

DDH PREFERRED INCOME FUND
ARSN 108 161 575

Financial Report
for the year ended
30 June 2020



**DDH PREFERRED INCOME FUND
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

The directors of DDH Graham Limited, the responsible entity (the Responsible Entity) of the DDH Preferred Income Fund (the Fund), present their report together with the financial report of the Fund, for the year ended 30 June 2020 and the auditor's report thereon.

The Fund became a registered scheme under the Corporations Act 2001 on 9 March 2004 and DDH Graham Limited was appointed the Responsible Entity on that date.

The Responsible Entity

The registered office and place of business of the Responsible Entity and the Fund is Level 9, 324 Queen Street, Brisbane.

The directors of DDH Graham Limited at any time during or since the end of the financial year are:

Name and qualifications	Age	Experience and special responsibilities
Peter B Lockhart		
Executive Chairman/Joint Managing Director Bachelor of Economics Master of Business Administration	66	Director since 1988. Extensive experience in financial advisory and trust management services and superannuation administration. Member of Compliance Committee. Member of Audit Committee.
Ugo C Di Girolamo		
Joint Managing Director Associate Diploma in Business Member of Finance & Treasury Association Limited	58	Director since 2000. Over 30 years' experience in financial markets including 16 years in an executive money market role.
David D H Graham		
Bachelor of Commerce Bachelor of Economics (Hons) Master of Business Administration Master of Taxation and Financial Planning	78	Director since 1986. Extensive experience in financial advisory and trust management services.
Douglas A H Graham		
Chief Operating Officer Bachelor of Commerce Bachelor of Arts	47	Director since May 2017. Extensive experience across a range of industries including finance and information technology. Member of the Chartered Accountants Australia and New Zealand.

Principal activities

The Fund is a registered managed investment scheme domiciled in Australia.

The investment activities of the Fund continued to be in accordance with the investment policy of the Fund as outlined in the current product disclosure statement, and investments in each class of asset were maintained within the stated asset allocation ranges. The key asset categories are Australian hybrid securities, Australian corporate debt, structured debt and collateralised debt obligations, and Australian cash and cash enhanced securities.

The Fund did not have any employees during the year.

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

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DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

Review of operations

The objective of the Fund is to provide investors with access to a diversified and professionally managed portfolio of high yielding investments across the domestic hybrid and fixed income markets. Returns generated are expected to exceed cash management and traditional fixed income investments with the benchmark being the UBS Australian Bank Bill Index.

The outbreak of COVID-19 and the resulting economic consequences impacted financial markets over varying degrees in the second half of the financial year. The Fund's investment activities would have been impacted by the COVID-19 as reflected in the adjustment to the carrying value of the investment securities at balance date.

It is not possible to accurately quantify the impact of COVID-19 on the results as there are other factors as well that influence movements in financial markets. DDH Graham Limited will continue to monitor the market conditions closely and ensure appropriate action is put in place to mitigate adverse movements irrespective of the cause.

Results

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

	2020	2019
	\$	\$
Net operating profit	2,271,596	5,059,679
Distributions paid and payable	4,068,429	4,935,080
Distribution - cents per unit	2.56	3.9375

Performance	Year to 30 June 2020	Year to 30 June 2019	Year to 30 June 2018
	%	%	%
Capital growth	(0.97)	0.33	0.14
Distribution of income	3.03	4.70	4.23
Total return	2.06	5.03	4.37
Benchmark: UBS Australian Bank Bill Index	0.85	1.97	1.78

Consistent with 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.

Unit redemption prices

Unit redemption prices are shown as follows:

	2020	2019	2018
	\$	\$	\$
At 30 June (quoted ex-distribution)	0.8525	0.8648	0.8521
Year to 30 June (quoted cum-distribution)			
High during year	0.8708	0.8694	0.8677
Low during year	0.7953	0.8509	0.8515

Value of Assets

The value of the Fund's assets of \$139,888,773 (2019: \$115,908,522) is derived using the basis set out in Note 3 of the financial statements.

The Fund's investment securities being market-linked products and carried at the prevailing market value will reflect the volatility arising from the COVID-19 and other impacts.

