

**MASTER BUILDERS FIDELITY FUND**  
**ABN: 19 861 512 557**

**FINANCIAL REPORT**  
**FOR THE YEAR ENDED**  
**30 JUNE 2019**

**MASTER BUILDERS FIDELITY FUND**  
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**TO BE INSERTED**  
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**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2019**

	Note	2019 \$	2018 \$
Contributions	2	2,513,447	1,863,869
Claim Payouts		(241,065)	(1,516,818)
Movement in provision for requests incurred but not reported		(549,103)	(89,895)
Amortised acquisition costs		(430,439)	(407,939)
<b>Underwriting results</b>		<b>1,292,840</b>	<b>(150,783)</b>
Interest Received	2	500,232	386,891
Unrealised Gain on Investments held at Reporting Date	2	458,246	15,147
Investments Loss Realised	2	(415,331)	-
Other Revenue	2	455	476,136
<b>Total Other Income</b>		<b>543,602</b>	<b>878,174</b>
Auditors' remuneration	3	(29,870)	(29,977)
Depreciation and amortisation expenses		(524)	(1,972)
Administration Costs		(789,051)	(542,084)
Other expenses		(72,642)	(69,230)
<b>Profit (Loss) before income tax</b>		<b>944,355</b>	<b>84,128</b>
Income tax expense	4	-	-
<b>Profit (Loss) for the year</b>		<b>944,355</b>	<b>84,128</b>
Profit (Loss) attributable to beneficiaries of the trust		944,355	84,128

The accompanying notes form part of these financial statements.

**MASTER BUILDERS FIDELITY FUND**  
**ABN: 19 861 512 557**

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2019**

	Note	2019 \$	2018 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	1,519,651	1,239,439
Trade and other receivables	8	284,835	145,822
Financial assets	6	11,247,723	10,433,021
Deferred acquisition costs	7	192,230	392,886
<b>TOTAL CURRENT ASSETS</b>		<u>13,244,439</u>	<u>12,211,168</u>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	1,266	1,790
Deferred acquisition costs	7	505,620	838,740
<b>TOTAL NON-CURRENT ASSETS</b>		<u>506,886</u>	<u>840,530</u>
<b>TOTAL ASSETS</b>		<u>13,751,325</u>	<u>13,051,698</u>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	13	167,573	413,645
Unearned contributions	10	1,931,607	2,038,572
Outstanding requests	11	309,785	623,312
<b>TOTAL CURRENT LIABILITIES</b>		<u>2,408,965</u>	<u>3,075,529</u>
<b>NON-CURRENT LIABILITIES</b>			
Unearned contributions	10	4,455,988	4,120,525
Outstanding requests	11	2,741,334	2,654,961
<b>TOTAL NON-CURRENT LIABILITIES</b>		<u>7,197,322</u>	<u>6,775,486</u>
<b>TOTAL LIABILITIES</b>		<u>9,606,287</u>	<u>9,851,015</u>
<b>NET ASSETS</b>		<u>4,145,038</u>	<u>3,200,683</u>
<b>EQUITY</b>			
Retained surplus	14	4,145,038	3,200,683
<b>TOTAL EQUITY</b>		<u>4,145,038</u>	<u>3,200,683</u>

The accompanying notes form part of these financial statements.

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**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2019**

	<b>Retained earnings</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>
<b>Balance at 1 July 2017</b>	3,116,555	3,116,555
Result for the year	<u>84,128</u>	<u>84,128</u>
<b>Balance at 30 June 2018</b>	3,200,683	3,200,683
Result for the year	<u>944,355</u>	<u>944,355</u>
<b>Balance at 30 June 2019</b>	<u>4,145,038</u>	<u>4,145,038</u>

The accompanying notes form part of these financial statements.

**MASTER BUILDERS FIDELITY FUND**  
**ABN: 19 861 512 557**

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

	2019	2018
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and employees	(939,170)	(165,231)
Interest received	123,276	116,730
Contributions received	3,126,627	1,945,480
Other receipts	455	476,136
Requests paid	(971,071)	(1,742,560)
Acquisition costs paid	(290,204)	(299,100)
<b>Net cash provided by operating activities</b>	<b>17</b> <u>1,049,913</u>	<u>331,455</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Other current liabilities received	2,085	-
Payments / proceeds for investments	(771,786)	(770,858)
<b>Net cash used in investing activities</b>	<u>(769,701)</u>	<u>(770,858)</u>
Net increase (decrease) in cash held	280,212	(439,403)
Cash at beginning of financial year	1,239,439	1,678,842
Cash at end of financial year	<b>5</b> <u>1,519,651</u>	<u>1,239,439</u>

The accompanying notes form part of these financial statements.

