

MOSAIC DIVERSIFIED FUNDS
ANNUAL FINANCIAL REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

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The Mosaic Diversified Funds consist of three separate schemes.

Foundation Assertive Fund
ARSN 115 121 661

Foundation Balanced Fund
ARSN 115 121 689

Foundation Conservative Fund
ARSN 115 121 796

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TABLE OF CONTENTS

	Page
Directors' Report	1-5
Lead Auditor's Independence Declaration	6
Independent Auditor's Report to the Unitholders	7-9
Directors' Declaration	10
Statements of Comprehensive Income	11
Statements of Financial Position	12
Statements of Changes in Equity	13
Statements of Cash Flows	14
Notes to the Financial Statements	15-36

**MOSAIC DIVERSIFIED FUNDS
DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

The Directors of IOOF Investment Management Limited, the Responsible Entity of the Mosaic Diversified Funds, present this report together with the financial statements of the Mosaic Diversified Funds ('the Schemes'), for the year ended 30 June 2018 and the auditor's report thereon.

Principal activities

The Schemes are registered managed investment schemes domiciled in Australia.

During the year, the Schemes continued to invest funds in accordance with the following investment objectives:

- Foundation Assertive Fund principally invests in other registered managed investment schemes.
- Foundation Balanced Fund principally invests in other registered managed investment schemes.
- Foundation Conservative Fund principally invests in other registered managed investment schemes.

The investment objectives are as disclosed in the current Product Disclosure Statements and in accordance with the provisions of the Schemes' Constitutions.

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

The Schemes did not have any employees during the year (2017: Nil).

Responsible Entity

The following persons held office as Directors of IOOF Investment Management Limited during the year and up to the date of this report:

Mr G. M. Walsh (Appointed as Chairman 13 September 2018)
Mr G. Venardos (Resigned as Chairman 13 September 2018)
Mr C. F. Kelaher (Resigned 1 September 2018)
Ms E. Flynn (Resigned 31 January 2017: Reappointed 29 August 2017)
Ms D. Oldham (Resigned 21 August 2018)
Mr J. Selak

Review of operations

During the year, the Schemes continued to invest in accordance with target asset allocations as set out in the governing documents of the Schemes and in accordance with the provisions of the Schemes' Constitutions.

**MOSAIC DIVERSIFIED FUNDS
DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

DIRECTORS' REPORT (continued)

Results

The performance of the Schemes, as represented by the results of their operations, were as follows:

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	Year ended		Year ended		Year ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Operating profit/(loss)	3,913	4,294	5,248	6,028	1,077	1,462
Distributions paid and payable to unitholders	-	(2,320)	-	(2,584)	-	(1,483)
Transfers (to)/from net assets attributable to unitholders/total comprehensive income	-	(1,974)	-	(3,444)	-	21
Profit/(loss) for the year	<u>3,913</u>	<u>-</u>	<u>5,248</u>	<u>-</u>	<u>1,077</u>	<u>-</u>
Distributions						
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Distributions paid and payable						
31 December paid	446	385	733	625	206	175
30 June final payable	<u>3,503</u>	<u>1,935</u>	<u>5,118</u>	<u>1,959</u>	<u>1,182</u>	<u>1,308</u>
	<u>3,949</u>	<u>2,320</u>	<u>5,851</u>	<u>2,584</u>	<u>1,388</u>	<u>1,483</u>
Distributions (cents per unit)	CPU	CPU	CPU	CPU	CPU	CPU
31 December paid	1.4500	1.3885	1.3000	1.1210	0.9000	0.6865
30 June final payable	<u>10.8882</u>	<u>6.7444</u>	<u>9.3655</u>	<u>3.5592</u>	<u>5.2641</u>	<u>5.5164</u>
	<u>12.3382</u>	<u>8.1329</u>	<u>10.6655</u>	<u>4.6802</u>	<u>6.1641</u>	<u>6.2029</u>

**MOSAIC DIVERSIFIED FUNDS
DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

DIRECTORS' REPORT (continued)

Performance

The table below demonstrates the performance of the Schemes as represented by the total return per annum, which is calculated as the aggregation of the percentage capital growth and percentage distribution of income. The total return per annum calculated after fees is shown for the past two years to 30 June and assumes that all distributions were re-invested during that period. These are calculated in accordance with FSC standard 6.0 Product Performance - Calculation of Returns. The comparison to benchmark performance for the past two years to 30 June is also shown below:

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	2018	2017	2018	2017	2018	2017
	%	%	%	%	%	%
Capital growth	0.41	6.17	(1.06)	5.52	(1.46)	(0.47)
Distribution	10.02	7.03	9.06	4.21	6.14	6.15
Total return	10.43	13.20	8.00	9.73	4.68	5.68
Benchmark return	8.63	8.97	6.36	9.72	3.27	2.05
Benchmark name	Morningstar Australia Multi-sector Growth		Morningstar Australia Multi-sector Balanced		Morningstar Australia Multi- sector Moderate	

Consistent with our statements in the current Product Disclosure Statement, future performance is not guaranteed. Investors should exercise care in using past performance as a predictor of future performance.

Indirect Cost Ratio

The indirect cost ratios of the Schemes are shown as follows:

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	2018	2017	2018	2017	2018	2017
	%	%	%	%	%	%
Indirect Cost Ratio	0.59	0.61	0.58	0.60	0.58	0.60

The costs are calculated on the net asset value of the Schemes and are deducted from the assets of the Schemes. The costs are accrued daily and paid monthly and are incorporated into the daily unit prices of the Schemes. The indirect cost ratio calculation includes investment management fees charged to the Schemes during the financial year, including those charged by the Responsible Entity directly for the management of the assets.

**MOSAIC DIVERSIFIED FUNDS
DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

DIRECTORS' REPORT (continued)

Significant changes in state of affairs

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. The Responsible Entity is therefore no longer contractually obligated to pay distributions. Consequently the units in the Scheme have been re-classified from a financial liability to equity on 1 July 2017.

In the opinion of the Directors of the Responsible Entity, there were no significant changes in the state of affairs of the Schemes that occurred during the financial year.

Matters subsequent to the end of the financial year

Except as disclosed in the financial statements, no other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

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

Likely developments and expected results of operations

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

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

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

Indemnification and insurance of officers and auditors

There is a Directors' and Officers' insurance policy which indemnifies the Directors and Officers of IOOF Investment Management Limited against liabilities to persons outside IOOF Investment Management Limited that arise out of the performance of their normal duties. The premiums have not been paid for out of the assets of the Schemes. The auditor of the Schemes is in no way indemnified out of the assets of the Schemes.