**DDH PREFERRED INCOME FUND
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

Interests in the Fund

The movement in units on issue in the Fund during the year is set out below:

	30 June 2020 No.	30 June 2019 No.
Opening balance	133,679,631	103,366,397
Applications	62,845,895	44,847,913
Redemptions	(36,737,794)	(14,732,292)
Units issued upon reinvestment of distributions	204,220	197,613
Closing balance	159,991,952	133,679,631

Significant changes in the state of affairs

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

Events subsequent to balance date

Apart from the uncertainty associated with COVID-19, 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, 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 be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

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

Further information on likely developments in the operations of the Fund 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 Fund.

Indemnification and insurance for officers and auditors

Indemnification

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 Fund.

The Fund has not indemnified any auditor of the Fund.

Insurance Premiums

During the financial year the Responsible Entity has paid premiums in respect of its officers for liability and legal expenses insurance contracts for the year ended 30 June 2020. The Responsible Entity has paid or agreed to pay in respect of the Fund premiums in respect of such insurance contracts for the year ending 30 June 2021. Such insurance contracts insure against certain liability (subject to specified exclusions) for persons who are or have been officers of the Responsible Entity.

Details of the nature of the liabilities covered or the amount of the premium paid have not been included as such disclosure is prohibited under the terms of the contracts.

**DDH PREFERRED INCOME FUND
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2020**

Interest of the Responsible Entity

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in Note 14 to the financial statements.

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

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 14 to the financial statements.

Environmental regulation

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

Lead Auditor's Independence Declaration

The lead auditor's independence declaration is set out on page 5 and forms part of this directors' report for the year ended 30 June 2020.

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



**PB Lockhart
Director
DDH Graham Limited
Responsible Entity
Brisbane 28 September 2020**

Auditor's Independence Declaration

As auditor of Preferred Income Fund for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, 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.

This declaration is in respect of Preferred Income Fund during the year.



Crowe Audit Australia



Mike McDonald OAM
Partner

28 September 2020
Brisbane

Liability limited by a scheme approved under Professional Standards Legislation.

The title 'Partner' conveys that the person is a senior member within their respective division and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe Australasia external audit division. All other professional services offered by Findex Group Limited are conducted by a privately-owned organisation and/or its subsidiaries.

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**DDH PREFERRED INCOME FUND
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2020**

	Notes	2020 \$	2019 \$
Investment Income			
Interest income	4	5,442,459	4,240,368
Distribution income		-	14,333
Net unrealised loss on investment securities held at fair value through profit or loss		(1,327,606)	(235,622)
Net realised gains/(loss) on investment securities held at fair value through profit or loss		(674,384)	2,043,931
Total net investment income		3,440,469	6,063,010
Expenses			
Brokerage charges		53,516	132,723
Management fees		1,051,549	870,598
Other operating expenses		63,808	10
Operating expenses		1,168,873	1,003,331
Profit from operating activities		2,271,596	5,059,679
Other comprehensive income		-	-
Total comprehensive income		2,271,596	5,059,679

The Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 22.

**DDH PREFERRED INCOME FUND
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2020**

	2020	2019
	\$	\$
Total equity at the beginning of the year	114,477,550	88,216,349
Comprehensive income for the year		
Profit for the year	2,271,596	5,059,679
Other comprehensive income	-	-
Total comprehensive income for the year	2,271,596	5,059,679
Transactions with unitholders		
Applications	54,215,915	38,733,438
Redemptions	(31,409,542)	(12,765,699)
Units issued upon reinvestment of distributions	173,181	168,863
Distributions paid and payable	(4,068,429)	(4,935,080)
Total transactions with unitholders	18,911,125	21,201,522
Total equity at the end of the year	135,660,271	114,477,550

The Statement of Changes Equity should be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 22.

**DDH PREFERRED INCOME FUND
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2020**

	Notes	2020 \$	2019 \$
Assets			
Cash and cash equivalents	8	5,612,607	5,250,860
Investment securities held at fair value through profit or loss	9	134,162,793	109,565,730
Trade and other receivables	10	113,373	1,091,932
Total assets		139,888,773	115,908,522
Liabilities			
Trade and other payables	11	4,228,502	1,430,972
Total liabilities		4,228,502	1,430,972
Net assets attributable to unitholders equity	6	135,660,271	114,477,550

The Statement of Financial Position should be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 22.