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**ABN: 19 861 512 557**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2019**

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**1 Summary of Significant Accounting Policies**

The financial statements cover Master Builders Fidelity Fund as an individual entity. Master Builders Fidelity Fund is a trust, established and domiciled in Australia.

**Basis of Preparation**

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, and other authoritative pronouncements of the Australian Accounting Standards Board.

These financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The significant accounting policies used in the preparation and presentation of these financial statements are provided below and are consistent with prior reporting periods unless otherwise stated.

The financial statements are based on historical costs, except for the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

**Income Tax**

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income ("OCI").

**(i) Current tax**

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to tax payable or receivable in respect of previous years. It is measured using tax rates enacted or substantively enacted at the reporting date. Current tax also includes any tax liability arising from dividends.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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### **(ii) Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is not recognised for temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Company expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset only if certain criteria are met.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profit will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related benefit will be realised.

### **(iii) Tax exposures**

In determining the amount of current and deferred tax the Trustee takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the Trustee to change its judgement regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax consequences relating to a non-monetary asset carried at fair value are determined using the assumption that the carrying amount of the asset will be recovered through sale.

### **Plant and Equipment**

Plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment of losses.

Costs include purchase price, other directly attributable costs and the initial estimate of the costs of dismantling and restoring the asset, where applicable.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

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### Depreciation

Plant and equipment is depreciated over the asset's useful life to the Trust, commencing when the asset is ready for use.

The depreciation rates used for each class of depreciable asset are shown below:

Fixed Asset Class	Depreciation Rate
Plant and Equipment	10%-33%

At the end of each annual reporting period, the depreciation method, useful life and residual value of each asset is reviewed. Any revisions are accounted for prospectively as a change in estimate.

### Financial Instruments

As a result of the adoption of AASB 9, the Trust has adopted consequential amendments to AASB 101 Presentation of Financial Statements, which require impairment of financial assets to be presented in a separate line item in the statement of profit or loss and other comprehensive income ('OCI'). Previously, the Trust's approach was to include the impairment of losses in other expenses.

The adoption of AASB 9 did not have a material impact on the preparation of the financial statements for the current year.

#### *Classification and measurement of financial assets and financial liabilities*

AASB 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ('FVOCI') and fair value through profit or loss ('FVTPL'). The classification of financial assets under AASB 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. AASB 9 eliminates the previous AASB 139 categories of held to maturity, loans and receivables and available for sale.

AASB 9 largely retains the existing requirements in AASB 139 for the classification and measurement of financial liabilities. The adoption of AASB 9 has not had a significant effect on the Trust's accounting policies related to financial liabilities and derivative financial instruments.

#### *Impairment of financial assets*

AASB 9 replaces the 'incurred loss' model in AASB 139 with an expected credit loss ('ECL') model. The new impairment model applies to financial assets measured at amortised cost and debt investments at FVOCI, but not to investments in equity instruments. Under AASB 9, impairment losses are recognised earlier than under AASB 139.

For assets in the scope of the AASB 9 impairment model, impairment losses are generally expected to increase and become more volatile.

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*(i) Recognition and initial measurement*

Unless otherwise noted below, all financial assets and financial liabilities are initially recognised when the Trust becomes party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

*(ii) Classification and subsequent movement*

**Financial Assets**

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI - debt investment; FVOCI - equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Trust changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Trust may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Trust may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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**Financial assets: Business model assessment**

The Trust makes an assessment of the objective of the business model in which a financial asset is held on the basis of different classes of assets. The objectives of the business are considered when determining the business model type.

**Financial assets: Subsequent measurement and gains and losses**

*Financial assets at FVTPL*

These assets are subsequently measured at fair value. Net gains and losses, including any interest, are recognised in profit or loss.

*Financial assets at amortised cost*

These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by any impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the profit or loss. Any gain or loss on derecognition is recognised in profit or loss

*Debt instruments at FVOCI*

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in the profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

*Equity investments at FVOCI*

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

**Financial liabilities - Classification, subsequent measurement and gains and losses**

Financial liabilities are classified as measured at amortised cost or FVTPL. A Financial liability is classified as FVTPL if it is classified as held-for-trading it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

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**Impairment of financial assets**

**Non-derivative financial assets**

*Financial instruments*

The Trust recognises loss allowances for expected credit losses (ECLs) on:

- Financial assets measured at amortised cost; and
- Debt instruments measured at FVOCI.