**MOSAIC DIVERSIFIED FUNDS
DIRECTORS' REPORT
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

DIRECTORS' REPORT (continued)

Fees paid to and interests held in the Schemes by the Responsible Entity or its Related Parties

Details of fees paid to the Responsible Entity during the financial year are disclosed in Note 12 of the financial statements.

The interests in the Schemes held by the Responsible Entity or its related parties during the financial year are disclosed in Note 12 of the financial statements.

Environmental regulation

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

Rounding of amounts to the nearest thousand dollars

Amounts in the Directors' report and financial statements for the Schemes have been rounded to the nearest thousand dollars in accordance with ASIC Corporations (Rounding in Financial/Director's Reports) Instrument 2016/191, unless otherwise stated.

Lead auditor's independence declaration

The lead auditor's independence declaration, as required under section 307C of the *Corporations Act* 2001, is set out on page 6 and forms part of the Directors' Report for the year ended 30 June 2018.

Signed in accordance with a resolution of the Directors of IOOF Investment Management Limited.

On behalf of the Directors,


Mr G. M. Walsh
Director

Melbourne, 26 September 2018



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

To the Directors of IOOF Investment Management Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Foundation Assertive Fund, Foundation Balanced Fund and Foundation Conservative Fund for the financial year ended 30 June 2018 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

Rachel Milum

Rachel Milum

Partner

Melbourne

26 September 2018



Independent Auditor's Report

To the unitholders of the Mosaic Diversified Funds:

*Foundation Assertive Fund;
Foundation Balanced Fund; and
Foundation Conservative Fund
(collectively "the Schemes")*

Opinion

We have audited the **Financial Report** of the Schemes.

In our opinion, the accompanying Financial Report of the Schemes is in accordance with the *Corporations Act 2001*, including

- giving a true and fair view of the Schemes' financial position as at 30 June 2018, and of their financial performance and their cash flows for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises the:

- Statements of financial position as at 30 June 2018;
- Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.



Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Schemes in accordance with the *Corporations Act 2001* and the relevant ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code). We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in the Schemes' annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors of IOOF Investment Management Limited (the Responsible Entity) are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of Directors for the Financial Report

The Directors of IOOF Investment Management Limited (the Responsible Entity) are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Schemes' ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they intend to liquidate the Schemes or to cease operations, or have no realistic alternative to do so.



Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the Audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

KPMG

KPMG

Rachel Milum

Rachel Milum

Partner

Melbourne

26 September 2018

**MOSAIC DIVERSIFIED FUNDS
DIRECTORS' DECLARATION
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

The Directors of IOOF Investment Management Limited, the Responsible Entity of the Mosaic Diversified Funds ('the Schemes') declare that:

- (a) the financial statements and notes set out on pages 11 to 36 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Schemes' financial position as at 30 June 2018 and of their performance for the year ended on that date;
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a); and
- (c) there are reasonable grounds to believe that the Schemes will be able to pay their debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Directors of IOOF Investment Management Limited.

On behalf of the Directors,


Mr G. M. Walsh
Director

Melbourne, 26 September 2018

MOSAIC DIVERSIFIED FUNDS
STATEMENT OF COMPREHENSIVE INCOME
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

		Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
		Year ended		Year ended		Year ended	
	Note	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000
<u>Investment Income</u>							
Trust distribution income		2,518	2,541	3,310	4,188	748	1,343
Interest income	7	9	6	10	6	8	6
Net gains/(losses) on financial instruments held at fair value through profit or loss	6	1,487	1,841	2,106	2,015	389	192
Total investment income/(loss)		<u>4,014</u>	<u>4,388</u>	<u>5,426</u>	<u>6,209</u>	<u>1,145</u>	<u>1,541</u>
<u>Expenses</u>							
Responsible Entity fees	12	101	94	178	181	68	79
Total operating expenses		<u>101</u>	<u>94</u>	<u>178</u>	<u>181</u>	<u>68</u>	<u>79</u>
Operating profit/(loss)		<u>3,913</u>	<u>4,294</u>	<u>5,248</u>	<u>6,028</u>	<u>1,077</u>	<u>1,462</u>
<u>Finance costs attributable to unitholders from operations</u>							
Distributions to unitholders	4	-	(2,320)	-	(2,584)	-	(1,483)
Transfers (to)/from net assets attributable to unitholders	3	-	(1,974)	-	(3,444)	-	21
Profit/(loss) for the year		<u>3,913</u>	<u>-</u>	<u>5,248</u>	<u>-</u>	<u>1,077</u>	<u>-</u>
Other Comprehensive income		-	-	-	-	-	-
Total comprehensive income for the period		<u>3,913</u>	<u>-</u>	<u>5,248</u>	<u>-</u>	<u>1,077</u>	<u>-</u>

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

MOSAIC DIVERSIFIED FUNDS
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2018

		Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	Note	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000
<u>Assets</u>							
Cash and cash equivalents	13(a)	885	657	593	956	387	425
Financial assets held at fair value through profit or loss	5	40,907	34,840	66,079	63,064	22,573	23,631
Receivables		2,141	2,119	2,510	3,705	505	1,135
Total assets		<u>43,933</u>	<u>37,616</u>	<u>69,182</u>	<u>67,725</u>	<u>23,465</u>	<u>25,191</u>
<u>Liabilities</u>							
Distributions payable	4	3,503	1,935	5,118	1,959	1,182	1,308
Other payables		494	209	194	750	6	7
Total liabilities (excluding net assets attributable to unitholders)		<u>3,997</u>	<u>2,144</u>	<u>5,312</u>	<u>2,709</u>	<u>1,188</u>	<u>1,315</u>
Net assets attributable to unitholders - liability*	3	<u>-</u>	<u>35,472</u>	<u>-</u>	<u>65,016</u>	<u>-</u>	<u>23,876</u>
Net assets attributable to unitholders (equity)*	3	<u>39,936</u>	<u>-</u>	<u>63,870</u>	<u>-</u>	<u>22,277</u>	<u>-</u>

* Effective from 1 July 2017, the Schemes' units have been reclassified from financial liability to equity. Refer to Note 1 for further details.

