	0.08	58,825	-
30 June 2021	Number of units held closing Units	Fair value of investments \$	Interest held %	Number of units acquired Units	Number of units disposed Units
Key management personnel*	50,000	65,765	0.57	-	-

* A member of key management personnel resigned during the year. As such, their units are not included in the total number of units held at 30 June 2022.

13 Related party transactions (continued)

Key management personnel remuneration

Key management personnel are paid by Schroders. Payments made from the Fund do not include any amounts directly attributable to key management personnel remuneration.

Key management personnel loan disclosures

The Fund 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.

Investments

The Fund held investments in the following schemes which were also managed by Schroders and Schroders Group:

30 June 2022	Fair value of Investment*	Interest held**
	\$	%
Schroder GAIA II Global Private Equity (formerly Schroder GAIA II Specialist Private Equity)	104,842,096	7.95
30 June 2021	Fair value of Investment*	Interest held**
	\$	%
Schroder GAIA II Global Private Equity (formerly Schroder GAIA II Specialist Private Equity)	7,690,456	1.85

With effect from 31 December 2021 Schroder GAIA II Specialist Private Equity changed its name to Schroder GAIA II Global Private Equity.

* The fair value of financial assets \$104,842,096 (2021: \$7,690,456) is included in financial assets at fair value through profit or loss in the balance sheet.

** This represents the entity's percentage interest of the total net assets of the investee funds as at reporting date.

The Fund's maximum exposure to loss from its interest in investee funds is equal to the total fair value of its investments in the investee funds as there are no off-balance sheet exposure relating to any of the investee funds. Once the Fund has disposed of its shares in an investee fund, it ceases to be exposed to any risk from that investee fund.

Other transactions within the Fund

Apart from those details disclosed in this Note, no directors have entered into a material contract with the Fund during the financial year and there were no material contracts involving director's interests subsisting at year end.

14 Events occurring after the reporting period

No significant events have occurred since the end of the reporting date which would impact on the financial position of the Fund disclosed in the Balance sheet as at 30 June 2022 or on the results and cash flows of the Fund for the year ended on that date.

15 Contingent assets, liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2022 (2021: Nil).

Directors' declaration


In the opinion of the Directors of Schroders:

- (a) the financial statements and notes set out on pages 5 to 22 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2022 and of its performance for the financial year ended on that date;
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable; and
- (c) 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 

M Trinh

Director 

S Hallinan

Sydney
27 October 2022



Independent auditor's report

To the unitholders of Schroder Specialist Private Equity Fund

Our opinion

In our opinion the accompanying financial report of Schroder Specialist Private Equity Fund (the Registered Scheme) is in accordance with the *Corporations Act 2001*, including:

1. giving a true and fair view of the Registered Scheme's financial position as at 30 June 2022 and of its financial performance for the year then ended
2. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the balance sheet as at 30 June 2022
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' 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 Registered Scheme in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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.

Other information

The directors of the Responsible Entity are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

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

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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 on the other information that we 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 Schroder Investment Management Australia Limited, the Responsible Entity of the Registered Scheme, 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 of the Responsible Entity determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

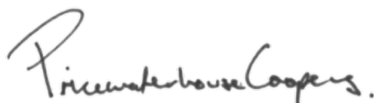
In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Registered Scheme to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intends to liquidate the Registered 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.


PricewaterhouseCoopers


BSS Tompsett
Partner

Sydney
27 October 2022