

LIBERTY TERM INVESTMENT FUND

ARSN 141 340 454

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 30 JUNE 2013

**LIBERTY TERM INVESTMENT FUND
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2013**

The directors of Liberty Fiduciary Limited (the Responsible Entity), the Responsible Entity of Liberty Term Investment Fund (the Fund), present their report together with the financial report of the Fund for year ended 30 June 2013 and the auditor's report thereon.

Responsible Entity

Liberty Fiduciary Limited (ACN 119 884 623) is the Responsible Entity of the Liberty Term Investment Fund (ARSN 141 340 454). Liberty Financial Pty Ltd (ABN 55 077 248 983) (AFSL 286596) is the Investment Manager of the Fund. The directors of the Responsible Entity at any time during or since the end of the financial year were:

Richard Longes (Chairman)
Peter Hawkins
Sherman Ma
Peter Rollason

The registered office and principal place of business of the Responsible Entity and the Fund is Level 16, 535 Bourke Street, Melbourne, Victoria, 3000.

Principal activities

The Fund is a registered managed investment scheme domiciled in Australia. The Fund invests in consumer and business loans secured by residential and commercial property, motor vehicles and equipment.

The Fund did not have any employees during the year.

Results

The Fund's change in net assets attributable to unitholders for the year ended 30 June 2013 after distribution expense was nil (for the year ended 30 June 2012: nil).

Distributions paid or payable in respect of each class of unitholders during the financial year were:

	2013	2012
Non Class B unitholders	\$	\$
Interim distributions paid	923,154	953,387
Final distribution payable	78,358	89,690
Dollars return per unit	0.0804	0.0875
Average return	8.04%	8.75%

Class B unitholder distributions paid or payable at 30 June 2013 were \$338,897 (2012:\$163,485).

The basis for the valuation of the Funds assets is disclosed in Note 3 to the financial statements.

No fees were paid to Liberty Fiduciary Limited during the financial year.

In the opinion of the directors of the Responsible Entity, there were no significant changes in the state of affairs of the Fund that occurred during the financial year under review.

**LIBERTY TERM INVESTMENT FUND
DIRECTORS REPORT
FOR THE YEAR ENDED 30 JUNE 2013**

Events subsequent to balance date

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Director of the Responsible Entity, to affect significantly the operations of the Fund, the results of those operations, or the state of affairs of the Fund, in future financial years.

Likely developments

The Fund will continue to pursue its policy of increasing returns through active investment selection.

Information about likely developments in the operations of the Fund and the expected results of those operations in future financial years has not been included in this report because disclosure of such information would likely result in unreasonable prejudice to the Fund.

Environmental regulation

The Fund's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Indemnification and insurance of officers and auditors

Under the Fund's constitution, the Responsible Entity, including its officers and employees, is indemnified out of the Fund's assets for any loss, damage, expense or other liability incurred by it in properly performing or exercising any of its powers, duties or rights in relation to the Scheme.

The Fund has not indemnified any Auditor of the Fund.

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



Sherman Ma
Director

Dated at Melbourne on 26 September 2013



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Liberty Fiduciary Limited (Responsible Entity for the Liberty Term Investment Fund)

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2013 there have been:

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

KPMG

KPMG

BW Szentirmay
Partner

Melbourne

26 September 2013

LIBERTY TERM INVESTMENT FUND
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 \$	2012 \$
Income			
Finance income	5	1,485,806	1,397,848
Fee income		86,966	56,115
Other income		-	1,548
		<hr/>	<hr/>
Total operating revenue		1,572,772	1,455,511
Expenses			
Management fee		(171,419)	(157,863)
Custodian fee		(26,761)	(29,404)
Advisor and consultancy fee		(27,286)	(61,605)
Other expenses		(6,897)	(77)
		<hr/>	<hr/>
Total operating expenses		(232,363)	(248,949)
		<hr/>	<hr/>
Profit from operating activities		1,340,409	1,206,562
Finance costs			
Distribution to unitholders - Class B		338,897	163,485
Distribution to unitholders - Non Class B		1,001,512	1,043,077
		<hr/>	<hr/>
		1,340,409	1,206,562
		<hr/>	<hr/>
Changes in net assets attributable to unitholders		-	-

The Statement of Profit or Loss and other Comprehensive Income is to be read in conjunction with the notes to the general purpose financial statements set out on pages 9 to 22.