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

MOSAIC DIVERSIFIED FUNDS
STATEMENT OF CHANGES IN EQUITY
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

		Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	Note	30 June 2018 \$000	30 June 2017 \$000	30 June 2018 \$000	30 June 2017 \$000	30 June 2018 \$000	30 June 2017 \$000
Total equity at the beginning of the year		-	-	-	-	-	-
Reclassification due to AMIT tax regime implementation*	3	35,472	-	65,016	-	23,876	-
Comprehensive income for the year							
Profit/(loss) for the year		3,913	-	5,248	-	1,077	-
Total comprehensive income for the year		3,913	-	5,248	-	1,077	-
Transactions with unitholders							
Applications		9,257	-	12,355	-	3,382	-
Reinvested distributions		4	-	1	-	-	-
Redemptions		(4,761)	-	(12,899)	-	(4,670)	-
Distributions paid and payable		(3,949)	-	(5,851)	-	(1,388)	-
Total transactions with unitholders		551	-	(6,394)	-	(2,676)	-
Total equity at the end of the year*		39,936	-	63,870	-	22,277	-

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

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

**MOSAIC DIVERSIFIED FUNDS
STATEMENT OF CASH FLOWS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

	Note	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
		Year ended		Year ended		Year ended	
		30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
		Inflows/ (Outflows)	Inflows/ (Outflows)	Inflows/ (Outflows)	Inflows/ (Outflows)	Inflows/ (Outflows)	Inflows/ (Outflows)
Cash flows from operating activities							
Proceeds from the sale of financial instruments held at fair value through profit or loss		5,389	5,909	11,705	10,389	5,267	7,344
Payments for the purchase of financial instruments held at fair value through profit or loss		(7,473)	(7,084)	(8,109)	(12,962)	(2,443)	(4,723)
Interest received		10	6	10	7	8	6
Trust distributions received		-	1,478	-	2,967	-	1,411
Operating expenses paid		(100)	(95)	(178)	(180)	(68)	(80)
Net cash inflow/(outflow) from operating activities	13(b)	<u>(2,174)</u>	<u>214</u>	<u>3,428</u>	<u>221</u>	<u>2,764</u>	<u>3,958</u>
Cash flows from financing activities							
Proceeds from application of units		9,090	6,715	12,355	11,872	3,383	4,498
Payments for redemption of units		(4,310)	(5,905)	(13,455)	(9,546)	(4,670)	(6,966)
Distributions paid		(2,378)	(1,147)	(2,691)	(2,814)	(1,515)	(1,594)
Net cash inflow/(outflow) from financing activities		<u>2,402</u>	<u>(337)</u>	<u>(3,791)</u>	<u>(488)</u>	<u>(2,802)</u>	<u>(4,062)</u>
Net increase/(decrease) in cash and cash equivalents		228	(123)	(363)	(267)	(38)	(104)
Cash and cash equivalents at the beginning of the financial year		657	780	956	1,223	425	529
Cash and cash equivalents at the end of the financial year	13(a)	<u>885</u>	<u>657</u>	<u>593</u>	<u>956</u>	<u>387</u>	<u>425</u>

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 1: General information

This financial report covers Mosaic Diversified Funds ('the Schemes') as individual entities. The Schemes are registered managed investment schemes under the *Corporations Act 2001*.

Scheme information

The Schemes are Australian registered schemes.

Scheme Name	Date of Commencement	Date of Termination
Foundation Assertive Fund	4 July 2005	3 July 2085
Foundation Balanced Fund	4 July 2005	3 July 2085
Foundation Conservative Fund	4 July 2005	3 July 2085

The Responsible Entity of the Schemes is IOOF Investment Management Limited. The Responsible Entity's registered office is Level 6, 161 Collins Street, Melbourne, VIC 3000. The Responsible Entity's ABN number is 53 006 695 021.

The financial statements were authorised for issue by the Directors on 26 September 2018. The Directors of the Responsible Entity have the power to amend and reissue the financial report as considered necessary under the Schemes' Constitutions.

Reclassification of units from financial liability to equity

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. The Responsible Entity is therefore no longer contractually obligated to pay distributions. Consequently the units in the Schemes have been re-classified from a financial liability to equity on 1 July 2017, see Note 3 for further information.

Note 2: Summary of significant accounting policies

The principal accounting policies applied in the preparation of this financial report are set out below. These policies have been consistently applied to all years presented, unless otherwise stated in the following text:

(a) Basis of preparation

The financial report is a general purpose financial report for the year ended 30 June 2018 which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial report of the Schemes complies with International Financial Reporting Standards (IFRS) and interpretations adopted by the International Accounting Standard Board (IASB).

The financial statements have been prepared on a historical-cost basis except for financial instruments at fair value through profit or loss and held for trading, which are measured at fair value. Financial instruments classified as loans and receivables are measured at amortised cost.

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 2: Summary of significant accounting policies (continued)

The Statement of Financial Position is prepared on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are generally expected to be recovered or settled within twelve months, except for financial assets at fair value through profit or loss and net assets attributable to unitholders.

(b) Financial instruments

(i) Classification

The category of financial assets and financial liabilities at fair value through profit or loss comprises:

- Financial instruments held for trading

These include futures, forward contracts, options and interest rate swaps. All derivatives in a net receivable position (positive fair value), as well as options purchased, are reported as financial assets held for trading. All derivatives in a net payable position (negative fair value), as well as options written, are reported as financial liabilities held for trading. Derivative financial instruments entered into by the Schemes do not meet the hedge accounting requirements as defined by AASB 139. Consequently, hedge accounting is not applied by the Schemes.

- 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 include investments in fixed interest securities, equity instruments and units in unlisted managed investment schemes.

The fair value through profit or loss classification is available for the majority of the financial assets held by the Schemes and the financial liabilities arising from the units must be fair valued. Therefore, not fair valuing the financial assets used in calculating the fair value of the liability would result in an accounting mismatch. In addition, the Schemes' performance and risk management is assessed on a fair value basis.

Financial assets that are classified as loans and receivables and measured at amortised cost include cash and cash equivalents, margin accounts, mortgages, loans and receivables.

Financial liabilities at amortised cost include margin accounts, distributions payable and other payables.

(ii) Recognition/derecognition

Financial assets and liabilities at fair value through profit or loss are recognised initially on the trade date at which the Schemes becomes a party to the contractual provisions of the instrument. Other financial assets and liabilities are recognised on the date they are originated.

