



Vanguard[®]

Annual Report | 30 June 2018

Vanguard Managed Payout Fund

Responsible Entity

Vanguard Investments Australia Ltd
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AFSL 227263

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Contents

Directors' report	3
Auditor's independence declaration	6
Statement of comprehensive income	7
Balance sheet	8
Statement of changes in equity	9
Statement of cash flows	10
Notes to the financial statements	11
Directors' declaration	29
Independent Auditor's Report to the Unitholders of Vanguard Managed Payout Fund	30

About Vanguard

Since our establishment in 1975, Vanguard has strived to be the world's highest-value provider of investment products and services. We have an unwavering focus on our clients with a commitment to champion what's best for investors by offering outstanding service, while keeping costs low.

Over the years Vanguard has built a reputation as a global leader in client advocacy and earned the trust of millions of investors along the way. Our sole purpose has been to align our interest with those of our investors to ensure they have the best chance for investment success.

With more than AUD \$6.8 trillion in assets under management as of 30 June 2018, including more than AUD \$1.2 trillion in exchange traded funds, Vanguard is one of the world's largest global investment management companies.

In Australia, Vanguard has been helping investors meet their long-term financial goals with low-cost investment solutions for over 20 years.

Our unique structure – putting investors' interests first

What sets Vanguard apart – and lets Vanguard put investors first around the world – is the ownership structure of The Vanguard Group, Inc., in the United States.

Rather than being publicly traded or owned by a small group of individuals, The Vanguard Group is owned by Vanguard's US-domiciled funds and ETFs. Those funds, in turn, are owned by their investors.

This mutual structure aligns our interests with those of our investors and drives the culture, philosophy and policies throughout the Vanguard organisation worldwide. As a result, Australian investors benefit from Vanguard's stability and experience, low costs and client focus.

Our investment expertise

When you invest with Vanguard, you have more than 40 years of investing experience behind you. So no matter which investment products suit your needs, you can feel confident that Vanguard investments are built on a rigorous investment philosophy that stands the test of time.

Low-cost investing

We know we can't control the markets, but we can control the costs of investing. To that end, providing low-cost investments isn't a pricing strategy for us. It's how we do business.

We can keep costs low because of our unique ownership structure in the United States, which allows us to return profits to investors through lower costs.

Directors' report

The Responsible Entity of Vanguard Managed Payout Fund (the "Fund") for the year ended 30 June 2018 was Vanguard Investments Australia Ltd (the "Responsible Entity").

The directors of Vanguard Investments Australia Ltd present their report together with the financial statements for the year ended 30 June 2018.

Principal activities

The Fund invests in accordance with the investment policy of the Fund as set out in the current Product Disclosure Statement (PDS) and in accordance with the Fund Constitution. The Fund predominantly invests in the Vanguard Wholesale Funds, a group of unlisted unit trusts which are also managed by the Responsible Entity. The Fund seeks to make monthly cash distributions while having these distributions and the invested capital keep pace with inflation over time. See note 12 for details on Fund's investments in Vanguard Wholesale Funds.

The Fund did not have any employees during the year.

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

Directors

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

J M Norris

G W Reed (Resigned 31 July 2017)

C R Comegys (Resigned 31 August 2017)

C Kelton (Resigned 4 September 2018)

L Carr

C Lui (Appointed 31 August 2017)

J Platt (Appointed 31 October 2017)

F Kolimago (Appointed 4 September 2018)

Review and results of operations

The Fund invests in unlisted unit trusts and cash and cash equivalents. The investment policy of the Fund continues to be in accordance with the provisions of the Fund Constitution.

Results

The results of the operations of the Fund were as follows:

	30 June 2018	30 June 2017
Operating profit/(loss) before finance costs attributable to unitholders (\$'000)	5,367	7,581
Distributions		
Distribution paid and payable (\$'000)	3,723	6,541
Distribution (cents per unit)	4.0128	6.0111

Directors' report (continued)

Review and results of operations (continued)

Performance

The table below details the performance of the Fund as represented by the total return, net of fees, which is calculated as the aggregation of the percentage capital growth and percentage distribution of income. The total return is shown for the past five years to 30 June 2018 and assumes that all distributions were re-invested during that period. These are calculated in accordance with FSC Standard 6.0 Product Performance - calculation and presentation of returns. The directors assess the performance of the Fund by comparing the Fund's total return with the corresponding Index (the Benchmark) gross of fees.

	2018	2017	2016	2015	2014
	%	%	%	%	%
Vanguard Managed Payout Fund					
Capital growth	5.34	1.06	0.63	-	-
Distribution of income	4.13	6.11	4.16	-	-
Total return	9.47	7.17	4.79	-	-
Benchmark					
<i>Managed Payout Composite Index (AUD)*</i>	9.64	7.23	4.03	-	-

* Benchmark (Managed Payout Composite Index) comprises 25% S&P/ASX 300 Index, 30% MSCI World ex-Australia Index (with net dividends reinvested) in AUD, 2% S&P/ASX 300 A-REIT Index, 3% FTSE EPRA/NAREIT Developed ex-Australia Rental index (with net dividends reinvested) hedged to AUD, 25% Bloomberg Barclays Global Treasury Index (AUD hedged), 10% Bloomberg AusBond Composite 0+ Yr Index, 5% Bloomberg Commodity Index (AUD hedged).