**DDH PREFERRED INCOME FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2020**

	Notes	2020 \$	2019 \$
Cash flows from operating activities			
Interest received		5,488,271	4,318,846
Trust distribution received		-	14,333
Operating expenses paid		(1,108,006)	(931,499)
Net cash flows from operating activities	16(a)	4,380,265	3,401,680
Cash flows from investing activities			
Proceeds from sale of investments		227,796,165	240,400,284
Purchase of investments		(250,462,855)	(263,624,712)
Net cash flows used in investing activities		(22,666,690)	(23,224,428)
Cash flows from financing activities			
Proceeds from applications of redeemable units		54,207,874	38,733,438
Payments on redemption of redeemable units		(31,293,904)	(13,019,544)
Distributions paid		(4,265,798)	(4,432,806)
Net cash flows from financing activities		18,648,172	21,281,088
Net increase in cash and cash equivalents		361,747	1,458,340
Cash and cash equivalents at the beginning of the year		5,250,860	3,792,520
Cash and cash equivalents the end of the year	16(b)	5,612,607	5,250,860
Non-cash financing activities	16(c)	173,181	168,863

The Statement of Cash Flows should be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 22.

**DDH PREFERRED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

1. REPORTING ENTITY

DDH Preferred Income Fund (the Fund) is a registered managed investment scheme under the *Corporations Act 2001*. The financial report of the Fund is for the year ended 30 June 2020.

The financial report was authorised for issue by the directors of the Responsible Entity on 28 September 2020.

2. BASIS OF PREPARATION

a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB'), including Australian Accounting Interpretations, other Authoritative pronouncements of the AASB and the *Corporations Act 2001*. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

b) Basis of measurement

The financial statements have been prepared on the historical cost basis except for financial instruments at fair value through profit or loss, which are measured at fair value.

c) Functional & presentation currency

The financial report of the Fund is presented in Australian dollars, which is the Fund's functional currency.

d) Use of estimates and judgement

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in future periods affected.

The outbreak of COVID-19 and the resulting economic consequences impacted financial markets over varying degrees in the second half of the financial year. The Fund's investment activities would therefore have been impacted by the COVID-19.

Judgement has been exercised in considering the impacts that the COVID-19 pandemic has had, or may have, on the Fund based on known information. This consideration extends to the recognition of receivables and payables, valuation of assets and impacts on investments.

There were no key adjustments during the year arising from estimates and judgements.

e) Changes in accounting policy

The fund has consistently applied the accounting policies set out in Note 3 to all periods presented in these financial statements.

There are no accounting standards, interpretations, or amendments to existing accounting standards that are effective for the first time in the financial year beginning 1 July 2019 that had a material impact on the amounts recognised in prior periods, or will affect the current and future periods.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Financial Instruments

(i) Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Fund becomes a party to the contractual provisions to the instrument. For financial assets, this is the date that the Fund commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

(ii) Classification and subsequent measurement

Financial assets are subsequently measured at:

- Amortised cost;
- Fair value through other comprehensive income; or
- Fair value through profit or loss.

The classification and measurement depend upon the Responsible Entity business model for managing the financial assets and the contractual terms of the cash flows.

A financial asset is subsequently measured at amortised cost if it meets the following conditions:

- The financial asset is managed solely to collect contractual cash flows; and
- The contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates.

A financial asset is subsequently measured at fair value through other comprehensive income if it meets the following conditions:

- the contractual terms within the financial asset give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding on specified dates; and
- the business model for managing the financial asset comprises both contractual cash flows collection and the selling of the financial asset.

By default, all other financial assets that do not meet the measurement conditions of amortised cost or fair value through other comprehensive income are subsequently measured at fair value through profit or loss.

Financial liabilities are subsequently measured at:

- Amortised cost; or
- Fair value through profit or loss.

A financial liability is measured at fair value through profit or loss if the financial liability is:

- A contingent consideration of an acquirer in a business combination to which AASB;3 *Business Combinations* applies;
- Held for trading; or
- Initially designated as at fair value through profit or loss.

All other financial liabilities are subsequently measured at amortised cost using the effective interest method.

(iii) Derecognition

Derecognition refers to the removal of a previously recognised financial asset or financial liability from the Statement of Financial Position.

Derecognition of financial assets

A financial asset is derecognised when the holder's contractual rights to its cash flows expires, or the asset is transferred in such a way that all the risks and rewards of ownership are substantially transferred.

Derecognition of financial liabilities

A liability is derecognised when it is extinguished (ie when the obligation in the contract is discharged, cancelled or expires). An exchange of an existing financial liability for a new one with substantially modified terms, or a substantial modification to the terms of a financial liability is treated as an extinguishment of the existing liability and recognition of a new financial liability.