The Schemes derecognise a financial asset when the contractual rights to the cash flows from the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition in accordance with AASB 139.

A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 2: Summary of significant accounting policies (continued)

(iii) Measurement

Financial instruments held at fair value through profit or loss

Financial assets and financial liabilities held at fair value through profit or loss are measured initially at fair value, with transaction costs that are directly attributable to its acquisition or issue recognised in the Statement of Comprehensive Income. Subsequent to initial recognition, all instruments held at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the Statement of Comprehensive Income.

The following represent the basis for valuation of financial assets and liabilities designated at fair value through profit or loss for financial reporting purposes:

- **Units in Unlisted Managed Investment Schemes**

The fair value of units in unlisted managed investment schemes is the NAV price per unit on the last day of the period, as determined by the Schemes' Responsible Entity. The NAV price is calculated by deducting the liabilities of the Scheme from the gross assets of the Scheme.

If a quoted market price is not available on a recognised stock exchange, from an investment's Responsible Entity or from the brokers/dealers for non-exchange traded financial instruments, the fair value of the instrument is estimated using the last available quoted market price or other valuation techniques, which includes the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Derivative financial instruments

Derivative financial instruments are classified as held for trading, as the Schemes do not designate any derivatives as hedges in a hedging relationship. Derivatives are recognised at cost on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values for financial assets and liabilities are obtained from quoted market 'mid' prices in active markets. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

If a quoted market price is not available on a recognised stock exchange or from the brokers/dealers for non-exchange traded financial instruments, the fair value of the instrument is estimated using the last available quoted market price or other valuation techniques, which includes the use of recent arm's length market transactions, reference to the current fair value of another instrument that is substantially the same, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market.

Loan assets are measured initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest rate method, less impairment losses, if any. Such assets are reviewed at the reporting date to determine whether there is objective evidence of impairment.

If any such indication of impairment exists, impairment testing is carried out and an impairment loss is recognised in the Statement of Comprehensive Income as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate.

If in a subsequent period the amount of an impairment loss recognised on a financial asset carried at amortised cost decreases and the decrease can be linked objectively to an event occurring after the write-down, the write-down is reversed through the Statement of Comprehensive Income.

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 2: Summary of significant accounting policies (continued)

(c) Foreign currency translation

Functional and presentation currency

Items included in the Schemes' financial statements are measured using the currency of the primary economic environment in which they operate ('the functional currency'). This is the Australian dollar, which reflects the currency of the economy in which the Schemes compete for funds and is regulated. The Australian dollar is also the Schemes' presentation currency.

(d) 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 Schemes at any time for cash based on the redemption price, which is equal to a proportionate share of the Schemes 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 units back to the Schemes. 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 Schemes' liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Schemes, and it is not a contract settled in the Schemes' 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.

As at 30 June 2017, net assets attributable to unitholders are classified as a financial liability. Effective from 1 July 2017, the Schemes' units have been reclassified from financial liability to equity as they satisfied all of the above criteria.

(e) Cash and cash equivalents

Cash comprises current deposits with banks. Cash equivalents are short-term highly liquid investments that are readily convertible to a known amount of cash, are subject to an insignificant risk of changes in value, and are held for the purpose of meeting short term cash commitments rather than investment or other purposes. Bank overdrafts are shown in current liabilities on the Statement of Financial Position but are included within cash and cash equivalents for cash flow purposes.

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 2: Summary of significant accounting policies (continued)

(f) Investment income and expenses

Interest income and expense, including interest income and expense from non-derivative financial assets at fair value through profit and loss, are recognised in the Statement of Comprehensive Income as they accrue, 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. Interest income is recognised on a gross basis, including withholding tax, if any.

Accrued interest income on assets held at fair value through the 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).

Dividend income relating to exchange-traded equity instruments is recognised in the Statement of Comprehensive Income on the ex-dividend date with any related foreign withholding tax recorded as an expense. Dividends declared on securities sold short is accrued on the ex-dividend date and are recognised as a dividend in the Statement of Comprehensive Income. Income distributions from private equity investments and other managed investment schemes are recognised in the Statement of Comprehensive Income as trust distribution income when declared.

In some cases, the Schemes may receive or choose to receive dividends or distributions in the form of additional shares/units rather than cash. In such cases, the Schemes recognise the dividend or distribution income for the amount of the cash/dividend alternative with the corresponding debit treated as additional investments.

All expenses, including Responsible Entity fees, performance fees and investment management fees, are recognised in the Statement of Comprehensive Income on an accrual basis.

(g) Distributions

Distributions are payable as set out in the Schemes' Product Disclosure Statements. Distributions are determined by the Responsible Entity in accordance with the Schemes' Constitutions and applicable tax legislation. Distributable income includes realised capital gains on the disposal of financial instruments held at fair value through profit and loss and those held for trading. Unrealised gains and losses on these instruments recognised in net 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 in the Schemes to be offset against future realised capital gains. If capital gains exceed realised capital losses, the excess is distributed to unitholders.

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

The Schemes currently incur withholding tax imposed by certain countries on investment income. Income that is subject to such tax is recognised gross of the taxes and the corresponding withholding tax is recognised as tax expense.

(h) Finance costs

In the comparative period distributions paid on units were recognised in the Statement of Comprehensive Income as finance costs and as a liability until paid. As a result of the Schemes adopting the AMIT tax regime these are now classified as distributions paid directly out of equity and shown in the Statement of Changes in Equity. Distributions paid are included in cash flows from financing activities in the Statement of Cash Flows.

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 2: Summary of significant accounting policies (continued)

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

Income which has not been distributed by the Schemes is included in net assets attributable to unitholders. In the comparative period movements in net assets attributable to unitholders were recognised in profit or loss as finance costs. Due to the adoption of the AMIT tax regime these movements are now recognised in the Statement of Changes in Equity with effect from 1 July 2017.

(j) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the reporting date from the time of last payment in accordance with the policy set out in Note 2(f). Amounts are generally received within 30 days of being recorded as receivables.

Amounts due from brokers which represent receivables that have been contracted for but not yet delivered by the end of the year are included in receivables. Trades are recorded on trade date and normally settled within two business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Schemes 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.

(k) Payables

Payables includes liabilities and accrued expenses owing by the Schemes which are unpaid as at the reporting date. Amounts due to brokers which represent payables for securities purchased that are unsettled at reporting date are included in payables.