Investors should be aware that past performance is not necessarily an indicator of future performance.

Unit redemption prices

Unit redemption prices (quoted including distribution) are shown as follows:

	At 30 June		Period high		Period low	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
Vanguard Managed Payout Fund	1.0701	1.0366	1.0748	1.0605	1.0089	0.9736

Significant changes in state of affairs

Glenn Reed resigned as a Director of Vanguard Investments Australia Ltd on 31 July 2017.

Rodney Comegys resigned as a Director of Vanguard Investments Australia Ltd on 31 August 2017.

Cynthia Lui was appointed as a Director of Vanguard Investments Australia Ltd on 31 August 2017.

Johanna Platt was appointed as a Director of Vanguard Investments Australia Ltd on 31 October 2017.

The Fund has amended its constitution to change the obligation to distribute trust income to unitholders effective 1 July 2017 as part of a process to become eligible to elect into the new AMIT tax regime.

In the opinion of the directors, 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

Post 30 June 2018, the Responsible Entity determined that the Fund was to be classified as an AMIT for the year ending 30 June 2018. As a result of this determination, the Fund reversed the 13th distribution and cancelled the new units that were issued as part of the distribution reinvestment. The reinvestment unit price for the period ending 30 June 2018 was subsequently reissued with a nil distribution.

Colin Kelton resigned as a Director of Vanguard Investments Australia Ltd on 4 September 2018.

Frank Kolimago was appointed as a Director of Vanguard Investments Australia Ltd on 4 September 2018.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

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

Directors' report (continued)

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 were paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of Vanguard Investments Australia Ltd or the auditors of the Fund. So long as the officers of Vanguard Investments Australia Ltd 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 the Responsible Entity or its associates

Fees paid to the Responsible Entity and its associates out of the Fund's property during the year are disclosed in note 12 of the financial statements.

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

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in note 12 of the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in note 7 of the financial statements.

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

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under either 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' Report) Instrument 2016/191*, 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 6.

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



J Platt

Director

Melbourne

4 September 2018



Auditor's Independence Declaration for Vanguard Managed Payout Fund

As lead auditor for the audit of Vanguard Managed Payout Fund for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

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

A handwritten signature in blue ink, appearing to read 'Britt Hawkins', with a long horizontal line extending to the right.

Britt Hawkins
Partner
PricewaterhouseCoopers

Melbourne
4 September 2018

Statement of comprehensive income

For the year ended 30 June 2018

		30 June 2018	30 June 2017
	Notes	\$'000	\$'000
Investment income			
Interest income		1	-
Distribution income		3,672	6,241
Net gains/(losses) on financial instruments held at fair value through profit or loss	5	1,950	1,611
Other operating income		-	-
Total net investment income/(loss)		5,623	7,852
Expenses			
Responsible Entity's fees	12	256	271
Total operating expenses		256	271
Operating profit/(loss)		5,367	7,581
Finance costs attributable to unitholders			
Distributions to unitholders	8	-	(6,541)
(Increase)/decrease in net assets attributable to unitholders	7	-	(1,040)
Profit/(loss) for the year		5,367	-
Other comprehensive income		-	-
Total comprehensive income for the year*		5,367	-

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

*Effective from 1 July 2017, units have been reclassified from financial liability to equity. Refer note 1 for further detail. As a result, equity transactions, including distributions have been disclosed in the statement of changes in equity for the year ended 30 June 2018.

Balance sheet

As at 30 June 2018

	Notes	30 June 2018 \$'000	30 June 2017 \$'000
Assets			
Cash and cash equivalents	9	37	5
Receivables		2	4
Accrued income		167	3,966
Due from brokers - receivable for securities sold		-	12
Financial assets held at fair value through profit or loss	6	13,341	112,953
Total assets		13,547	116,940
Liabilities			
Distribution payable	8	33	2,349
Payables		4	25
Total liabilities (excluding net assets attributable to unitholders)		37	2,374
Net assets attributable to unitholders (equity)*	7	13,510	-
Net assets attributable to unitholders (liability)*	7	-	114,566

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

* Effective from 1 July 2017, units have been reclassified from financial liability to equity. Refer note 1 for further detail.

Statement of changes in equity

For the year ended 30 June 2018

	Note	30 June 2018 \$'000	30 June 2017 \$'000
Total equity at the beginning of the financial year		-	-
Reclassification due to AMIT tax regime implementation*	7	114,566	-
Comprehensive income for the year			
Profit/(loss) for the year		5,367	-
Other comprehensive income		-	-
Total comprehensive income for the year		5,367	-
Transactions with unitholders			
Applications		9,757	-
Redemptions		(117,849)	-
Return of capital		-	-
Units issued upon reinvestment of distributions		5,392	-
Distributions paid and payable		(3,723)	-
Total transactions with unitholders		(106,423)	-
Total equity at the end of the financial year		13,510	-

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

*Effective from 1 July 2017, units have been reclassified from financial liability to equity. Refer note 1 for further detail. As a result, equity transactions, including distributions have been disclosed in the above statement for the year ended 30 June 2018.