(iv) Impairment

The Fund recognises a loss allowance for expected credit losses on financial assets that are measured at amortised cost or fair value through other comprehensive income. Loss allowance is not recognised for financial assets measured at fair value through profit or loss.

Expected credit losses are the probability-weighted estimate of credit losses over the expected life of a financial instrument. A credit loss is the difference between all contractual cash flows that are due, and all cash flows expected to be received, all discounted at the original effective interest rate of the financial instrument.

The Fund uses the simplified approach to impairment, as applicable under AASB 9.

The simplified approach does not require tracking of changes in credit risk at every reporting period, but instead requires the recognition of lifetime expected credit loss at all times.

This approach is applicable to trade receivables or contract assets that result from transactions within the scope of AASB 15: Revenue from Contracts with Customers and that contain a significant financing component.

In measuring the expected credit loss, a provision matrix for trade receivables was used, taking into consideration various data to get to an expected credit loss (ie diversity of its customer base, appropriate groupings of its historical loss experience etc).

At each reporting date, the Fund recognises the movement in the loss allowance as an impairment gain or loss in the statement of profit or loss and other comprehensive income.

The carrying amount of financial assets measured at amortised cost includes the loss allowance relating to that asset.

(v) Specific investments

Cash and cash equivalents

Cash and cash equivalents include cash at bank and are initially recognised under contractual obligations and after initial recognition are stated at their amortised cost less impairment losses.

Investment securities

The fair value of investment securities is based on their quoted market prices at the Statement of Financial Position balance date without any deduction for estimated future selling costs. Financial assets are priced at last sale prices at balance date and financial liabilities are priced at current asking prices.

**DDH PREFERRED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

Receivables

Receivables may include amounts for interest and trust distribution and are initially recognised when the right to receive payment is established and after initial recognition are stated at their amortised cost less impairment losses.

Payables

Liabilities are recognised for amounts to be paid in the future for goods or services received, whether billed to the Fund or not and after initial recognition are stated at their amortised cost. Trade accounts payable are normally settled within 30 days.

The distribution payable to unitholders as at balance date is recognised as a payable as unitholders are presently entitled to the distributable income under the Fund's Constitution.

(b) Interest income

Interest income on debt securities is recognised in the Statement of Profit or Loss and Other Comprehensive Income when entitled to receive the interest as at coupon date.

Interest income on bank operating accounts is recognised in the Statement of Profit or Loss and Other Comprehensive Income as it accrues, using the original effective interest rate of the instrument calculated at the acquisition or origination date.

(c) Distribution income

Distribution income relating to unlisted and listed securities is recognised in the Statement of Profit or Loss and Other Comprehensive Income when declared.

(d) Expenses

All expenses, including management fees and custodian fees, are recognised in the Statement of Profit or Loss and Other Comprehensive Income on an accrual basis.

(e) Taxation

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

(f) Distributions

Distributions are payable as set out in the Fund's product disclosure statement and/or the Fund's constitution. Such distributions are recognised as payable when they are determined by the Responsible entity.

Distributions paid are included in cash flows from financing activities in the Statement of Cash Flows.

(g) Net assets attributable to unitholders

Units are redeemable at the unitholders option and are therefore classified as equity. The units can be put back to the Fund at any time for cash equal to the proportionate share of the Fund's net asset value. The fair value of redeemable units is measured at the redemption amount that is payable (based on redemption price) at the date if unitholders exercised their right to put the units back to the Fund.

(h) Applications and redemptions

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

(i) Unit prices

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

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(j) Change in net assets attributable to unitholders

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.

(k) Goods and services tax

Management fees, custody fees and other expenses are recognised net of the goods and services tax (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 are included in the Statement of Cash Flows on a gross basis.

(l) Comparative information

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(m) New Accounting Standards and interpretations

A number of new accounting standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2020 and have not been early adopted in preparing these financial statements.

The Directors have considered these changes and do not believe their application will have a material effect on the financial statements of the Fund.

4. Interest income	2020	2019
	\$	\$
Cash and cash equivalents	14,847	66,470
Listed interest bearing securities		
- Convertible notes	732,123	572,475
- Floating rate notes	251,837	670,954
- Hybrid securities	106,148	300,912
- Corporate bonds	25,741	-
Unlisted interest-bearing securities		
- Floating rate notes	3,666,927	2,523,062
- Corporate bonds	644,836	106,495
	5,442,459	4,240,368

5. Auditor's remuneration

	2020	2019
	\$	\$
Auditing and review of the financial report and other audit work under <i>Corporations Act 2001</i>	15,500	14,250

Auditor's remuneration is paid by the responsible entity.