The Trust measures loss allowances at an amount equal to lifetime ECLs, except for the following financial instruments which are measured at 12-month ECL's:

- Debt securities that are determined to have a low credit risk at the reporting date;
- Other debt securities and bank balances for which credit risk has not increased significantly since initial recognition.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Trust considers reasonable and supportable information that is relevant and available without undue cost or effort.

**Impairment of Non-Financial Assets**

At the end of each reporting period the trust determines whether there is evidence of impairment indicator for non-financial assets.

Where this indicator exists and regardless of goodwill, indefinite life intangible assets and intangible assets not yet available for use, the recoverable amount of the asset is estimated.

Where assets do not operate independently of other assets, the recoverable amount of the relevant cash-generating unit (CGU) is estimated.

The recoverable amount of an asset or CGU is the higher of the fair value less costs of disposal and the value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Where the recoverable amount is less than the carrying amount, an impairment loss is recognised in profit or loss.

Reversal indicators are considered in subsequent periods for all assets which have suffered an impairment loss, except for goodwill.

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### **Investments and Other Financial Assets**

#### **Recognition**

Financial assets are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

#### **Fair value**

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

### **Cash and Cash Equivalents**

Cash and cash equivalents comprises cash on hand, demand deposits and short-term investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Bank overdrafts also form part of cash equivalents and are presented within current liabilities on the statement of financial position.

### **Revenue and Other Income**

Contribution revenue comprises amounts charged for the issue of warranty certificates. The earned portion of the contribution received and receivable is recognised as revenue. The pattern of recognition over the certificate period is based on the pattern of risk underwritten. The proportion of contributions received and receivable not earned at balance date are recognised in the balance sheet as unearned contributions liability.

#### **Interest revenue**

Interest revenue is recognised using the effective interest rate method.

### **Goods and Services Tax (GST)**

Revenue, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of GST.

Cash flows in the statement of cash flows are included on a gross basis and the GST component of cash flows arising from investing or financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

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### **Comparative Amounts**

Comparatives are consistent with prior years, unless otherwise stated.

Where a change in comparatives has also affected the opening retained earnings previously presented in a comparative period, an opening statement of financial position at the earliest date of the comparative period has been presented.

### **New Accounting Standards and Interpretations**

The Australian Accounting Standards Board has issued new and amended Accounting Standards and Interpretations that have mandatory application dates on current reporting periods. No accounting standard has been adopted earlier than the application date stated in the standard. The following table summarises the requirements, and their impact on the trust:

<b>AASB amendment</b>	<b>AASB Standard affected</b>	<b>Application date of the Standard</b>	<b>Application date for the trust</b>
AASB 9	Financial Instruments	1 January 2018	30 June 2019

AASB 9 Financial Instruments (AASB 9) replaces AASB139 Financial Instruments: Recognition and Measurement (AASB 139) for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Trust has applied AASB 9 retrospectively, with an initial application date of 1 July 2018. The Trust has not restated the comparative information, which continues to be reported under AASB 139. Differences arising from the adoption of AASB 9 have been recognised directly in opening retained earnings and other components of equity as at 1 July 2018.

The key changes that affect the trust on initial application include certain simplifications to the classification of financial assets, simplifications to the accounting of embedded derivatives, upfront accounting for expected credit loss, and the irrevocable election to recognise gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. AASB 9 introduces a new model for hedge accounting that will allow greater flexibility in the ability to hedge risk, particularly with respect to hedges of non-financial items. Should the entity elect to change its hedge policies in line with the new hedge accounting requirements of the Standard, the application of such accounting would be largely prospective.

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<b>AASB amendment</b>	<b>AASB Standard affected</b>	<b>Application date of the Standard</b>	<b>Application date for the trust</b>
AASB 15	Revenue from Contracts with Customers	1 January 2018	30 June 2019

AASB 15 will replace the accounting requirements applicable to revenue with a single, principles-based model. Apart from a limited number of exceptions, including leases, the new revenue model in AASB 15 applies to all contracts with customers as well as non-monetary exchanges between entities in the same line of business to facilitate sales to customers and potential customers.

The core principle of the Standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for the goods or services. To achieve this objective, AASB 15 provides the following five-step process:

- identify the contract(s) with a customer;
- identify the performance obligations in the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations in the contract(s); and
- recognise revenue when (or as) the performance obligations are satisfied.