The distribution amount payable to unitholders as at the reporting date is recognised separately on the Statements of Financial Position as unitholders are presently entitled to the distributable income as at 30 June 2018 under the Schemes' Constitutions.

(l) Applications and redemptions

Applications received for units in the Schemes are recorded net of any entry fees payable prior to the issue of units in the Schemes.

All redeemable units issued by the Schemes provide the investors with the right to require redemption for cash and give rise to a financial liability. In accordance with the Product Disclosure Statement, the Schemes are contractually obliged to redeem units at redemption price, which includes an allowance for transaction costs that would be incurred by the Schemes on disposal of its assets required to fund the redemptions. As a result of the transaction cost factor, there will be a difference between the carrying amount of the net assets of the Schemes (excluding the unitholders' funds classified as a financial liability) and the contractual amount payable to unitholders which is based on the redemption price.

(m) Unit prices

The unit price is based on unit price accounting outlined in the Schemes' Constitutions and Product Disclosure Statement.

(n) Goods and services tax (GST)

Management fees, custodial fees and other expenses are recognised net of the amount of GST recoverable from the Australian Taxation Office (ATO) as a reduced input tax credit (RITC). Payables are stated with the amount of GST included. The net amount of GST recoverable from the ATO is included in receivables in the Statement of Financial Position. Cash flows relating to GST are included in the Statement of Cash Flows on a gross basis.

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 2: Summary of significant accounting policies (continued)

(o) Use of estimates

The preparation of the financial statements in conformity with IFRS 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. Actual results may differ from estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

For the majority of the Schemes' 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 other 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.

Where investments are held at Level 3, models use observable market 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.

Note 10 Financial Risk Management contains information about the estimation of fair values of financial instruments.

(p) Margin accounts

Margin accounts comprise cash held as collateral for derivative transactions. The cash is held by the broker and is only available to meet margin calls.

(q) Offsetting

Financial assets and liabilities are offset and the net amount presented in the Statements of Financial Position when, and only when, the Schemes have a legal right to offset the amounts and they intend either to settle on a net basis or realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under AASBs, e.g. for gains and losses arising from a group of similar transactions, such as gains and losses from financial instruments at fair value through profit and loss.

(r) Changes in accounting policies

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

(s) Rounding of amounts

The Schemes are entities of the kind referred to in Instrument 2016/191 issued by the Australian Securities and Investments Commission relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that Instrument, unless otherwise indicated.

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 2: Summary of significant accounting policies (continued)

(t) New accounting standards

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 Schemes. The assessment of the impact of these new standards (to the extent relevant to the Schemes) and interpretations is set below:

AASB 9 Financial Instruments

AASB 9 Financial Instruments (and applicable amendments), (effective from 1 January 2018) 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 applicable for financial years commencing on or after 1 January 2018 but is available for early adoption. The Directors have assessed the impact of AASB 9 on the Schemes' financial statements. Given no debt instruments are held by the Schemes, 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 Schemes' financial instruments. The derecognition rules have not been changed from the previous requirements, and the Schemes do not apply hedge accounting.

AASB 15 Revenue from Contracts with Customers

AASB 15 Revenue from Contracts with Customers, (effective from 1 January 2018) 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 Schemes' main sources of income are interest, dividends, 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 Schemes' accounting policies or the amounts recognised in the financial statements.

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 3: 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 Schemes shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

Prior to 1 July 2017 the Schemes classified net assets attributable to unitholders as liabilities in accordance with AASB 132. On 1 July 2017, the Schemes elected into the AMIT tax regime, therefore the net assets attributable to unitholders of the Schemes meet the criteria set out under AASB 132 and are classified as equity from 1 July 2017 onwards.

As a result of the reclassification of net assets attributable to unitholders from liabilities to equity, the Schemes' distributions are no longer classified as a finance cost in the Statement of Comprehensive Income, but rather as distributions paid in the Statement of Changes in Equity.

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

	Foundation Assertive Fund				Foundation Balanced Fund			
	30 June 2018		30 June 2017		30 June 2018		30 June 2017	
	No. of units		No. of units		No. of units		No. of units	
	'000	\$'000	'000	\$'000	'000	\$'000	'000	\$'000
Opening balance*	28,701	35,472	28,271	32,887	55,042	65,016	53,612	59,978
Applications	7,134	9,257	5,303	6,715	10,113	12,355	10,026	11,872
Reinvested distributions	3	4	1	1	1	1	2	2
Redemptions	(3,663)	(4,761)	(4,874)	(6,105)	(10,507)	(12,899)	(8,598)	(10,280)
Distributions paid and payable	-	(3,949)	-	-	-	(5,851)	-	-
Transfer to/(from) net assets attributable to unitholders/Total Comprehensive Income		3,913	-	1,974	-	5,248	-	3,444
Closing Balance*	32,175	39,936	28,701	35,472	54,649	63,870	55,042	65,016

	Foundation Conservative Fund			
	30 June 2018		30 June 2017	
	No. of units		No. of units	
	'000	\$'000	'000	\$'000
Opening balance*	23,714	23,876	26,074	26,365
Applications	3,297	3,382	4,319	4,498
Reinvested distributions	-	-	-	-
Redemptions	(4,553)	(4,670)	(6,679)	(6,966)
Distributions paid and payable	-	(1,388)	-	-
Transfer to/(from) net assets attributable to unitholders/Total Comprehensive Income	-	1,077	-	(21)
Closing Balance*	22,458	22,277	23,714	23,876

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

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 3: Net assets attributable to unitholders (Continued)

As stipulated within the Schemes' Constitutions, each unit represents a right to an individual share in the Schemes and does not extend to a right to the underlying assets of the Schemes. There are no separate classes of units and each unit has the same rights attached to it as all other units of the Schemes. Units are issued and redeemed at the unitholder's option at prices based on the value of the Schemes' net assets at the time of issue/redemption less transaction costs.

Capital risk management

The Schemes manage their net assets attributable to unitholders (including distribution payable) as capital, notwithstanding net assets attributable to unitholders were classified as a liability until 30 June 2017. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Schemes are subject to daily applications and redemptions at the discretion of unitholders.

The Schemes monitor the level of daily applications and redemptions relative to the liquid assets in the Schemes. During the year, the Schemes' strategy, which was unchanged from last year, was to ensure that there was no significant exposure to illiquid or thinly traded financial instruments.