**DDH PREFERRED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

6. Net assets attributable to unitholders

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

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

	30 June 2020 No.	30 June 2019 No.	30 June 2020 \$	30 June 2019 \$
Opening balance	133,679,631	103,366,397	114,477,550	88,216,349
Applications	62,845,895	44,847,913	54,215,915	38,733,438
Redemptions	(36,737,794)	(14,732,292)	(31,409,542)	(12,765,699)
Units issued upon reinvestment of distributions	204,220	197,613	173,181	168,863
Profit for year	-	-	2,271,596	5,059,679
Distributions paid and payable	-	-	(4,068,429)	(4,935,080)
Closing balance	159,991,952	133,679,631	135,660,271	114,477,550

Capital risk management

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

The Fund's strategy was to hold a certain portion of the net assets attributable to unitholders in liquid investments. Liquid assets include cash and cash equivalents and investments in securities. The ratio of liquid assets to net assets attributable to unitholders was as follows:

	2020 \$	2019 \$
Net applications/(redemptions)	22,979,554	26,136,602
Liquid assets in the Fund	139,775,400	114,816,590
Net assets attributable to unitholders	135,660,271	114,477,550
Ratio of liquid assets to net assets attributable to unitholders	103.03%	100.30%

7. Distributions paid to unitholders

	2020 \$	2020 CPU	2019 \$	2019 CPU
Distributions were paid and/or payable as follows:				
30 September interim paid	966,300	0.67	1,272,500	1.10
31 December interim paid	1,373,200	0.80	1,185,000	0.95
31 March interim paid	779,600	0.50	1,157,700	0.90
30 June final payable	949,329	0.59	1,319,880	0.99
	4,068,429	2.56	4,935,080	3.94

**DDH PREFERRED INCOME FUND
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FOR THE YEAR ENDED 30 JUNE 2020**

8. Cash and cash equivalents

	2020	2019
	\$	\$
Cash at bank and on hand	5,612,607	5,250,860

9. Financial assets held at fair value through profit and loss

	2020	2019
	\$	\$
<i>Listed securities</i>		
Convertible notes	11,598,394	9,029,745
Floating rate notes	14,575,312	3,800,156
Hybrid securities	3,076,041	7,229,668
Corporate bonds	134,483	-
<i>Unlisted securities</i>		
Floating rate notes	97,148,246	86,979,411
Corporate bonds	7,630,317	2,526,750
	134,162,793	109,565,730

10. Trade and other receivables

	2020	2019
	\$	\$
Interest receivable	-	45,813
Outstanding settlements, financial assets	-	949,481
Applications receivable	83,330	75,290
Other	30,043	21,348
	113,373	1,091,932

11. Trade and other payables

	2020	2019
	\$	\$
Outstanding settlements, financial assets	3,060,094	23,696
Redemptions payable	121,138	5,500
Trade creditors	97,941	81,896
Distribution payable	949,329	1,319,880
	4,228,502	1,430,972

12. Financial risk management

The fund is a portfolio of fixed income securities, selected on a credit basis, diversified by asset type, industry exposure and style of interest rate distributions. It holds investment assets at the discretion of the Fund's Investment Manager, GCi Australia Pty Ltd (GCi) (Investment Manager).

The Fund's investment strategy is to identify appropriate investments that are expected to generate a sufficiently high yield, commensurate with the assumed risk, with minimum volatility of returns. The fund consists of a core portfolio constructed with reference to macroeconomic factors and industry exposure. The balance of the fund is a tactical component that seeks to enhance returns via investing in short term yield opportunities in the same fixed interest asset classes but especially those traded on the ASX.

Financial risk management is the responsibility of DDH Graham Limited as the Responsible entity of the Fund. This responsibility includes regular oversight of the Investment Manager, to ensure full compliance of the investment mandate of the Fund.

**DDH PREFERRED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

The Fund's activities expose it to a variety of financial risks: market (including price and interest rate risks), credit risk and liquidity risk. Set out below is information in respect of the Funds exposure to these types of risks and how they are managed.

(a) Market Risk

The Fund's investment activities expose it to a variety of market risks:

- the risk that due to fluctuations in **interest rates** or other risk factors resulting in **price risk**: that is movement in the value of the securities held in the portfolio; and
- **Credit risk** in respect of an issuer of securities failing to discharge its obligations.