The transactional provisions of this Standard permit an entity to either: restate the contracts that existed in each prior period presented per AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors (subject to certain practical expedients in AASB 15); or recognise the cumulative effect of retrospective application to incomplete contracts on the date of initial application. There are also enhanced disclosure requirements.

<b>AASB amendment</b>	<b>AASB Standard affected</b>	<b>Application date of the Standard</b>	<b>Application date for the trust</b>
AASB 16	Leases	1 January 2019	30 June 2019

This Standard replaces the accounting requirements applicable to leases in AASB 117: Leases and related Interpretations. AASB 16 introduces a single lessee accounting model that eliminates the requirement for leases to be classified as operating or finance leases. The main changes introduced by the new Standard are as follows:

- recognition of a right-to-use asset and liability for all leases (excluding short-term leases with less than 12 months of tenure and leases relating to low-value assets);

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- depreciation of right-to-use assets in line with AASB 116: Property, Plant and Equipment in profit or loss and unwinding of the liability in principal and interest components;
- inclusion of variable lease payments that depend on an index or a rate in the initial measurement of the lease liability using the index or rate at the commencement date;
- application of a practical expedient to permit a lessee to elect not to separate non-lease components and instead account for all components as a lease; and
- inclusion of additional disclosure requirements.

The transitional provisions of AASB 16 allow a lessee to either retrospectively apply the Standard to comparatives in line with AASB 108: Accounting Policies, Changes in Accounting Estimates and Errors or recognise the cumulative effect of retrospective application as an adjustment to opening equity on the date of initial application.

### **Critical accounting estimates**

The preparation of a financial report in conformity with Australian Accounting Standards requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, external advice and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying value of assets and liabilities estimates. The entity's most significant estimates relate to warranty certificates (see Note 12). The key actuarial assumptions are:

#### **Contribution Liability:**

Contributions are considered in two parts; insolvency risks and warranty risk. Insolvency risk relates to the constructions phase and ceases once the construction is finalised. Warranty risk covers a period of up to 6 years.

#### **Insolvency Requests:**

In respect of insolvency requests, management have assumed an insolvency claim rate of 0.19% (inclusive of catastrophe, GST and gross of excess).

#### **Warranty Requests:**

The warranty requests are assumed at 0.07% (inclusive of catastrophe, GST and gross of excess).

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**Economic Assumptions:**

The contribution and request liabilities are calculated on a discounted present value basis, using rates appropriate to Commonwealth Government Bonds. Management have not made an explicit inflation assumption in relation to request payments, which are, however, consistent with inflation at 3% per annum.

**Acquisition Costs**

A portion of acquisition costs relating to the unearned premium revenue is deferred as an asset as it represents future benefits to the fund. Deferred acquisition costs are measured at the lower of cost and the recoverable amount. A write-down to the recoverable amount is recognised where the present value of expected future requests (including settlement costs) in relation to the business written to the reporting date exceeds related unearned premiums. Deferred acquisitions costs are amortised in accordance with the expected pattern of incidence of risk under related contracts.

**Requests**

Requests incurred expenses and liabilities for outstanding requests which are recognised in respect to certificates issued. The liability covers incurred but not reported requests and the anticipated direct and indirect costs of settling those requests. Requests outstanding are assessed by reviewing individual claim files and estimating un-notified requests and settlement costs using statistics based on past experience trends.

The liability for outstanding requests is measured as the central estimate of the present value of the expected future payments. The expected future payments are estimated on the basis of the ultimate cost of settling requests. The expected future payments are then discounted to a present value at reporting date using discount rates based on Commonwealth Government Bonds.

**Finance Costs**

Finance costs are recognised in the statement of comprehensive income in the period in which they are incurred.