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 4: Distributions paid and payable

The distributions paid and payable during the year were as follows:

	Foundation Assertive Fund Year ended				Foundation Balanced Fund Year ended			
	30 June 2018 \$'000	30 June 2018 CPU	30 June 2017 \$'000	30 June 2017 CPU	30 June 2018 \$'000	30 June 2018 CPU	30 June 2017 \$'000	30 June 2017 CPU
31 December paid	446	1.4500	385	1.3885	733	1.3000	625	1.1210
30 June final payable	3,503	10.8882	1,935	6.7444	5,118	9.3655	1,959	3.5592
	<u>3,949</u>	<u>12.3382</u>	<u>2,320</u>	<u>8.1329</u>	<u>5,851</u>	<u>10.6655</u>	<u>2,584</u>	<u>4.6802</u>

	Foundation Conservative Fund Year ended			
	30 June 2018 \$'000	30 June 2018 CPU	30 June 2017 \$'000	30 June 2017 CPU
31 December paid	206	0.9000	175	0.6865
30 June final payable	1,182	5.2641	1,308	5.5164
	<u>1,388</u>	<u>6.1641</u>	<u>1,483</u>	<u>6.2029</u>

Note 5: Financial assets held at fair value through profit or loss

	Foundation Assertive Fund Year ended		Foundation Balanced Fund Year ended		Foundation Conservative Fund Year ended	
	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000
Designated at fair value through profit or loss						
Unlisted unit trusts	40,907	34,840	66,079	63,064	22,573	23,631
Total designated at fair value through profit or loss	<u>40,907</u>	<u>34,840</u>	<u>66,079</u>	<u>63,064</u>	<u>22,573</u>	<u>23,631</u>
Total financial assets held at fair value through profit or loss	<u>40,907</u>	<u>34,840</u>	<u>66,079</u>	<u>63,064</u>	<u>22,573</u>	<u>23,631</u>
Comprising:						
Unlisted unit trusts						
Units in unlisted unit trusts	40,907	34,840	66,079	63,064	22,573	23,631
Total unlisted unit trusts	<u>40,907</u>	<u>34,840</u>	<u>66,079</u>	<u>63,064</u>	<u>22,573</u>	<u>23,631</u>
Total financial assets held at fair value through profit or loss	<u>40,907</u>	<u>34,840</u>	<u>66,079</u>	<u>63,064</u>	<u>22,573</u>	<u>23,631</u>

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 6: Net gains/(losses) on financial instruments held at fair value through profit or loss

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	Year ended		Year ended		Year ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets						
Net gains/(losses) on financial instruments designated at fair value through profit or loss	1,487	1,841	2,106	2,015	389	192
Total net gains/(losses) on financial instruments held at fair value through profit or loss	<u>1,487</u>	<u>1,841</u>	<u>2,106</u>	<u>2,015</u>	<u>389</u>	<u>192</u>

Note 7: Interest income

The following table details the interest income earned by the Schemes during the year:

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	Year ended		Year ended		Year ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Interest income from financial assets that are not at fair value through profit or loss:						
Cash and cash equivalents	9	6	10	6	8	6
Total interest income	<u>9</u>	<u>6</u>	<u>10</u>	<u>6</u>	<u>8</u>	<u>6</u>

Note 8: Derivative financial instruments

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

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

Derivative transactions include a wide assortment of instruments, such as forwards, futures, interest rate swaps and options. Derivatives are considered to be part of the investment process. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- a substitution for trading of physical securities; and
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

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

As at 30 June 2018 and 30 June 2017, the Schemes did not hold any derivative financial instruments.

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 9: Financial Instruments

Carrying amount versus fair values

The fair value of financial assets and financial liabilities approximates their carrying amounts in the Statement of Financial Position.

Fair value hierarchy

The Schemes' accounting policy on fair value measurements is discussed in Note 2.

The Schemes measure fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Schemes can access at measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs not based on observable data and the unobservable inputs have a significant effect on the instruments valuation.

		Foundation Assertive Fund							
		30 June 2018				30 June 2017			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets at fair value through profit or loss									
Units in unlisted unit trusts		-	40,907	-	40,907	-	34,840	-	34,840
		-	40,907	-	40,907	-	34,840	-	34,840
		Foundation Balanced Fund							
		30 June 2018				30 June 2017			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets at fair value through profit or loss									
Units in unlisted unit trusts		-	66,079	-	66,079	-	63,064	-	63,064
		-	66,079	-	66,079	-	63,064	-	63,064
		Foundation Conservative Fund							
		30 June 2018				30 June 2017			
		Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets at fair value through profit or loss									
Units in unlisted unit trusts		-	22,573	-	22,573	-	23,631	-	23,631
		-	22,573	-	22,573	-	23,631	-	23,631

The valuation of managed investment schemes included in Level 2 is based on the daily net asset value of the managed investment schemes provided by the investment manager.

The Schemes recognise transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. For the year ended 30 June 2018 and 30 June 2017, there have been no transfers between levels.

**MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018**

Note 10: Financial risk management

Strategy in using financial instruments

The Schemes are exposed to a variety of financial risks: credit risk, liquidity risk, market risk (including price risk, foreign exchange risk and interest rate risk) arising from the financial instruments they hold.

The Schemes' overall risk management program focuses on ensuring compliance with the Schemes' governing documents and seeks to maximise the returns derived for the level of risk to which the Schemes are exposed. As part of their risk management strategy, the Schemes may also utilise a range of derivative financial instruments to manage certain risk exposures.

The Responsible Entity via the Investment Manager assesses the risk profile before entering into economic hedge transactions. The effectiveness of all hedge relationships is monitored by the Investment Manager (based on economic consideration rather than IFRS hedge accounting conditions) on a daily basis.

More details about risk management policies employed by the Schemes to manage financial risks are discussed below.

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 Schemes, resulting in a financial loss to the Schemes.

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

Concentrations of credit risk are minimised primarily by:

- ensuring counterparties, together with the respective credit limits, are approved; and
- ensuring that transactions are undertaken with a large number of counterparties (either directly or indirectly).

The Schemes' Responsible Entity also manages credit risk by ensuring that a diversified portfolio of securities is held and that the Schemes do not invest in securities that are considered to be rated sub investment grade by a recognised rating agency.

The Schemes had no significant concentrations of credit risk exposure to counterparties at 30 June 2018 and 30 June 2017.