These risks are managed as follows:

Diversification in investment selection. The following table sets out the Fund's portfolio construction by asset class and weights:

Asset Class	Minimum (%)	Maximum (%)
Australian Government and Semi Government Bonds	0	50
Investment grade Corporate Senior Bonds, subordinated Corporate Bonds and hybrids, each either OTC or ASX listed	20	98
Non - Investment grade ¹ Corporate Senior Bonds, subordinated Corporate Bonds and hybrids, each either OTC or ASX listed	0	30
Australian cash	2	90

¹ Investment grade is defined as the security being rated at least BBB- by S&P (or equivalent by a recognized rating agency). In the case where there is no specific security rating, the Investment Manager will assign a rating for the security relative to the company's senior rating. If there is no senior rating the Investment Manager will assign a senior rating and subsequently a security rating.

Approval is initially granted for the issuing company based on credit analysis. Subsequently the structure of the individual interest rate security from that company is assessed in detail and approved for investment if appropriate.

The pool of available securities is constantly monitored in terms of yield provision as well as continuing to meet required credit standards and to identify any current or emerging issues that may adversely impact the long-term value of the investment.

From this pool of securities, a core portfolio representing 70-80% of the fund's assets is constructed, selected with reference to:

- Macroeconomic analysis, both economic and interest rate driven;
- Industry selection; and
- Level of yield provision.

The core portfolio is stress tested and adjusted to minimize interest rate and credit market exposure.

The remainder of the portfolio allows tactical positions to be taken in securities on the approved list with a view to:

- Capturing changes in credit view;
- Identifying short term yield opportunities;
- Adjusting the overall portfolio's interest rate sensitivity;
- Capturing mispricing from liquidity constraints; and
- Maintaining the portfolio's capital value.

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The total portfolio is re-assessed and monitored with reference to weighting guidelines and stress tests as described above.

Additionally, individual weighting constraints limit the exposure to one security at 10% of the fund's assets and 15% for exposure to one company (if rated investment grade) or 10% to one company if the company is not rated investment grade. Industry constraints limit exposure to one industry at 30% unless the company is APRA regulated, where the industry constraint is 50%.

The Fund does not employ any off-balance derivatives in managing interest rate and price risks.

The Fund is not exposed to any **foreign currency risk** as it only invests in Australian dollar denominated assets.

Apart from the investment activities of the Fund, **credit risk** arises from cash and amounts owing from debtors. Cash is held only to meet expenses of the Fund and operational needs associated with investment trading. Cash is held in a cash management account under the control of a custodian and debtors actively monitored to ensure timely receipt.

The maximum exposure to *price and credit risk* at balance date is the carrying value of such financial assets.

The following table sets out the impacts of a 5% and 10% increase in movement of the securities held at balance date on fair value of the total portfolio and therefore on net assets attributable to unitholders.

	2020 \$	2019 \$
Carrying value of financial assets held at fair value through profit and loss	134,162,793	109,565,730
Movement in fair value of plus 5%. A decrease in 5% would have an equal but opposite effect	6,708,140	5,478,287
Movement in fair value of plus 10%. A decrease in 10% would have an equal but opposite effect	13,416,279	10,956,573

The Fund is not exposed to any *equity risk* as it does not invest in any assets of a pure equity nature such as ordinary shares issued by a corporation. The Fund may invest in hybrid securities such as preference shares or convertible shares which may have a potential for equity risk exposure.

(b) Liquidity Risk

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

The Fund is exposed to redemption request from unitholders and incurs expenditure in the normal course of business. Policies and processes in place to manage this liquidity risk exposure, under all market conditions are as follows:

- The very nature of the Fund's investments in that they are readily realisable either as listed and actively traded on the Australian Stock Exchange or unlisted but traded in an active market.
- An appropriate amount of cash will be retained by the Fund for operational purposes and to fully or partially fund together with investment redemptions unitholder redemptions.
- As set out in the Constitution of the Fund, redemption requests are processed on a daily basis and settled usually within 7 business days of receipt of the request allowing for orderly liquidation of selected investment to meet such redemptions (if required).

Under the Constitution of the Fund, DDH Graham Limited as the responsible entity has the discretion to suspend redemption of units if it considers such discretion is in the best interests of all unitholders.

**DDH PREFERRED INCOME FUND
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It is considered the capital management strategy of the Fund, disclosed in Note 6, adequately supports the Fund's ability to fully meet redemption requests.