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	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>2 Revenue and Other Income</b>		
Contributions	2,513,447	1,863,869
Interest Received	500,232	386,891
Movement in Net Market Values	42,915	15,147
Other Revenue	455	476,136
Total revenue	<u>3,057,049</u>	<u>2,742,043</u>
<b>3 Auditors' Remuneration</b>		
Auditors' Remuneration	<u>29,870</u>	<u>29,977</u>
<b>4 Income Tax Expense</b>		
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:		
Prima facie tax payable on profit before income tax at 27.5% (2018: 27.5%):	259,698	23,135
<b>Add:</b>		
<b>Tax effect of:</b>		
Gross up of fully franked dividends	4,617	5,650
Permanent differences	<u>42</u>	<u>-</u>
	264,357	28,785
<b>Less:</b>		
<b>Tax effect of:</b>		
Franked dividends converted into losses	16,789	20,545
Tax effect of timing differences not brought into account	247,568	8,240
Income tax expense attributable to trust	<u>-</u>	<u>-</u>
Deferred tax assets not brought to account, the benefits of which will only be realised if the Fund derives future assessable income of a nature of and of an amount sufficient to enable the benefit from any deductions for the losses, the Fund continues to comply with the conditions of deductibility imposed by Legislation and there are no changes in the tax legislation which adversely affect the Fund in realising the benefit from the deduction for the losses.		
Deferred tax assets (unrealised)	82,731	239,454

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	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<hr/>		
<b>5 Cash and Cash Equivalents</b>		
Bank Account 1	819,651	235,998
Express Saver	700,000	1,003,441
	<u>1,519,651</u>	<u>1,239,439</u>
<b>Reconciliation of cash</b>		
Cash and Cash equivalents reported in the statement of cash flows are reconciled to the equivalent items in the statement of financial position as follows:		
Cash and cash equivalents	1,519,651	1,239,439
	<u>1,519,651</u>	<u>1,239,439</u>
<b>6 Financial Assets</b>		
<b>Current</b>		
Public Trustee Cash Fund	945,797	856,982
Term Deposit 1470	2,800,000	2,800,000
Term Deposit 4561	1,200,000	1,200,000
Public Trustee Balanced Fund	5,401,926	5,076,039
Term Deposit 5021	900,000	500,000
	<u>11,247,723</u>	<u>10,433,021</u>
<b>7 Deferred Acquisition Costs</b>		
Deferred acquisition costs at beginning of the year	1,231,626	1,214,356
Additions	440,420	425,209
Amortisation	(430,438)	(407,939)
Impairment	(543,758)	-
Deferred acquisition costs at end of the year	<u>697,850</u>	<u>1,231,626</u>
<b>Allocation</b>		
Current	192,230	392,886
Non-current	505,620	838,740
	<u>697,850</u>	<u>1,231,626</u>

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	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>8 Trade and Other Receivables</b>		
<b>Current</b>		
Sundry Debtors	13,473	15,557
Trade Debtors	271,362	113,877
GST Receivable	-	16,388
	<u>284,835</u>	<u>145,822</u>

**9 Plant and Equipment**

Fixed Assets	151,046	151,046
Less: Accumulated Depreciation	(149,780)	(149,256)
<b>Total Plant and Equipment</b>	<u>1,266</u>	<u>1,790</u>

**Movements in Carrying Amounts**

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

	Plant and Equipment	Total
	<b>\$</b>	<b>\$</b>
Balance at 1 July 2018	2,314	2,314
Depreciation expense	(524)	(524)
Balance at 30 June 2018	1,790	1,790
Depreciation expense	(524)	(524)
Carrying amount at 30 June 2019	<u>1,266</u>	<u>1,266</u>

**10 Unearned Contributions**

Unearned Contributions at the beginning of the year	6,159,097	6,472,823
Contributions income deferred	2,741,945	1,550,143
Contributions income recognised	(2,513,447)	(1,863,869)
Unearned contributions at the end of the year	<u>6,387,595</u>	<u>6,159,097</u>

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	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Analysis of Total Provisions</b>		
Current	1,931,607	2,038,572
Non-current	4,455,988	4,120,525
	<u>6,387,595</u>	<u>6,159,097</u>
<b>11 Outstanding Requests</b>		
<b>Current</b>		
Claims incurred, not reported	309,785	623,312
<b>Non Current</b>		
Claims incurred, not reported	2,741,334	2,654,961

**12 Outstanding Requests - Detail**

2019

	Current	Non-Current	Total
Reported Request Liabilities	46,314	1,073,559	1,119,873
Valuation Margin - Reported	110	644,113	644,223
Reported Request Provision	<u>46,424</u>	<u>1,717,672</u>	<u>1,764,096</u>
IBNR Request Liabilities	175,188	639,481	814,669
Valuation Margin (IBNR)	113,872	611,603	725,475
IBNR Provision	<u>289,060</u>	<u>1,251,084</u>	<u>1,540,144</u>
<b>Gross Request Provision</b>	<b><u>335,485</u></b>	<b><u>2,968,756</u></b>	<b><u>3,304,240</u></b>
GST / Excess recoveries	<u>(25,700)</u>	<u>(227,422)</u>	<u>(253,122)</u>
<b>Net Claims Provision</b>	<b><u>309,785</u></b>	<b><u>2,741,334</u></b>	<b><u>3,051,118</u></b>