**LIBERTY TERM INVESTMENT FUND
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2013**

The Fund's net **assets** attributable to unitholders are classified as a liability under AASB 132 Financial Instruments: Presentation. As such the Fund has no equity, and no items of changes in equity have been presented for the current year.

The Statement of Changes in Equity is to be read in conjunction with the notes to the general purpose financial statements set out on pages 9 to 22.

**LIBERTY TERM INVESTMENT FUND
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2013**

	Note	2013 \$	2012 \$
Assets			
Cash and cash equivalents	7	2,333,294	2,702,777
Financial assets	8	12,096,054	10,742,302
Receivables	9	107,979	66,334
Total Assets		14,537,327	13,511,413
Liabilities			
Payables	10	101,899	210,625
Distribution payable	11	749,297	421,732
Unitholders funds	4	13,686,131	12,879,056
Total Liabilities		14,537,327	13,511,413
Net assets attributable to unitholders		-	-

The Statement of Financial Position is to be read in conjunction with the notes to the general purpose financial statements set out on pages 9 to 22.

**LIBERTY TERM INVESTMENT FUND
STATEMENT OF CASHFLOWS
FOR THE YEAR ENDED 30 JUNE 2013**

	Note	2013 \$	2012 \$
Cash flows from operating activities			
Interest and fee income received		1,571,116	1,374,719
Operating expenses paid		<u>(260,402)</u>	<u>(221,330)</u>
Net cash provided by operating activities	7	<u>1,310,714</u>	<u>1,153,389</u>
Cash flows from investing activities			
Purchased financial assets		<u>(1,353,752)</u>	<u>(771,314)</u>
Net cash used in investing activities		<u>(1,353,752)</u>	<u>(771,314)</u>
Cash flows from financing activities			
New applications		285,000	660,000
Redemptions		(429,861)	(54,062)
Net cash distribution to unitholders		(15,176)	(24,121)
Movements in related parties		<u>(166,408)</u>	<u>368,020</u>
Net cash (used in)/provided by financing activities		<u>(326,445)</u>	<u>949,837</u>
Net (decrease)/increase in cash held		(369,483)	1,331,912
Opening cash at bank balance		<u>2,702,777</u>	<u>1,370,865</u>
Cash and cash equivalents at the end of the year	7	<u>2,333,294</u>	<u>2,702,777</u>

The Statement of Cash Flows is to be read in conjunction with the notes to the general purpose financial statements set out on pages 9 to 22.

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

1 REPORTING ENTITY

Liberty Term Investment Fund (the Fund) is a registered managed investment scheme under the Corporations Act 2001. The address of the Fund's registered office is Level 16, 535 Bourke Street, Melbourne Victoria 3000. The financial report of the Fund is for the year ended 30 June 2013.

2 BASIS OF PREPARATION

The Fund is a for profit entity for the purposes of preparing these financial statements.

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ("AASs") (including Australian Accounting Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the Corporations Act 2001. The financial report of the Fund complies with International Financial Reporting Standards ("IFRS") and interpretations adopted by the International Accounting Standards Board.

The financial statements were approved by the Board of Directors of the Responsible Entity on 26 September 2013.

(b) Basis of measurement

The financial statements have been prepared on the basis of historical costs, except as disclosed in Note 3.

(c) Functional and presentation currency

These financial statements are presented in Australian dollars, which is the Fund's functional currency.