Statement of cash flows

For the year ended 30 June 2018

	Notes	30 June 2018 \$'000	30 June 2017 \$'000
Cash flows from operating activities			
Proceeds from sale of financial instruments held at fair value through profit or loss		118,461	12,083
Purchases of financial instruments held at fair value through profit or loss		(9,416)	(16,427)
Interest received		1	-
Other income received		3	-
Responsible Entity's fees paid		(278)	(267)
Net cash inflow/(outflow) from operating activities	10(a)	108,771	(4,611)
Cash flows from financing activities			
Proceeds from applications by unitholders		9,757	4,617
Payments for redemptions by unitholders		(117,849)	-
Distributions paid from operating activities		(647)	(6)
Net cash inflow/(outflow) from financing activities		(108,739)	4,611
Net increase/(decrease) in cash and cash equivalents		32	-
Cash and cash equivalents at the beginning of the year		5	5
Cash and cash equivalents at the end of the year	9	37	5
Non-cash financing activities	10(b)	5,392	4,186

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

Notes to the financial statements

For the year ended 30 June 2018

1 General information

These financial statements cover the Vanguard Managed Payout Fund (the "Fund") as a registered managed investment scheme.

The Fund was constituted on 17 April 2015 and will terminate on 16 April 2115 unless terminated earlier in accordance with the provisions of the Fund Constitution.

The Responsible Entity of the Vanguard Managed Payout Fund is Vanguard Investments Australia Ltd (the 'Responsible Entity'). The Responsible Entity's registered office is Level 34, Freshwater Place, 2 Southbank Boulevard, Southbank Vic 3006.

The Fund invests in accordance with the investment policy of the Fund as set out in the current Product Disclosure Statement (PDS) and in accordance with the Fund Constitution. The Fund predominantly invests in the Vanguard Wholesale Funds, a group of unlisted unit trusts which are also managed by the Responsible Entity. The Fund seeks to make monthly cash distributions while having these distributions and the invested capital keep pace with inflation over time. See note 12 for details on the Fund's investments in Vanguard Wholesale Funds.

Implementation of AMIT regime

On 5 May 2016, a new tax regime applying to Managed Investment Trusts ("MITs") was established under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. The Attribution Managed Investment Trust ('AMIT') regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. In order to allow the Fund to elect into the AMIT tax regime, the Fund Constitution has been amended and the other conditions to adopt the AMIT tax regime have been met effective 1 July 2017. The Responsible Entity was therefore no longer contractually obligated to pay distributions to unitholders where the Fund meets the criteria set out under AASB 132.

Consequently, units in the Fund have been reclassified from a financial liability to equity on 1 July 2017. See note 7 for further information.

The financial statements were authorised for issue by the directors on 4 September 2018. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods 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 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 held at fair value through profit or loss and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months after the end of each reporting period 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 date.

In the case of net assets attributable to unitholders, the 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 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.

Notes to the financial statements (continued)

For the year ended 30 June 2018

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(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 2017 that have a material impact on the amounts recognised in the prior periods or will affect the current or future periods.

The amendments made by AASB 2016-2 *Amendments to Australian Accounting Standard - Disclosure Initiative: Amendments to AASB 107* require disclosure of changes in liabilities arising from financing activities. The relevant information is provided in note 7.

(b) Financial instruments

(i) Classification

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

- Financial instruments held for trading

Derivative financial instruments such as futures, forward foreign exchange contracts, options and swaps are included under this classification. The Fund does not designate any derivatives as hedges in a hedging relationship.

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

These include financial assets that are not held for trading purposes and which may be sold. These are investments in unlisted unit trusts.

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

(ii) Recognition/derecognition

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

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

(iii) Measurement

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

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

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

For further details on how the fair value of the financial instruments is determined are disclosed in note 4.

(iv) Offsetting financial instruments

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.

Notes to the financial statements (continued)

For the year ended 30 June 2018

2 Summary of significant accounting policies (continued)

(c) Net assets attributable to unitholders

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

The units 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 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 unfavorable 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.

Effective from 1 July 2017, the Fund's units have been reclassified from financial liability to equity as they satisfied all the above criteria.

(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.

(e) Margin accounts

Deposits held with brokers for margin, represent restricted margin deposits for derivative financial instruments.

The reported balance for collateral margins represents the level of restricted cash required to be settled as at close of business at balance sheet date.

(f) Investment income

Interest income is recognised in profit or loss for all financial instruments that are held at fair value through profit or loss using the effective interest method. Interest income on assets held at fair value through profit or loss is included in the net gains/(losses) on financial instruments. Other changes in fair value for such instruments are recorded in accordance with the policies described in note 2(b).

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

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

Trust distributions are recognised on an entitlements basis.