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	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>12 Outstanding Requests - Impact of Discounting</b>		
<b>2019</b>		
	<b>Undiscounted</b>	<b>Discount</b>
		<b>Discounted</b>
Reported Request Liabilities	1,146,420	(26,547)
Valuation Margin - Reported	660,111	(15,887)
Reported Request Provision	<u>1,806,530</u>	<u>(42,434)</u>
IBNR Request Liabilities	837,928	(23,259)
Valuation Margin (IBNR)	747,778	(22,304)
IBNR Provision	<u>1,585,707</u>	<u>(45,562)</u>
<b>Gross Request Provision</b>	<b><u>3,392,237</u></b>	<b><u>(87,996)</u></b>
GST / Excess recoveries	<u>(259,863)</u>	<u>6,741</u>
<b>Net Claims Provision</b>	<b><u>3,132,374</u></b>	<b><u>(81,255)</u></b>
<b>13 Trade and Other Payables</b>		
<b>Current</b>		
GST Payable	28,619	-
Trade Creditors	72,294	-
Accruals	66,660	413,645
	<u>167,573</u>	<u>413,645</u>
<b>14 Retained Earnings</b>		
Retained earnings at the beginning of the financial year	3,200,683	3,116,555
Net profit attributable to beneficiaries	944,355	84,128
Retained earnings at the end of the financial year	<u>4,145,038</u>	<u>3,200,683</u>

**MASTER BUILDERS FIDELITY FUND**  
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**NOTES TO THE FINANCIAL STATEMENTS**  
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	2019	2018
	\$	\$
<b>15 Contingent Liabilities</b>		
<p>Estimates of the potential financial effect of contingent liabilities that may become payable:</p> <p><b>Contingent Liabilities</b></p> <p>Four claims were made to the Master Builders Fidelity Fund in late 2017. Those claims relate to unit developments constructed by two different companies. The claims have all been rejected by the Master Builders Fidelity Fund, summarily on the basis that the claims are out of time. Proceedings have been commenced against the Master Builders Fidelity Fund in respect of a unit development constructed by one of these companies. As the Trustees are of the opinion the claims are not valid no claim accrual has been recorded as at 30 June 2019. A hearing was held in 2018 and a decision handed down on 13 February 2019 in favour of the Master Builders Fidelity Fund. The matter has been appealed by the other party and is expected to have a positive outcome for the Fidelity Fund. It is unknown when the appeal decision will be handed down.</p>		
<b>16 Related Party Transactions</b>		
<p>Transactions between related parties are on normal commercial terms and conditions. These terms and conditions are no more favourable than those available to other parties unless otherwise stated.</p> <p>Transactions with related parties:</p> <p>During the 2003 financial year the fund entered into an agreement with the Master Builders Association of the ACT for provision of administration services. Payments made in accordance with this agreement for the year were \$789,051 (2018: \$542,084).</p>		
<b>17 Cash Flow Information</b>		
<b>Reconciliation of Cash Flow from Operations with Profit for the year</b>		
Profit for the year	944,355	84,128
<b>Non-cash flows in profit</b>		
Depreciation	524	1,972
Unrealised gain on investments (net)	(42,915)	(15,147)

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	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Changes in assets and liabilities, net of the effects of purchase and disposals of subsidiaries</b>		
(Increase) / Decrease in receivables	(112,479)	(77,990)
(Increase) / Decrease in deferred acquisition costs	533,776	(17,270)
Increase / (Decrease) in payables	(274,692)	269,867
Increase / (Decrease) in outstanding requests	(227,154)	399,621
Increase / (Decrease) in unearned contributions	<u>228,498</u>	<u>(313,726)</u>
	<u>1,049,913</u>	<u>331,455</u>

**18 Financial Risk Management**

The trust is exposed to a variety of financial risks through its use of financial instruments.

This note discloses the trust's objectives, policies and processes for managing and measuring these risks.

The trust's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets.

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Financial Assets</b>		
Cash and cash equivalents	1,519,651	1,239,439
Investments	11,247,723	10,433,021
Receivables	<u>284,835</u>	<u>129,434</u>
<b>Total Financial Assets</b>	<u>13,052,209</u>	<u>11,801,894</u>
<b>Financial Liabilities</b>		
Payables	(167,571)	(397,257)

The Fund does not have any derivative instruments at 30 June 2019.