(d) Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are considered to be reasonable. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

(e) Changes in Accounting Policy

There were no changes in the accounting policies of the Fund during the year.

3 SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in the these financial statements.

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

3 SIGNIFICANT ACCOUNTING POLICIES (cont.)

(a) Financial Instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in debt securities, receivables and cash, loans and financing, and payables.

Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment loss.

A financial instrument is recognised if the Fund becomes a party to the contract. Financial assets are derecognised if the Fund's contractual rights to the cash flows from the financial assets expire or if the Fund transfers the financial asset to another party without retaining control or substantially all risks and rewards of the assets.

(ii) Specific Instruments - cash and cash equivalents

Cash comprises of current deposits at bank.

(iii) Impairment

Financial assets are assessed continually throughout the financial year to determine whether there is any objective evidence they are impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

Collective assessment

AASB 139 requires that an entity first assess whether objective evidence of impairment exists individually for financial assets and collectively for assets where management believe that losses are latent in the portfolio, but are not able to be identified on an individual basis. The portion of the portfolio where a loss event has occurred, but management are unable to specifically identify which financial assets are affected, forms the basis on which the collective provision is calculated.

In determining the collective provision, management consider historical loss data, the current economic cycle, inflation, unemployment, interest rates and their outlook to determine possible impact on serviceability and delinquency.

Individual assessment

Specific provisions relate to financial assets that are currently known to be impaired, based on objective evidence as a result of one or more events that have occurred after the initial recognition of the asset, otherwise known as a loss event. For financial assets where a loss event has occurred, the provisioning process involves detailed review and analysis of individual financial assets. These financial assets are assessed for impairment based on security value, financial assets balance outstanding and other factors deemed relevant to collectability by management. Provisions are raised where objective evidence of impairment exists and the negative impact on estimated future cash flows of the asset can be reliably estimated.

Impairment charge in the Fund is ultimately borne by unitholders to the extent that the provisions exceed distributions to the Class B unitholder in any given year.

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

3 SIGNIFICANT ACCOUNTING POLICIES (cont.)

(b) Interest Income

Interest income and expense, including interest income from non-derivative financial assets, is recognised in the statement of profit or loss and other comprehensive income as it accrues, using the effective interest method of the instrument calculated at the acquisition or origination date. Interest income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest rate basis.

(c) Expenses

All expenses including management fees and custodian fees are recognised in the income statement on an accruals basis.

(d) Fee Income

Fee income relating to equitably assigned financial assets is recognised as the related service is provided.

(e) Distributions and taxation

Under current legislation the Fund is not subject to income tax as its taxable income (including assessable realised capital gains) is distributed in full to the unitholders. The Fund fully distributes its taxable income, calculated in accordance with the Fund Constitution and applicable taxation legislation, to the unitholders who are presently entitled to the income under the constitution. All distributions made have been treated as an expense and are recognised when the holder of the residual income unit becomes presently entitled.

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any future realised capital gains. If realised capital gains exceed realised capital losses the excess is distributed to the unitholders.

(f) Unit Prices

The unit price is based on the unit price accounting outlined in the Fund's constitution and product disclosure statement.

(g) Finance Costs

Distributions paid and payable on units are recognised in the income statement as finance costs and as a liability where not paid. Distributions paid are included in cash flows from financing activities in the statement of cash flows unless reinvested.

(h) Financial Assets

The carrying amount of financial assets includes deferred fees and expenses accounted for using the effective interest method and are initially recognised at fair value. They are subsequently measured at amortised cost using the effective interest method net of provision.

The acquisition of financial assets that meet the Fund's investment objectives occurs in the form of an equitable assignment.

LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

3 SIGNIFICANT ACCOUNTING POLICIES (cont.)

(i) Change in net assets attributable to unit holders

Non-distributable income, which may comprise unrealised changes in the fair value of investments, net capital losses, tax-deferred income, accrued income not yet assessable and non-deductible expenses are reflected in the profit and loss as change in net assets attributable to unitholders.