Notes to the financial statements (continued)

For the year ended 30 June 2018

2 Summary of significant accounting policies (continued)

(g) Expenses

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

(h) Income tax

Under current legislation, Funds that have elected into the AMIT tax regime are not subject to income tax provided they attribute the entirety of their taxable income to their unitholders.

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

(i) Distributions

Distributions are payable as set out in the Fund's product disclosure statement. 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.

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

Income not distributed is included in net assets attributable to unitholders. Where the Fund's units are classified as liabilities, movements in net assets attributable to unitholders are recognised in profit or loss as finance costs.

(k) Functional and presentation currency

(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 dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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

(l) Due from/to brokers

Amounts due from/to brokers represent payables for securities purchased and receivables for securities sold that have been contracted for but not yet delivered by the end of the year. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Fund will not be able to collect all amounts due from the relevant broker. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are considered indicators that the amount due from brokers is impaired.

(m) 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(f) above. Amounts are generally received within 30 days of being recorded as receivables.

Notes to the financial statements (continued)

For the year ended 30 June 2018

2 Summary of significant accounting policies (continued)

(n) Payables

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

As the Fund has a contractual obligation to distribute its distributable income, 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.

(o) Applications and redemptions

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

(p) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Responsible Entity by third parties have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credit recovery rate of between 55% and 75%, hence Responsible Entity's fees, custodial fees and other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the balance sheet. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

(q) 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.

(r) 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 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.

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

Notes to the financial statements (continued)

For the year ended 30 June 2018

2 Summary of significant accounting policies (continued)

(s) Investment entity exception

AASB 10 *Consolidated Financial Statements* for investment entities includes an exception to the consolidation rules for those entities qualifying as “investment entities”. Subsidiaries of investment entities will be accounted for at fair value through profit or loss, in accordance with AASB 139 *Financial Instruments: Recognition and Measurement*.

A parent entity will need to make an assessment of whether it meets the definition of an investment entity. An investment entity is defined as an entity that:

- (a) obtains funds from one or more investors for the purpose of providing those investor(s) with investment management services;
- (b) commits to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (c) measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Fund has multiple investments that it controls. However, the Fund has determined that it is an investment entity under the definition in AASB 10, as it meets the following criteria:

- (a) the Fund has obtained funds from unitholders for the purpose of providing them with investment management services;
- (b) the Fund's business purpose, which is communicated directly to unitholders, is investing solely for returns from capital appreciation and investment income; and
- (c) the performance of investments made by the Fund are measured and evaluated on a fair value basis.

The Fund also meets all of the typical characteristics of an investment entity, including:

- (a) holding more than one investment;
- (b) having more than one investor;
- (c) having investors that are not related parties of the entity; and
- (d) having ownership interests in the form of equity or similar interests.

As the Fund measures all of its controlled entities at fair value through profit or loss, it only presents separate financial statements.

(t) New accounting standards and interpretations

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

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

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

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

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

Notes to the financial statements (continued)

For the year ended 30 June 2018

2 Summary of significant accounting policies (continued)

(t) New accounting standards and interpretations (continued)

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

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

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

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

(u) Rounding of amounts

The Fund is a registered scheme 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.

The Fund's overall risk management program focuses on ensuring compliance with the Fund's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Financial risk management is carried out by the investment management department of the Responsible Entity under policies approved by the Board of Directors of the Responsible Entity (the "Board").

The Fund uses different methods to measure different types of risks to which it is exposed. These methods are explained below.

(a) Market risk

(i) Price risk

The Fund is exposed to equity securities 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. Paragraph (ii) 'Foreign exchange risk' below sets out how this component of price risk is managed and measured.

In any asset sector the returns of individual securities are a combination of the market returns and returns specific to each security. By diversifying their holdings across the market, index funds are generally well protected from the specific risk of individual securities. Vanguard employs an indexing investment strategy in all asset classes in which the Fund invests.

At 30 June, the fair value of equities and related derivatives exposed to price risk were as follows:

	30 June 2018	30 June 2017
	\$'000	\$'000
Unlisted unit trusts designated at fair value through profit or loss	13,341	112,953
Net total	13,341	112,953

The table presented in note 3(b) summarises the impact on operating profit before finance costs 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.

Notes to the financial statements (continued)

For the year ended 30 June 2018

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk

Foreign exchange risk arises as a result of investments in financial instruments denominated in foreign currencies. Fluctuations in the value of Australian dollar and foreign currencies can affect the returns from overseas investments, as losses or gains must be converted to AUD.

The Fund has no significant direct exposure to foreign exchange risk. However, the Fund is indirectly exposed to foreign exchange risk via its investment strategy of investing in the Vanguard Wholesale Funds where those Funds may have a direct foreign exchange exposure.

Of the Vanguard Wholesale Funds, the Vanguard Global Infrastructure Index Fund, Vanguard Global Minimum Volatility Fund, Vanguard Commodities Fund and Vanguard International Shares Index Fund do not hedge any of their exposure to foreign currencies. Accordingly, these Funds are affected by currency fluctuations.