The most significant financial risks to which the trust is exposed to are described below:

**Specific Risks**

The Funds financial instruments consist mainly of deposits with banks, short-term investments, listed equities and accounts receivable and payables. The trustees' overall risk management strategy seeks to assist the trust in meeting its financial targets, whilst minimising potential adverse effects on financial performance. Risk management policies are approved and reviewed by the trustees on a regular basis. These include the credit risk policies and future cash flow requirements.

**MASTER BUILDERS FIDELITY FUND**  
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2019                      2018  
\$                              \$

**Market Risk**

**Interest rate risk**

The main risks the Fund is exposed to through its financial instruments are interest rate risk and market rate risk.

The Fund has funds invested in fixed rate term deposits which are exposed to the fluctuations in interest rates and funds invested in listed equities. The trustees review the funds exposure on a regular basis in accordance with the Fund's investment strategy.

**Liquidity Risk**

The Fund manages liquidity risk by monitoring forecast cash flows.

2019	Weighted Average Effective Interest Rate	Floating Interest Rate or Fixed for Less than 12 months	Fixed Interest Rate Maturing 1 to 5 Years	Non-Interest Bearing	Total
	%	\$	\$	\$	\$
<b>Financial assets - cash flows realisable</b>					
Cash and cash equivalents	0.49	700,000	-	819,651	1,519,651
Investments	3.66	5,845,797	-	5,401,926	11,247,723
Receivables		-	-	284,835	284,835
<b>Total anticipated inflows</b>		6,545,797	-	6,506,412	13,052,209
<b>Financial liabilities - cash flows realisable</b>					
Payables		-	-	(167,571)	(167,571)
<b>Net (outflow)/inflow on financial instruments</b>		6,545,797	-	6,338,841	12,884,638
<b>2018</b>					
<b>Financial assets - cash flows</b>					
	%	\$	\$	\$	\$
Cash and cash equivalents	0.58	1,003,441	-	235,998	1,239,439
Investments	2.46	5,356,982	-	5,076,039	10,433,021
Receivables		-	-	129,434	129,434
<b>Total anticipated inflows</b>		6,360,423	-	5,441,471	11,801,894
<b>Financial liabilities - cash flows</b>					
Payables		-	-	(397,257)	(397,257)
<b>Net (outflow)/inflow on financial instruments</b>		6,360,423	-	5,044,214	11,404,637

**MASTER BUILDERS FIDELITY FUND**  
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	2019	2018
	\$	\$
<hr/>		
Trade and sundry payables are expected to be paid as follows:		
	2019	2018
	\$	\$
Less than 6 months	167,571	397,257
	<u>167,571</u>	<u>397,257</u>

**Credit risk**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements. There are no material amounts of collateral held as security at 30 June 2019. The trust does not have any material credit risk exposure at any single receivable or group of receivables under financial instruments entered into the trust. Credit risk is reviewed regularly by the trustees. It arises from exposures to customers as well as through deposits with financial institutions.

The trust does not hold any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

The other classes of receivables do not contain impaired assets.

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2019                      2018  
 \$                              \$

**Other risk**

**Certificate Risk Management**

Certificate activities primarily involve the underwriting of risks and the management of requests. A disciplined approach to risk management is adopted. Statistical models that combine historical and protected data are used to calculate premiums and monitor request patterns. Management information systems are maintained that provides timely and reliable data on the risks to which the fund is exposed. The fund also undertakes due diligence process for all builders prior to issuing a certificate. The fund has not entered into any reinsurance arrangements.

**Fair Values**

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

	2019		2018	
	Carrying Amount \$	Net Fair Value \$	Carrying Amount \$	Net Fair Value \$
<b>Financial Assets</b>				
Cash and cash equivalents	1,519,651	1,519,651	1,239,439	1,239,439
Investments	11,247,723	11,247,723	10,433,021	10,433,021
Receivables	284,835	284,835	129,434	129,434
<b>Total Financial Assets</b>	<b>13,052,209</b>	<b>13,052,209</b>	<b>11,801,894</b>	<b>11,801,894</b>
<b>Financial Liabilities</b>				
Payables	(167,571)	(167,571)	(397,257)	(397,257)
<b>Total Financial Liabilities</b>	<b>(167,571)</b>	<b>(167,571)</b>	<b>(397,257)</b>	<b>(397,257)</b>

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	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>

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**Sensitivity Analysis**

**Interest Rate**

The trust has performed a sensitivity analysis relating to its exposure to Interest Rate risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

**Interest Rate Sensitivity Analysis:**

At 30 June 2019, the effect on profit and equity as a result of changes in the Interest Rate, with all other variables remaining constant would be as follows:

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Change in profit</b>		
Increase in Interest Rate by 1%	65,458	63,604
Decrease in Interest Rate by 1%	(65,458)	(63,604)
<b>Change in equity</b>		
Increase in Interest Rate by 1%	65,458	63,604
Decrease in Interest Rate by 1%	(65,458)	(63,604)

The fund has no exposure to fluctuations in foreign currency.