These items are included in the determination of distributable income in the period for which they are assessable for taxation purposes.

(j) Redeemable units

All redeemable units issued by the Fund provide the investors with the rights to require redemption for cash and give rise to a financial liability. In accordance with the constitution the Fund is obliged to redeem units at redemption price, which includes an allowance for transaction costs.

(k) Derivative financial instruments

The Fund is exposed to changes in interest rates from its activities and may use interest rate swaps to hedge this risk. The Fund may be required to hedge its interest rate exposures under the terms set out in the Fund's Product Disclosure Statement. Derivative financial instruments are not used for speculative purposes or to leverage the Fund.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in the statement of profit or loss and other comprehensive income when incurred. Subsequent to initial recognition, derivatives are measured at fair value.

Cash flow hedges

Changes in the value of the derivative hedging instruments designated as a cash flow hedge are recognised directly against the hedged item to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in the statement of profit or loss and other comprehensive income.

On entering into a hedging relationship, the Fund formally designates and documents the hedge relationship and the risk management objective for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows. The hedges are assessed on an ongoing basis to determine if they have been highly effective throughout the financial reporting periods for which they are designated.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, the hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in the statement of financial position remains there until the forecast transaction occurs. When the hedged item is a financial asset or liability the amount recognised against the hedged item is transferred to statement of profit or loss and other comprehensive income in the same period that the hedged item affects statement of profit or loss and other comprehensive income.

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

3 SIGNIFICANT ACCOUNTING POLICIES (cont.)

(I) New standards and interpretations not yet adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the Fund in the period of initial application. They are available for early adoption at 30 June 2013, but have not been applied in preparing this general purpose financial report:

- AASB 9 Financial Instruments includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the project to replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 will become mandatory for the Fund's 30 June 2016 financial statements. Retrospective application is generally required, although there are exceptions, particularly if the entity adopts the standard for the year ended 30 June 2013 or earlier. The Fund has not yet determined the potential effect of the standard.
- AASB 10 Consolidated Financial Statements, AASB 11 Joint Arrangements, AASB 12 Disclosure of Interests in Other Entities and AASB 13 Fair Value Measurement are effective for annual periods beginning 1 January 2013. AASB 13 explains how to measure fair value when required to by other AASBs. It does not introduce new fair value measurements, nor does it eliminate the practicability exceptions to fair value that currently exist in certain standards. The Fund has not yet determined the potential effect of the revised standards.

4 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

The Fund manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability.

The objective of the Fund is to provide unitholders with returns in accordance with the Product Disclosure Statement (PDS). The Fund aims to deliver this objective through investing in a highly diversified portfolio in accordance with limitations set out in the PDS.

The Fund strives to invest in products that meet the Funds investment objectives while maintaining sufficient liquidity to meet unitholders' redemptions.

	No. of Units	30 June 2013 \$
Opening balance	12,866,755	12,879,056
Applications	285,000	285,000
Units issued distributions reinvested	995,319	995,319
Redemptions	(429,861)	(429,861)
Cashflow hedge reserve attributable to unitholders	-	(43,383)
Closing unitholders balance	13,717,213	13,686,131
Cash distributions (not reinvested)	15,176	15,176

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

4 NET ASSETS ATTRIBUTABLE TO UNITHOLDERS (cont.)

	No of Units.	30 June 2012
		\$
Opening balance	11,255,327	11,255,327
Applications	660,000	660,000
Units issued distributions reinvested	1,005,490	1,005,490
Redemptions	(54,062)	(54,062)
Cashflow hedge reserve attributable to unitholders	-	12,301
Closing unitholders balance	<u>12,866,755</u>	<u>12,879,056</u>

Cash distributions (not reinvested)	24,121	24,121
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	2013	2012
	\$	\$