The following table sets out the contractual maturities of financial liabilities:

	Contractual cash flows	Less than 1 month	1-3 months	3 months to 1 year
2020	\$	\$	\$	\$
Outstanding settlements financial assets	3,060,094	3,060,095	-	-
Redemptions payable	121,138	121,138	-	-
Trade creditors	97,941	97,941	-	-
Distribution payable	949,329	949,329	-	-
	Contractual cash flows	Less than 1 month	1-3 months	3 months to 1 year
2019	\$	\$	\$	\$
Outstanding settlements financial assets	23,696	23,696	-	-
Redemptions payable	5,500	5,500	-	-
Trade creditors	81,896	81,896	-	-
Distribution payable	1,319,880	1,319,880	-	-

13. Fair value measurement

The carrying amounts of the Fund's assets and liabilities are measured and recognised at fair value on a recurring basis. The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

For the years ended 30 June 2020 and 30 June 2019, disclosure of fair value measurements is based on the following fair value hierarchy:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value in an active market (level 1)

The fair value of Level 1 financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The major methods and assumptions used in estimating the fair values of assets and liabilities are disclosed in note 3(a) to the financial statements.

The quoted market price used for financial assets held by the Fund is the last sale price, while financial liabilities are priced at current asking price.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

The fair value of financial assets and liabilities that are not traded in an active market is determined by observable market data provided by either published clearing prices, broker and dealer quotes as appropriate to the investment. Investments in unlisted unit trusts are recorded at the redemption price per unit as reported by the manager of the Fund.

**DDH PREFERRED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
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Transfers between levels

There were no transfers between levels for the year ended 30 June 2020 (2019: Nil).

Fair value measurements using significant unobservable inputs (level 3)

There were no level 3 investments held in the Fund.

The following table presents the Fund's assets and liabilities measured and recognised at fair value according to the above fair value hierarchy.

2020	Level 1	Level 2	Level 3	Total
<i>Financial assets held at fair value through profit or loss</i>				
Listed and unlisted securities	29,384,230	91,216,013	13,562,550	134,162,793
Total	29,384,230	91,216,013	13,552,550	134,162,793
<i>Financial liabilities held at fair value through profit or loss</i>				
	-	-	-	-
Total	-	-	-	-

2019	Level 1	Level 2	Level 3	Total
<i>Financial assets held at fair value through profit or loss</i>				
Listed and unlisted securities	20,059,569	78,949,811	10,556,350	109,565,730
Total	20,059,569	78,949,811	10,556,350	109,565,730
<i>Financial liabilities held at fair value through profit or loss</i>				
	-	-	-	-
Total	-	-	-	-

14. Related parties

Responsible entity

The responsible entity of the Fund is DDH Graham Limited (ABN 28 010 639 219).

Key management personnel

The Fund does not employ personnel in its own right. However, it is required to have an incorporated Responsible Entity to manage the activities of the Fund and this is considered the KMP. The directors of the Responsible Entity are key management personnel of that entity.

The names of persons who were directors of DDH Graham Limited at any time during the financial year were as follows: DDH Graham, PB Lockhart, UC Di Girolamo and DA Graham.

Investment Manager

Pursuant to an Investment Management Agreement, DDH Graham Limited has appointed GCI Australia Pty Ltd (GCI) to manage the investment portfolio on behalf of DDH Graham Limited. Under the terms of the Agreement GCI is entitled to receive a management fee for its services. The management fee is payable by DDH Graham Limited from its Responsible Entity fee it receives from the Fund.

**DDH PREFERRED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
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Related party transactions

All related party transactions are conducted on normal commercial terms and conditions. From time to time DDH Graham Limited or its director related entities may invest in or withdraw from the Fund. These investments or withdrawals are on the same terms and conditions as those entered into by other Fund investors.

Remuneration of directors of the Responsible entity

Remuneration of the directors and specified executives is paid directly by the responsible entity. The directors and specified executives are not provided with any remuneration by the Fund itself. Directors and specified executives are not entitled to any equity interests in the Fund, or any rights to or options for equity interests in the Fund, as a result of the remuneration provided by the responsible entity.