Vanguard International Fixed Interest Index Fund (Hedged) and Vanguard International Property Securities Index Fund (Hedged) invest on a fully hedged basis (to Australian dollars), reducing their exposure to currency risk.

(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 predominantly invests in unlisted unit trusts and therefore does not have a significant exposure to interest rate risk.

(b) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical levels of changes in interest rates and foreign exchange rates as well as the indices that the individual Fund is designed to track. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

Price risk movement represents the range of historical index returns from the average return minus one standard deviation to the average return plus one standard deviation. For a normal distribution approximately two-thirds of the outcomes are expected to fall within plus or minus one standard deviation of the mean. Outcomes are expected to occur outside these ranges, approximately one third of the time.

	Impact on operating profit/(loss) and net assets attributable to unitholders	
	Price risk	
	\$'000	\$'000
	Low	High
	-1%	+2%
30 June 2018	(133)	267
	-1%	+2%
30 June 2017	(1,130)	2,259

Notes to the financial statements (continued)

For the year ended 30 June 2018

3 Financial risk management (continued)

(c) Credit risk

Credit risk is the risk that the Fund's trading counterparties become insolvent or cannot otherwise meet their obligations of the Fund in full when they fall due.

The Fund has no significant direct exposure to credit risk. However, the Fund is indirectly exposed to credit risk via its investment strategy of investing in the Vanguard Wholesale Funds where those Funds may have a direct credit risk exposure.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets. There were no significant concentrations of credit risk to counterparties at 30 June 2018 or 30 June 2017.

(i) Settlement of securities transactions

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has made payment. Payment is made on purchase once the securities have been received by the Fund. The trade will fail if either party fails to meet its obligations.

(ii) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of A1+ short-term Standard & Poor's credit ratings (or Moody's equivalent).

In accordance with the Responsible Entity's derivatives policy, the Responsible Entity monitors the Fund's exposures on a daily basis, which the Board of Directors reviews quarterly.

(iii) Other

The Fund is not materially exposed to credit risk on other financial assets. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of the financial assets.

(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's financial instruments are predominantly investments in the Vanguard Wholesale Funds, a group of unlisted unit trusts which are also managed by the Responsible Entity. The Vanguard Wholesale Funds' financial instruments include investments in equity investments, fixed interest securities and derivative contracts traded over-the-counter. The Vanguard Wholesale Funds' listed securities are considered to be readily realisable as they are all listed on major stock exchanges. The Vanguard Wholesale Funds may use futures to gain market exposure without investing directly in the securities. This allows the Vanguard Wholesale Funds to maintain liquidity without being under-invested in their respective investment policies. The derivatives are not used to leverage the Vanguard Wholesale Funds' portfolios.

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

	As at 30 June 2018				
	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	1-2 years \$'000	Total \$'000
Distribution payable	33	-	-	-	33
Payables	4	-	-	-	4
Due to brokers - payables for securities purchased	-	-	-	-	-
Net assets attributable to unitholders*	-	-	-	-	-
Total liabilities	37	-	-	-	37

Notes to the financial statements (continued)

For the year ended 30 June 2018

3 Financial risk management (continued)

(d) Liquidity risk (continued)

	As at 30 June 2017				Total \$'000
	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	1-2 years \$'000	
Distribution payable	2,349	-	-	-	2,349
Payables	25	-	-	-	25
Net assets attributable to unitholders (liability)*	114,566	-	-	-	114,566
Total liabilities	116,940	-	-	-	116,940

*Net assets attributable to unitholders are classified as equity at 30 June 2018 and as a financial liability at 30 June 2017. Refer to note 1 for further details.

4 Fair value measurement

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

- Financial assets / liabilities designated at fair value through profit or loss (FVTPL) (see note 6).

The Fund had no assets or liabilities at fair value on a non-recurring basis in the reporting period.

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).

(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 Fund values investments in accordance with the accounting policies set out in note 2(b) to the financial statements. For the majority of investments, the Fund relies on information provided by independent pricing services for the valuation of 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, the Fund 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.

(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 balance sheet date applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the balance sheet date. 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.

Notes to the financial statements (continued)

For the year ended 30 June 2018

4 Fair value measurement (continued)

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

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 balance sheet date taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the Black-Scholes option valuation model.

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.

Recognised fair value measurements

The following tables present the Fund's financial assets and liabilities measured at fair value according to the fair value hierarchy at 30 June 2018 and 30 June 2017.

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
30 June 2018				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	-	13,341	-	13,341
Total	-	13,341	-	13,341
30 June 2017				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Unlisted unit trusts	-	112,953	-	112,953
Total	-	112,953	-	112,953

The Fund's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels during the reporting period.