5 INTEREST INCOME

Interest income on financial assets measured at amortised cost	1,399,595	1,319,507
Interest on deposits	86,211	78,341
	<u>1,485,806</u>	<u>1,397,848</u>

6 AUDITORS REMUNERATION

Audit Services:

Auditors of the Fund - KPMG		
Audit and review of financial reports	<u>22,300</u>	<u>22,500</u>

Other Services:

Auditors of the Fund - KPMG		
Other audit related services	<u>18,800</u>	<u>25,000</u>

7 CASH AND CASH RESERVES

Cash at bank	<u>2,333,294</u>	<u>2,702,777</u>
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RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES

(i) Reconciliation of cash

Bank balance	<u>2,333,294</u>	<u>2,702,777</u>
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**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

7 CASH AND CASH RESERVES (cont.) **2013** **2012**
\$ \$

RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES (cont.)

(ii) Reconciliation of cash flows from operating activities

Cash flows from operating activities

Current year profit	-	-
Adjustments for:		
Total distribution paid or reinvested	1,012,844	1,028,730
Increase in distribution payable to unitholders	327,565	177,832
Increase in receivables	(35,791)	(80,792)
Increase in payables	6,096	27,619
	<u>1,310,714</u>	<u>1,153,389</u>
Net cash from operating activities	1,310,714	1,153,389

8 FINANCIAL ASSETS

Equitably assigned financial assets measured at amortised cost	12,096,054	10,742,302
	<u>12,096,054</u>	<u>10,742,302</u>

Geographic concentration of financial assets

New South Wales/ACT	4,658,633	3,711,023
Victoria/Tasmania	3,841,010	2,797,170
Queensland	2,547,033	2,032,811
Western Australia	848,431	1,471,024
South Australia/Northern Territory	200,947	730,274
	<u>12,096,054</u>	<u>10,742,302</u>

As at 30 June 2013 the Fund held collateral valued at \$20,373,427 (2012: \$16,831,126). Collective provision charges for financial asset impairment for the year ended 30 June 2013 were \$61,118 (2012: \$99,935) and specific provision of nil (2012: nil), which are held by the Class B unitholder.

9 RECEIVABLES

Interest and other receivables	72,581	54,033
Receivable from related parties	35,398	-
Derivative financial instrument receivable	-	12,301
	<u>107,979</u>	<u>66,334</u>

10 PAYABLES

Payable to related parties	15,547	111,259
Accrued expenses	55,270	99,366
Derivative financial instrument payable	31,082	-
	<u>101,899</u>	<u>210,625</u>

LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013

	2013	2012
	\$	\$
11 DISTRIBUTIONS PAID AND PAYABLE		
Opening balance	421,732	243,900
Less amount distributed relating to prior year	(89,690)	(75,343)
Add current year distributions	1,340,409	1,206,562
Less amount distributed relating to current year	(923,154)	(953,387)
	749,297	421,732
Balance at the end of the financial year	749,297	421,732

12 DETERMINATION OF FAIR VALUES

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Financial assets

The carrying amount of financial assets is measured at amortised cost using the effective interest rate method net of provisions for impairment and income yet to mature.

(b) Non derivative financial assets and liabilities

Fair value is calculated based on the present value of future principal and interest cash flows discounted at the market rate of interest at the reporting date.

For receivables and payables with a remaining life of less than one year, the notional amount is deemed to approximate the fair value.

The fair values of financial assets and liabilities together with the carrying amounts shown in the balance sheet are as follows:

	Carrying amount	Fair value
	2013	2013
	\$	\$
Cash and cash equivalents	2,333,294	2,333,294
Receivables	107,979	107,979
Financial assets	12,096,054	14,376,254
Payables	(851,196)	(851,196)
	13,686,131	15,966,331
	13,686,131	15,966,331

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

12 DETERMINATION OF FAIR VALUES (cont.)

	Carrying amount 2012 \$	Fair value 2012 \$
Cash and cash equivalents	2,702,777	2,702,777
Receivables	66,334	66,334
Financial assets	10,742,302	12,386,326
Payables	(632,357)	(632,357)
	<u>12,879,056</u>	<u>14,523,080</u>

13 FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

This note presents information about the Fund's exposure to each of the risks detail below, the Fund's objectives, policies and processes for measuring and managing risk, and the Fund's management of capital.