As at 30 June 2018 and 30 June 2017, there are no financial assets that are past due or impaired, or would otherwise be past due or impaired except for the terms having been renegotiated.

Credit risk is not considered to be significant to the Schemes except in relation to investments in debt securities. The Schemes do not have any investments in debt securities at 30 June 2018 and 30 June 2017.

In accordance with the Schemes' policy, the Responsible Entity via the Investment Manager monitors the Schemes' credit position on a continuous basis.

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 10: Financial risk management (continued)

Liquidity and cash flow risk

Liquidity risk is the risk that the Schemes will encounter difficulty in meeting obligations arising from its financial liabilities that are settled by delivering cash or another financial asset, or that such obligations will have to be settled in a manner disadvantageous to the Schemes. Cash flow risk is the risk that the future cash flows derived from holding financial instruments will fluctuate.

The risk management guidelines adopted are designed to minimise liquidity and cash flow risk through:

- ensuring that there is no significant exposure to illiquid or thinly traded financial instruments; and
- applying limits to ensure there is no concentration of liquidity risk to a particular counterparty or market.

In accordance with the Schemes' policy, the Responsible Entity via the Investment Manager monitors the Schemes' liquidity position on a continuous basis.

Financial liabilities of the Schemes comprise distributions payable, other payables, and net assets attributable to unitholders. Distributions payable and other payables have no contractual maturities but are typically settled within 30 days. Net assets attributable to unitholders are payable on demand.

Market risk

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

The Schemes' Responsible Entity aims to reduce market risk through analysis of the economic cycle and broad research of companies and markets, which may impact the Schemes' investments. In addition, the Responsible Entity, within asset allocation ranges, reduces exposure to sectors they perceive to be overvalued in favour of sectors which they believe have the prospect of better relative returns.

In accordance with the Schemes' policy, the Responsible Entity via the Investment Manager monitors the Schemes' market risk on a continuous basis.

The effect on the net assets attributable to unitholders and profit or loss due to a reasonably possible change in market factors, as represented by the market index, with all other variables held constant, is indicated in the table below.

Foundation Assertive Fund								
	30 June 2018				30 June 2017			
	Change in price		Effect on net assets attributable to unitholders and profit or loss		Change in price		Effect on net assets attributable to unitholders and profit or loss	
	Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
	%	%	\$'000	\$'000	%	%	\$'000	\$'000
Market Index								
Morningstar Australia Multi-sector Growth	20	(8)	8,181	(3,273)	20	(8)	6,968	(2,787)

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 10: Financial risk management (continued)

		Foundation Balanced Fund							
		30 June 2018				30 June 2017			
		Change in price		Effect on net assets attributable to unitholders and profit or loss		Change in price		Effect on net assets attributable to unitholders and profit or loss	
		Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
		%	%	\$'000	\$'000	%	%	\$'000	\$'000
Market Index									
Morningstar Australia Multi-sector Balanced		16	(6)	10,573	(3,965)	17	(7)	10,721	(4,414)
		Foundation Conservative Fund							
		30 June 2018				30 June 2017			
		Change in price		Effect on net assets attributable to unitholders and profit or loss		Change in price		Effect on net assets attributable to unitholders and profit or loss	
		Increase	Decrease	Increase	Decrease	Increase	Decrease	Increase	Decrease
		%	%	\$'000	\$'000	%	%	\$'000	\$'000
Market Index									
Morningstar Australia Multi-sector Moderate		10	(4)	2,257	(903)	9	(3)	2,127	(709)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of the Schemes' financial instruments will fluctuate as a result of changes in market interest rates.

The Responsible Entity establishes interest rate management strategies to manage the risk of the Schemes. This includes managing exposures around the benchmark and hedging exposures through the use of derivatives.

In accordance with the Schemes' policy, the Responsible Entity via the Investment Manager monitors the Schemes' overall interest sensitivity position on a continuous basis.

Interest rate risk is not considered to be significant to the Schemes except in relation to investments in interest bearing securities. The Schemes do not have any investments in interest bearing securities at 30 June 2018 and 30 June 2017. However, the Schemes do hold cash for liquidity and transactional purposes and this cash is held at floating rates of interest. As a result, the Schemes are not subject to a material exposure to interest rate risks due to fluctuations in the levels of market interest rates.

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 11: Involvement with unconsolidated structured entities

Investments in unlisted unit trusts, which are considered unconsolidated structured entities, are disclosed in Note 5. The maximum exposure to loss in the unconsolidated structured entities is the fair value disclosed in the Note. The fair value of the exposure will change on a daily basis throughout the period and in subsequent periods and will cease once the investments are disposed of.

The investments of the Schemes are managed in accordance with the investment mandates with the respective underlying Investment Managers. The investment decisions of the Schemes are based on the analysis conducted by the Investment Manager. The returns of the Schemes are exposed to the variability of the performance of the underlying investment strategies. The underlying Investment Managers receive a management fee for undertaking the management of these investments.

As at 30 June 2018 and 30 June 2017, the Schemes have not imposed any significant restrictions (e.g. borrowing arrangements, regulatory requirements or contractual arrangements) on the ability of any unconsolidated structured entity to transfer funds to the Schemes in the form of dividends or to repay loans or advances made to any unconsolidated structured entity by the Schemes.

As at 30 June 2018 and 30 June 2017, the Schemes do not have any current commitments or intentions to provide financial or other support to any unconsolidated structured entity, including commitments or intentions to assist the structured entity in obtaining financial support.

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 12: Related party transactions

Responsible Entity

The Responsible Entity of the Mosaic Diversified Funds is IOOF Investment Management Limited.

The immediate parent entity and the ultimate controlling entity of IOOF Investment Management Limited is IOOF Holdings Ltd.

Key management personnel

Key management personnel includes persons who are Directors of IOOF Investment Management Limited during this reporting period and up to the date of this report:

Mr G. M. Walsh (Appointed as Chairman 13 September 2018)
 Mr G. Venardos (Resigned as Chairman 13 September 2018)
 Mr C. F. Kelaher (Resigned 1 September 2018)
 Ms E. Flynn (Resigned 31 January 2017: Reappointed 29 August 2017)
 Ms D. Oldham (Resigned 21 August 2018)
 Mr J. Selak

Responsible Entity fees and other transactions

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Responsible Entity fees	101	94	178	181	68	79
Responsible Entity fees payable	9	8	15	15	6	6

Under the terms of the Schemes' Constitutions, the Responsible Entity, IOOF Investment Management Limited, is entitled to receive maximum management fees, calculated by reference to the average daily net assets (excluding net assets attributable to unitholders) of the Schemes as follows:

Foundation Assertive Fund 0.25% per annum (2017: 0.27%)

Foundation Balanced Fund 0.25% per annum (2017: 0.28%)

Foundation Conservative Fund 0.28% per annum (2017: 0.30%)

Related party schemes' unitholdings

IOOF Investment Management Limited, its related parties and other schemes managed by IOOF Investment Management Limited did not hold any units in the Schemes as at 30 June 2018 (2017: Nil).