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

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

	30 June 2018	30 June 2017
	\$'000	\$'000
Net unrealised gain/(loss) on financial instruments designated at fair value through profit or loss	(1,756)	1,050
Net realised gain/(loss) on financial instruments designated at fair value through profit or loss	3,706	561
Total net gains/(losses) on financial instruments held at fair value through profit or loss	1,950	1,611

Notes to the financial statements (continued)

For the year ended 30 June 2018

6 Financial assets held at fair value through profit or loss

	30 June 2018	30 June 2017
	Fair value \$'000	Fair value 5\$'000
Held for trading		
Total held for trading	-	-
Designated at fair value through profit or loss		
Unlisted unit trusts	13,341	112,953
Total designated at fair value through profit or loss	13,341	112,953
Total financial assets held at fair value through profit or loss	13,341	112,953
Comprising:		
Unlisted unit trusts		
Units in Australian equity trusts	2,002	17,543
Units in Australian fixed interest trusts	1,613	14,189
Units in Australian property trusts	270	2,184
Units in International equity trusts	6,679	55,575
Units in International fixed interest trusts	2,375	20,638
Units in International property trusts	402	2,824
Total unlisted unit trusts	13,341	112,953
Total financial assets held at fair value through profit or loss	13,341	112,953

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

7 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. Otherwise the financial instrument should be disclosed as a liability.

On 1 July 2017, the Fund elected into the AMIT tax regime. The Fund Constitution has been amended on the same date and it no longer has a contractual obligation to pay distributions to unitholders. The impact of this for the Fund is that its net assets attributable to unitholders is no longer disclosed as a liability, but rather as equity. As a result of the reclassification, the Fund's distributions are no longer classified as finance cost in the statement of comprehensive income, but rather as distributions paid in the statement of changes in equity.

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

	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	No. '000	No. '000	\$'000	\$'000
Balance as at 1 July	112,726	104,218	114,566	104,723
Applications	9,362	4,411	9,757	4,617
Redemptions	(114,708)	-	(117,849)	-
Units issued upon reinvestment of distributions	5,245	4,097	5,392	4,186
Increase/(decrease) in net assets attributable to unitholders	-	-	-	1,040
Distributions paid and payable	-	-	(3,723)	-
Profit/(loss) for the year	-	-	5,367	-
Closing balance as at 30 June	12,625	112,726	13,510	114,566

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.

Notes to the financial statements (continued)

For the year ended 30 June 2018

7 Net assets attributable to unitholders (continued)

Capital risk management

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

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

The Fund's investment strategy remains unchanged and the Fund continues to hold direct investments which provide exposure to liquid assets including equity securities, income securities, interest earnings and cash equivalent securities. As such, the Fund will meet any capital requirements from the liquidation of liquid assets, which include cash and cash equivalents.

8 Distributions to unitholders paid and payable

	30 June 2018 \$'000	30 June 2018 CPU	30 June 2017 \$'000	30 June 2017 CPU
Distribution paid				
- 31 July	390	0.3344	342	0.3283
- 31 August	391	0.3344	343	0.3283
- 30 September	393	0.3344	344	0.3283
- 31 October	395	0.3344	346	0.3283
- 30 November	399	0.3344	347	0.3283
- 31 December	402	0.3344	348	0.3283
- 31 January	405	0.3344	349	0.3283
- 28 February	413	0.3344	351	0.3283
- 31 March	415	0.3344	352	0.3283
- 30 April	37	0.3344	355	0.3283
- 31 May	41	0.3344	358	0.3283
- 28 June	9	0.3344	-	-
- 29 June	-	-	357	0.3283
Distribution payable				
- 28 June	33	0.3344	-	-
- 29 June	-	-	12	0.3283
- 30 June	-	-	2,337	2.0715
	3,723	4.0128	6,541	6.0111

9 Cash and cash equivalents

	As at	
	30 June 2018 \$'000	30 June 2017 \$'000
Domestic cash at bank	37	5
Total cash and cash equivalents	37	5

Notes to the financial statements (continued)

For the year ended 30 June 2018

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

	30 June 2018	30 June 2017
	\$'000	\$'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Profit/(loss) for the year	5,367	-
Increase/(decrease) in net asset attributable to unitholders	-	1,040
Distribution to unitholders	-	6,541
Proceeds from sale of financial instruments held at fair value through profit or loss	118,461	12,083
Purchases of financial instruments held at fair value through profit or loss	(9,416)	(16,427)
Net gains/(losses) on financial instruments held at fair value through profit or loss	(1,950)	(1,611)
Net change in receivables	3,801	(2,101)
Net change in payables	(21)	4
Non-cash items	(7,471)	(4,140)
Net cash inflow/(outflow) from operating activities	108,771	(4,611)
(b) Non-cash financing activities		
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	5,392	4,186

11 Remuneration of auditors

The auditor's remuneration is borne by the Responsible Entity. During the year, the following fees were paid or payable for services provided by the auditor of the Fund.

	30 June 2018	30 June 2017
	\$	\$
PricewaterhouseCoopers		
Audit and other assurance services		
Audit of financial statements	11,000	11,000
Audit of compliance plan and specified assertions report	3,433	3,329
Total remuneration for audit and other assurance services	14,433	14,329
Taxation services		
Tax compliance services	9,597	9,950
Total remuneration for taxation services	9,597	9,950
Total remuneration of PricewaterhouseCoopers	24,030	24,279

Notes to the financial statements (continued)

For the year ended 30 June 2018

12 Related party transactions

Responsible Entity

The Responsible Entity of the Vanguard Managed Payout Fund is Vanguard Investments Australia Ltd (ABN 72 072 881 086 AFSL 227263), which is a wholly owned subsidiary of The Vanguard Group, Inc.