(b) Risk management framework

The Board of the Responsible Entity has overall responsibility for the establishment and oversight of the risk management framework. The Board has established a Risk, Audit and Compliance Committee (the "Committee") which is responsible for monitoring the emerging and changing risk profile of the Fund. The Committee is responsible for reviewing the adequacy of internal systems, controls and procedures in relation to the risk management framework and the risks faced by the Fund and Responsible Entity. The Committee is assisted in its oversight by the Risk Department which coordinates, sets policy and monitors the Group's effectiveness in credit risk, liquidity and market risk. The Chief Financial Officer reports regularly to the Committee and the Board. Risk management policies and systems are updated regularly to reflect changes in market conditions and the Fund's activities.

(c) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Fund, resulting in a financial loss to the Fund. It arises principally from equitably assigned financial assets and cash and cash equivalents.

(d) Management of credit risk

The Fund's policy over credit risk is to minimise its exposure to counterparties with perceived higher risk of default by dealing only with counterparties meeting the credit standards set out in the Fund's Product Disclosure Statement and by taking collateral as security.

Credit risk is monitored on a monthly basis by the investment manager in accordance with policies and procedures in place. The Fund's credit risk is monitored on a quarterly basis by the board of directors.

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

13 FINANCIAL RISK MANAGEMENT (cont.)

(e) Exposure to credit risk

The Fund's maximum credit risk exposure (without taking into account collateral) at the reporting date is represented by the respective carrying amounts of the relevant financial assets in the statement of financial position.

The carrying amount of financial assets held by the Fund that would be otherwise past due or impaired is nil. As such no financial assets were subject to renegotiated terms during the current year (2012: nil).

(f) Past due and impaired assets

There were no impaired financial assets as at 30 June 2013 (2012:nil).

(g) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivery of cash or other financial assets, or that such obligations will have to be settled in a manner disadvantageous to the Fund.

(h) Management of liquidity risk

The Fund's policy and the investment manager's approach to managing liquidity is to have sufficient liquidity to meet its liabilities, including estimated redemptions of units, as and when due without incurring undue losses or risking damage to the Fund's reputation.

The Fund produces cash flow estimates to ensure that at all times the Fund has cash or cash equivalents sufficient to meet its projected cash needs over the next three months.

Management does not expect all current unitholders to redeem their units in the short term, and as such has sufficient liquid assets to meet its commitments.

2013	Note	Carrying amount	Contractual cashflows	<1 year	1-3 Year	>3 year
Unitholders funds	4	13,686,131	13,686,131	13,570,578	115,553	-
Payables	10	101,899	101,899	101,899	-	-
Distributions payable	11	749,297	749,297	749,297	-	-
		14,537,327	14,537,327	14,421,774	115,553	-

2013	Note	Carrying amount	Contractual cashflows	<1 year	1-3 Year	>3 year
Cash and cash equivalents	7	2,333,294	2,333,294	2,333,294	-	-
Financial assets	8	12,096,054	19,154,411	3,938,244	4,812,339	10,403,828
Receivables	9	107,979	107,979	107,979	-	-
		14,537,327	21,595,684	6,379,517	4,812,339	10,403,828

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

13 FINANCIAL RISK MANAGEMENT (cont.)

(h) Management of liquidity risk (cont.)