Loans to directors and specified executives of the responsible entity

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

Responsible entity's fees and other transactions

Under the terms of the Fund's Constitution, the responsible entity is entitled to receive fees monthly, calculated by reference to the net assets of the Fund at month end, as follows:

	2020	2019
	\$	\$
Fees for the year paid by the Fund	1,051,549	870,598
Aggregated amounts payable to the responsible entity at reporting date	97,941	81,896

From the responsible fees paid to DDH Graham Limited, GCI was paid \$740,213 (2019: \$496,547) representing its management fee.

Investments

The Fund did not hold any investments in other trusts managed by DDH Graham Limited, in DDH Graham Limited or its affiliates during year.

Unitholdings

DDH Graham Limited and its directors and director related persons held units in the Fund as follows:

2020					
Unitholder	Number of units held	Interest held %	Number of units acquired	Number of units disposed	Distributions paid/payable by the Fund \$
Directors of DDH Graham Limited	111,186	0.07%	-	-	2,850
2019					
Unitholder	Number of units held	Interest held %	Number of units acquired	Number of units disposed	Distributions paid/payable by the Fund \$
Directors of DDH Graham Limited	111,186	0.08%	-	-	4,378

**DDH PREFERRED INCOME FUND
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2020**

15. Segment information

The Fund operates solely in one business segment being financial investment management. The Fund operates in one geographical location being Australia and holds investments based in Australia.

16. Reconciliation of profit from operating activities to net cash from operating activities

	2020	2019
	\$	\$
(a) Reconciliation of profit from operating activities to net cash inflow from operating activities		
Operating income	2,271,596	5,059,678
(Increase)/decrease in receivables	37,118	(515)
Net realised losses/(gains) in investment securities	674,384	(2,043,931)
Net unrealised losses/(gains) in investment securities	1,327,606	235,622
Brokerage on transactions	53,517	132,674
Increase in accounts payable	16,044	18,152
	4,380,265	3,401,680
(b) Components of cash		
Cash as at the end of the financial year as shown in the statement of cash flows is reconciled to the statement of financial position as follows:		
Cash assets	5,612,607	5,250,860
(c) Non-cash financing and investing activities		
Units created in the Fund under the distribution reinvestment plan.	173,181	168,863

17. Events occurring after reporting date

Apart from the uncertainty associated with COVID-19, since 30 June 2020, there has not been any matter or circumstances not otherwise dealt with in the Financial Report that has significantly affected or may significantly affect the Fund.

The directors are not aware of any other significant events since the reporting date.

18. Contingent liabilities and assets and commitments

As at 30 June 2020, the Fund does not have any contingent liabilities or commitments.

**DDH PREFERRED INCOME FUND
DIRECTORS' DECLARATION
FOR THE YEAR ENDED 30 JUNE 2020**

In the opinion of the directors of DDH Graham Limited, the responsible entity of the DDH Preferred Income Fund:

1. The financial statements and notes of the Fund, set out on pages 6 to 22, are in accordance with the Corporations Act 2001, including:
 - (a) give a true and fair view of the Fund's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
 - (b) comply with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.
2. The financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).
3. There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
4. The financial statements and notes of the Fund, set out on pages 6 to 22, are in accordance with the provisions of the Constitution (amended) of the Fund dated 9 March 2004.

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



**P B Lockhart
Director
DDH Graham Limited
Responsible Entity
Brisbane 28 September 2020**

Independent Auditor's Report

Preferred Income Fund

Opinion

We have audited the financial report of Preferred Income Fund (the Fund), which comprises the statement of financial position as at 30 June 2020, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of Preferred Income Fund is in accordance with the *Corporations Act 2001*, including:

- (a) Giving a true and fair view of the Fund's financial position as at 30 June 2020 and of its financial performance for the year then ended.
- (b) Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Fund in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of DDH Graham Limited would be in the same terms if given to the directors as at the time of this auditor's report.

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

Other Information

The directors are responsible for the other information. The other information comprises the information contained in the Fund's Directors' Report for the year ended 30 June 2020 but does not include the financial report and our auditor's report thereon.

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

Liability limited by a scheme approved under Professional Standards Legislation.

The title 'Partner' conveys that the person is a senior member within their respective division and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is the Crowe Australasia external audit division. All other professional services offered by Findex Group Limited are conducted by a privately-owned organisation and/or its subsidiaries.

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

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

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Fund to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Fund or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists.

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

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

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.



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

A handwritten signature in black ink that reads "Crowe Audit Australia".

Crowe Audit Australia

A handwritten signature in black ink that reads "Mike McDonald".

Mike McDonald OAM

Partner

29 September 2020

Brisbane