Key management personnel

Key management personnel includes persons who were directors of Responsible Entity at any time during the financial year as follows:

J M Norris

G W Reed (Resigned 31 July 2017)

C R Comegys (Resigned 31 August 2017)

C Kelton (Resigned 4 September 2018)

L Carr

C Lui (Appointed 31 August 2017)

J Platt (Appointed 31 October 2017)

No other person had authority and responsibility for planning, directing and controlling the activities of the Fund, directly or indirectly during the financial year (30 June 2017: Nil).

Transactions with key management personnel

Key management personnel services are provided by Vanguard Investments Australia Ltd and included in the management fees. There is no separate charge for these services. There was no compensation paid directly by the Fund to any of the key management personnel.

Key management personnel unitholdings

The key management personnel of Vanguard Investments Australia Ltd (VIA) did not hold any units in the Fund during the period.

Key management personnel remuneration

Key management personnel are paid by the Responsible Entity. 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.

Notes to the financial statements (continued)

For the year ended 30 June 2018

12 Related party transactions (continued)

Responsible Entity's fees and other transactions

During the year ended 30 June 2018, the Responsible Entity received an all-inclusive management fee (inclusive of GST, net of RITC available to the Fund) over the Fund's average net assets attributable to unitholders for the year as follows:

	Management costs	
	2018	2017
	% per annum	% per annum
Vanguard Managed Payout Fund	0.55	0.55

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

	30 June 2018	30 June 2017
	\$'000	\$'000
Responsible Entity's fees for the year	256	271
Total fees payable to the Responsible Entity at year end	3	25

Related party unitholdings

Parties related to the Fund including the Responsible Entity, its affiliates or other funds managed by the Responsible Entity held units in the Fund as follows:

30 June 2018	Vanguard Managed Payout Fund						
	Number of units held opening	Number of units held closing	Fair value of investments	Interest held at year end	Number of units acquired	Number of units disposed	Distributions paid/payable by the Fund
	Units	Units	\$	%	Units	Units	\$
Unitholder							
Vanguard Investments Australia Limited	-	640,992	608,645	5.08	640,992	-	77,281

30 June 2017	Vanguard Managed Payout Fund						
	Number of units held opening	Number of units held closing	Fair value of investments	Interest held at year end	Number of units acquired	Number of units disposed	Distributions paid/payable by the Fund
	Units	Units	\$	%	Units	Units	\$
Unitholder							
Vanguard Investments Australia Limited	-	-	-	-	-	-	-

Notes to the financial statements (continued)

For the year ended 30 June 2018

12 Related party transactions (continued)

Investments

The Fund held investments in the following schemes which were also managed by Responsible Entity or its related parties:

30 June 2018	Fair value of investment	Interest held	Distribution received/receivable	Number of units acquired	Number of units disposed	Distribution receivable unpaid
	\$	%	\$	Units	Units	\$
Vanguard Global Minimum Volatility Fund	2,702,716	12.53	709,584	2,804,703	20,276,862	-
Vanguard Commodities Fund	626,637	32.41	700,000	1,664,093	7,035,471	-
Vanguard Australian Corporate Fixed Interest Index Fund	533,477	0.35	95,030	325,543	4,460,751	3,604
Vanguard Global Infrastructure Index Fund	1,068,614	0.33	211,153	2,114,183	9,252,626	42,318
Vanguard International Property Securities Index Fund (Hedged)	401,400	0.03	169,904	1,889,028	4,964,360	6,617
Vanguard International Fixed Interest Index Fund (Hedged)	1,748,758	0.11	430,407	1,772,699	13,081,889	10,250
Vanguard Australian Property Securities Index Fund	270,365	0.01	72,602	380,633	2,457,327	1,426
Vanguard International Shares Index Fund	2,907,668	0.02	422,152	1,529,074	12,764,191	68,322
Vanguard Australian Shares Index Fund	2,002,051	0.02	642,006	719,117	8,328,017	26,098
Vanguard Australian Fixed Interest Index Fund	1,079,764	0.02	218,802	970,015	8,425,779	8,132