2012	Note	Carrying amount	Contractual cashflows	<1 year	1-3 Year	>3 year
Unitholders funds	4	12,879,056	12,879,056	12,807,910	71,146	-
Payables	10	210,625	210,625	210,625	-	-
Distributions payable	11	421,732	421,732	421,732	-	-
		13,511,413	13,511,413	13,440,267	71,146	-

2012	Note	Carrying amount	Contractual cashflows	<1 year	1-3 Year	>3 year
Cash and cash equivalents	7	2,702,777	2,702,777	2,702,777	-	-
Financial assets	8	10,742,302	14,307,367	3,988,953	5,777,132	4,541,282
Receivables	9	66,334	66,334	66,334	-	-
		13,511,413	17,076,478	6,758,064	5,777,132	4,541,282

(i) Market risk

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads will affect the Fund's income or the fair value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposure within acceptable parameters, while optimising the return.

(j) Management of market risk

The Fund's strategy for the management of market risk is driven by the Fund's investment objective. The Fund's market risk is managed on a daily basis by the investment manager in accordance with policies and procedures in place.

(k) Exposure to interest rate risk

Changes to interest rates can directly and indirectly impact investment returns. The Fund is exposed to the risk that the fair value or future cash flows of its financial instruments will fluctuate as a result of changes in market interest rates.

At reporting date the interest rate profile of the Fund's interest bearing financial instruments was as follows:

	2013	2012
	\$	\$
Fixed rate instruments		
Financial assets	7,230,748	6,211,912
Variable rate instruments		
Financial assets	4,865,306	4,530,390

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

13 FINANCIAL RISK MANAGEMENT (cont.)

(k) Exposure to interest rate risk (cont.)

The return on financial liabilities varies depending upon the performance of the Fund, and are therefore not directly linked to interest rate movements.

Sensitivity analysis

The Fund's exposure to basis risk is minimised as the Fund actively manages its cost of funding and reprices its loan portfolio in response to changes in cost of funds within a short timeframe.

A change in market interest rates affects the value placed on future cash flows. A movement in the variable interest rate of +1% would result in an increase in profit of \$48,653 (2012: \$45,304).

(l) Capital management

The Fund manages its capital to ensure that it will be able to continue as a going concern while maximising the return to unitholders and maintaining investor, creditor and market confidence.

The Fund maintains a minimum level of capital in liquid form to support future operational initiatives, expected short term cash outflows and unexpected asset impairment. The Fund manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. Withdrawals are required to be in line with each investment term, and the Fund monitors and projects these cashflows on a monthly basis.

There have been no significant changes to the Fund's capital management strategy during the year.

(m) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the processes, technology and infrastructure supporting the Fund's activities with financial instruments either internally within the Fund or externally at the Fund's service providers, and from external factors other than credit, market and liquidity risk such as those arising from legal and regulatory requirements and generally accepted standards of investment management behaviour.

Substantially all of the assets of the Fund are held by Perpetual Nominees in their capacity as Custodian of the Fund.

The Investment Manager monitors the capital adequacy of the Custodian.

14 RELATED PARTIES

(a) Responsible Entity

The Responsible Entity of Liberty Term Investment Fund is Liberty Fiduciary Limited (ACN 119 884 623).

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

14 RELATED PARTIES (cont.)

(b) Key management personnel

Key management personnel are remunerated by a related entity. Payments made from the Fund to the Responsible Entity do not include any amount that is directly attributable to key management personnel remuneration.

Key management personnel of the Fund are the Directors of the Responsible Entity.

The directors of the Responsible Entity at any time during or since the end of the financial year were:

Richard Longes (Chairman)
Peter Hawkins
Sherman Ma
Peter Rollason

(c) Related party transactions

All transactions with related parties are conducted on normal commercial terms and conditions. All related party receivables/payables are unsecured. From time to time Liberty Fiduciary Limited may invest in or withdraw from the Fund.

A management fee is payable to the Investment Manager for administering and managing the Fund and its investments. This is an ongoing fee per annum based on the gross asset value of the Fund. The management fee paid and payable for the year ended 30 June 2013 was \$170,430 and \$15,547 respectively.