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 12: Related party transactions (continued)

Investments

The Schemes held investments in the following schemes of which IOOF Investment Management Limited is the Responsible Entity or its related parties:

	Foundation Assertive Fund					
	Fair value of Investment		Interest Held		Distribution received/receivable	
	2018 \$'000	2017 \$'000	2018 %	2017 %	2018 \$'000	2017 \$'000
Strategic Australian Equity Fund	16,872	14,511	0.71	0.70	967	877
Strategic Fixed Interest Fund	6,462	5,318	0.30	0.27	92	303
Strategic Global Property Fund	4,141	3,425	0.53	0.48	317	288
Strategic International Equity Fund	11,826	10,188	0.71	0.65	1,111	1,046
Strategic Cash Plus Fund	1,606	1,398	0.59	0.54	31	27
	40,907	34,840			2,518	2,541

	Foundation Balanced Fund					
	Fair value of Investment		Interest Held		Distribution received/receivable	
	2018 \$'000	2017 \$'000	2018 %	2017 %	2018 \$'000	2017 \$'000
Strategic Australian Equity Fund	20,112	19,503	0.84	0.94	1,183	1,202
Strategic Fixed Interest Fund	20,504	19,051	0.94	0.97	307	1,089
Strategic Global Property Fund	6,597	6,135	0.84	0.86	513	521
Strategic International Equity Fund	12,495	12,170	0.73	0.78	1,181	1,254
Strategic Cash Plus Fund	6,371	6,205	2.32	2.38	125	122
	66,079	63,064			3,309	4,188

	Foundation Conservative Fund					
	Fair value of Investment		Interest Held		Distribution received/receivable	
	2018 \$'000	2017 \$'000	2018 %	2017 %	2018 \$'000	2017 \$'000
Strategic Australian Equity Fund	3,428	3,675	0.12	0.18	200	230
Strategic Fixed Interest Fund	11,632	11,952	0.54	0.61	174	686
Strategic Global Property Fund	1,124	1,150	0.14	0.16	87	98
Strategic International Equity Fund	2,141	2,285	0.12	0.15	202	236
Strategic Cash Plus Fund	4,248	4,569	1.55	1.75	84	93
	22,573	23,631			747	1,343

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 12: Related party transactions (continued)

Key management personnel compensation

Key management personnel are remunerated by IOOF Investment Management Limited. Payments made from the Schemes to IOOF Investment Management Limited do not include any amount that is directly attributable to key management personnel remuneration.

Key management personnel loan disclosures

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

Other transactions within the Schemes

Apart from those details disclosed in this Note, no key management personnel have entered into a material contract with the Schemes since the end of the previous financial year and there were no material contracts involving Directors interests subsisting at year end.

Key management personnel unitholdings

At 30 June 2018 and 30 June 2017, no Directors of the Responsible Entity held units in the Schemes.

Note 13: Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities

(a) Cash and cash equivalents

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000
Cash at bank	885	657	593	956	387	425
	<u>885</u>	<u>657</u>	<u>593</u>	<u>956</u>	<u>387</u>	<u>425</u>

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 13: Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities (continued)

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

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	Year ended		Year ended		Year ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total comprehensive income	3,913	-	5,248	-	1,077	-
Increase/(decrease) in net assets attributable to unitholders	-	1,974	-	3,444	-	(21)
Net (gains)/losses on financial instruments held at fair value through profit or loss	(1,487)	(1,841)	(2,106)	(2,015)	(389)	(192)
Proceeds from the sale of financial instruments held at fair value through profit or loss	5,389	5,909	11,705	10,389	5,267	7,344
Payments for the purchase of financial instruments held at fair value through profit or loss	(7,473)	(7,084)	(8,109)	(12,962)	(2,443)	(4,723)
Distributions to unitholders	-	2,320	-	2,584	-	1,483
Investment income reinvested	(2,616)	-	(4,306)	-	(1,377)	-
Changes in assets and liabilities:						
Decrease/(increase) in receivables	99	(1,064)	996	(1,219)	630	67
Increase/(decrease) in payables	1	-	-	-	(1)	-
Net cash inflow/(outflow) from operating activities	(2,174)	214	3,428	221	2,764	3,958
(c) Non-cash financing and operating activities						
Distributions re-invested	4	1	1	2	-	-
Participation in reinvestment plans	2,616	-	4,306	-	1,377	-
Proceeds from application for units	168	-	-	-	-	-
Payments for redemption of units	(168)	-	-	-	-	-
	2,620	1	4,307	2	1,377	-

Non-distributable income is included in net assets attributable to unitholders. The change in this amount each year (as reported in (b) above) represents a non-cash financing cost as it is not settled in cash until such time as it becomes distributable (i.e. taxable).

Note 14: Auditor's remuneration

	Foundation Assertive Fund		Foundation Balanced Fund		Foundation Conservative Fund	
	Year ended		Year ended		Year ended	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$	\$	\$	\$	\$	\$
(a) Audit services						
Audit and review of financial reports	8,345	8,089	8,345	8,089	8,345	8,089
Other regulatory audit services	2,589	2,696	2,589	2,696	2,589	2,696
Total remuneration for audit services	10,934	10,785	10,934	10,785	10,934	10,785
(b) Other services						
Taxation services	1,950	-	1,950	-	1,950	-
Total remuneration for other services	1,950	-	1,950	-	1,950	-

Auditor's remuneration is paid by the Responsible Entity.

MOSAIC DIVERSIFIED FUNDS
NOTES TO THE FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED 30 JUNE 2018

Note 15: Events subsequent to reporting date

No significant events have occurred after the reporting date that affect the interpretation of the financial information contained within this report.

Note 16: Contingent assets and liabilities and Capital commitments

There are no outstanding contingent assets, liabilities or capital commitments as at 30 June 2018 and 30 June 2017.