30 June 2017	Fair value of investment	Interest held	Distribution received/receivable	Number of units acquired	Number of units disposed	Distribution receivable unpaid
	\$	%	\$	Units	Units	\$
Vanguard Global Minimum Volatility Fund	22,387,739	90.42	1,019,004	518,503	783,928	1,019,004
Vanguard Commodities Fund	5,387,937	100.00	-	409,316	-	-
Vanguard Australian Corporate Fixed Interest Index Fund	4,763,399	7.51	143,425	537,124	909,982	41,540
Vanguard Global Infrastructure Index Fund (Hedged)	-	-	-	143,549	5,952,774	-
Vanguard Global Infrastructure Index Fund	8,729,590	3.46	563,963	8,100,956	-	466,626
Vanguard International Property Securities Index Fund (Hedged)	2,823,897	0.23	689,520	809,020	-	581,150
Vanguard International Fixed Interest Index Fund (Hedged)	15,250,550	0.51	974,754	2,276,701	1,189,508	201,669
Vanguard Australian Property Securities Index Fund	2,183,676	0.06	102,064	125,268	524,922	26,846
Vanguard International Shares Index Fund	24,457,395	0.23	1,593,976	1,910,671	347,273	1,253,190
Vanguard Australian Shares Index Fund	17,542,963	0.21	875,294	779,494	340,501	307,230
Vanguard Australian Fixed Interest Index Fund	9,425,264	0.19	279,337	967,720	1,295,782	68,605

The fair value of financial assets held in the investee fund is included in financial assets at fair value through profit or loss in the balance sheet.

Interest held represents the entity's year end percentage interest in the Wholesale class of the investee funds.

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.

The proportion of ownership interest is equal to the proportion of the voting power held.

The Fund did not hold any investments in Vanguard Investments Australia Ltd during the year.

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 directors' interests subsisting at year end.

Notes to the financial statements (continued)

For the year ended 30 June 2018

13 Events occurring after the reporting period

Post 30 June 2018, the Responsible Entity determined that the Fund was to be classified as an AMIT for the year ending 30 June 2018. As a result of this determination, the Fund reversed the 13th distribution and cancelled the new units that were issued as part of the distribution reinvestment. The reinvestment unit price for the period ending 30 June 2018 was subsequently reissued with a nil distribution.

Colin Kelton resigned as a Director of Vanguard Investments Australia Ltd on 4 September 2018.

Frank Kolimago was appointed as a Director of Vanguard Investments Australia Ltd on 4 September 2018.

There are no significant events that have occurred since balance date which would impact on the financial position of the Fund as disclosed in the balance sheet as at 30 June 2018 or on the results and cash flows of the Fund for the year ended on that date.

14 Contingent assets, contingent liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2018 (2017: Nil).

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 7 to 28 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 2018 and of its performance for the financial year ended on that date; and
- (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.
- (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.



J Platt
Director
Melbourne
4 September 2018



Independent auditor's report

To the unitholders of Vanguard Managed Payout Fund

Our opinion

In our opinion:

The accompanying financial report of Vanguard Managed Payout Fund (the Fund) is in accordance with the *Corporations Act 2001*, including:

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

What we have audited

The financial report comprises:

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

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

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.



We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Fund, its accounting processes and controls and the industry in which it operates.



Materiality

- For the purpose of our audit we used approximately 2.5% of the Fund's net assets to set overall materiality for the Fund.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose net assets because, in our view, it is the metric against which the performance of the Fund is most commonly measured and is a generally accepted benchmark in the fund industry.
- We selected 2.5% based on our professional judgement noting that it is within the range of commonly acceptable net asset related thresholds in the industry.

Audit Scope

- Our audit focused on where the directors made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- Our audit approach reflects the nature of the investments held by the Fund and the consideration of the work undertaken by third party service providers. The key service provider relevant to our audit is the administrator and custodian, who maintains the accounting records of the Fund and provides custodian services for the investments.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.



Key audit matter

How our audit addressed the key audit matter

Investments in financial assets

Refer to note 2 (Summary of significant accounting policies) and note 4 (Fair value measurement)

At 30 June 2018, investments in financial assets were comprised primarily of investments in unlisted unit trusts.

Investments in financial assets was a key audit matter because investments represent the principal element of the balance sheet. A discrepancy in the valuation or existence of investments could cause the net asset value to be materially misstated which would also impact the Fund's reported performance as the valuation of investments is the main driver of movements in the profit of the Fund.

To assess the design and operating effectiveness of the service providers' relevant controls, we:

- inspected the most recent assurance reports provided to Vanguard Investments Australia Ltd (the "Responsible Entity") by the service provider, setting out the controls in place at that service provider, and that included an independent audit opinion over the design and operating effectiveness of those controls
- considered the Responsible Entity's analysis of the results of the tests undertaken and the conclusions formed by the auditor on the design and operating effectiveness of controls to the extent relevant to our audit of the Fund.

We performed the following procedures, amongst others, to assess the valuation and existence of the Fund's investments in unlisted unit trusts:

- We compared the price used by the Fund to value these investments to the 30 June 2018 price quoted by the unlisted unit trust's Responsible Entity.
- We obtained a confirmation from the unit registry for the investments in unlisted unit trusts at year end and compared the confirmed balance to the accounting records.

Other information

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

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

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



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

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

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

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Responsible Entity either intend to liquidate the Fund 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/ar6.pdf. This description forms part of our auditor's report.

PricewaterhouseCoopers

PricewaterhouseCoopers

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

Britt Hawkins
Partner

Melbourne
4 September 2018

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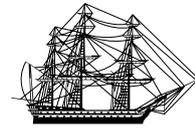
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