(d) Related party investments held by the Fund

The Fund has a policy on related party transactions, including arrangements to manage conflicts of interest, and it monitors these regularly. The Responsible Entity, the Investment Manager, and their related parties may hold units in the Fund from time to time.

(e) Units in the Fund held by related parties

Liberty Fiduciary Limited, its controlled entities and related parties as at 30 June 2013 held the following units in the Fund:

	Class B Unitholding	Interest held	Units issued	Units redeemed	Distribution received/receivable
	\$	%	\$	\$	\$
Minerva Holding Trust	12,609,204	92%	11,686,893	-	922,311

Liberty Fiduciary Limited, its controlled entities and related parties as at 30 June 2012 hold the following units in the Fund:

	Class B Unitholding	Interest held	Units issued	Units redeemed	Distribution received/receivable
	\$	%	\$	\$	\$
Minerva Holding Trust	11,686,893	91%	10,735,972	-	950,921

**LIBERTY TERM INVESTMENT FUND
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2013**

14 RELATED PARTIES (cont.)

(f) Units in the Fund held by other related parties

As at 30 June 2013 no directors of the Responsible Entity held units in the Fund (2012: nil) and a related party of a director held units in the Fund of 58,594 (2012: 54,114)

15 CONTINGENCIES

There are no outstanding commitments or contingencies.

16 SUBSEQUENT EVENTS

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors of the Responsible Entity, to affect significantly the operations of the Fund, the results of those operations, or the state of affairs of the Fund, in future financial years.

**LIBERTY TERM INVESTMENT FUND
DIRECTORS DECLARATION
FOR THE YEAR ENDED 30 JUNE 2013**

In the opinion of the directors of Liberty Fiduciary Limited, the responsible entity of the Liberty Term Investment Fund:

- (a) the financial statements and notes, set out on page 5 to 22, are in accordance with the Corporations Act 2001, including
 - (i) giving a true and fair view of the Fund's financial position as at 30 June 2013 and of its performance, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (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) the directors draw attention to note 2(a) of the financial report which contains a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors of Liberty Fiduciary Limited in their capacity as Responsible Entity of the Liberty Term Investment Fund:



Sherman Ma

Dated at Melbourne on 26 September 2013

**LIBERTY TERM INVESTMENT FUND
DIRECTORY
AS AT 30 JUNE 2013**

Fund

Liberty Term Investment Fund
Registered Office and Principal Place of Business
Level 16, 535 Bourke Street
Melbourne Vic 3000

Investment Manager

Liberty Financial Pty Ltd (ABN 55 077 248 983)
Level 16, 535 Bourke Street
Melbourne Vic 3000
Ph: 03 8635 8888
Fax: 03 8635 9988

Trustee

Liberty Fiduciary Ltd (ABN 80 119 884 623)
Level 16, 535 Bourke Street
Melbourne Vic 3000
Ph: 03 8635 8888
Fax: 03 8635 9988

Custodian

Perpetual Trustee Company Limited (ABN 42 000 001 007)
Level 7, 39 Hunter Street
Sydney NSW 2000
Ph: 02 9229 9000
Fax: 02 9221 7870



Independent auditor's report to the unitholders of Liberty Term Investment Fund

Report on the financial report

We have audited the accompanying financial report of Liberty Term Investment Fund (the Scheme), which comprises the statement of financial position as at 30 June 2013, the statements of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, notes 1 to 16 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of Liberty Fiduciary Limited (the Responsible Entity) are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2(a), the directors of the Responsible Entity also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards and the provisions of the Scheme's Constitution dated 17 August 2010, a true and fair view which is consistent with our understanding of the Scheme's financial position, and of its performance.



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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Liberty Term Investment Fund is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Scheme's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

KPMG

KPMG

BW Szentirmay
Partner

Melbourne

26 September 2013