**Market Value**

The trust has performed a sensitivity analysis relating to its exposure to Market Value risk at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

**Market Value Sensitivity Analysis:**

At 30 June 2019, the effect on profit and equity as a result of changes in the Market Value, with all other variables remaining constant would be as follows:

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>Change in profit</b>		
Increase in Market Value by 10%	540,193	507,604
Decrease in Market Value by 10%	(540,193)	(507,604)
<b>Change in equity</b>		
Increase in Market Value by 10%	540,193	507,604
Decrease in Market Value by 10%	(540,193)	(507,604)

**MASTER BUILDERS FIDELITY FUND**  
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2019                      2018  
 \$                              \$

**19 Fair Value Measurement**

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

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying amounts as presented in the statement of financial position.

Refer to Note 1 for detailed disclosures regarding the fair value measurement of the company's financial assets and financial liabilities.

Differences between fair values and carrying amounts of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the company. Most of these instruments, which are carried at amortised cost are to be held until maturity and therefore the fair value figures calculated bear little relevance to the company.

**Fair Value Hierarchy**

AASB 13 Fair Value Measurement requires all assets and liabilities measured at fair value to be assigned to a level in the fair value hierarchy as follows:

- Level 1                      Unadjusted quoted prices in active markets for identical assets or liabilities that the entity can access at the 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                      Unobservable inputs for the asset or liability.

The table below shows the assigned level for each asset and liability held at fair value by the trust:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
<b>30 June 2019</b>				
<b>Recurring fair value measurements</b>				
<b>Financial Assets</b>				
Shares in listed companies	5,401,926	-	-	5,401,926
<b>Total Financial Assets</b>	5,401,926	-	-	5,401,926
	5,401,926	-	-	5,401,926

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	<b>2019</b>		<b>2018</b>
	\$		\$
<b>30 June 2018</b>			
<b>Recurring fair value measurements</b>			
<b>Financial Assets</b>			
Shares in listed companies	5,076,039	-	5,076,039
<b>Total Financial Assets</b>	<b>5,076,039</b>	<b>-</b>	<b>5,076,039</b>
	5,076,039	-	5,076,039

**20 Capital Management**

**a. Capital Adequacy Test**

Master Builders Fidelity Fund has the following externally imposed capital requirements:

As detailed in Section 17 of the Building (Prudential Standards) Determination 2002 (the Standards) the fund must maintain sufficient capital at all times. Section 28 of the Standards requires the outstanding requests liability and fidelity certificate liabilities of the fund to be calculated in accordance with the prudential standard GPS 320 issued by the Australian Prudential Regulation Authority. Based on an actuarial report and Certificate of Solvency, dated 17 September 2019 prepared by Professional Financial Solutions Pty Ltd, in accordance with GPS 320 the fund exceeds the required capital thresholds as at 30 June 2019 by approximately \$3,136,093 (2018: \$2,114,067) as shown below.

Capital adequacy required as per section 17 of the Standards	1,000,000		1,000,000
Less: Capital calculated in accordance with GPS 320	4,136,093		3,114,067
<b>Capital in excess of requirements</b>	<b>3,136,093</b>		<b>2,114,067</b>

This requirement has been met.

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	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>b. Liability Adequacy Test</b>		
<p>The liability adequacy test has been conducted using the central estimate of the premium liabilities, adjusted as appropriate, together with an appropriate margin. The test is based on prospective information and is also heavily dependent on assumptions and judgements.</p>		
Unearned contribution liability	6,387,595	6,159,097
Deferred acquisition costs	<u>(697,850)</u>	<u>(1,231,626)</u>
	<u>5,689,745</u>	<u>4,927,471</u>
<p>Central estimate of present value of expected future cash flows from future requests in accordance with GPS 320</p>		
- Warranty requests	4,356,735	3,876,998
- Insolvency requests	<u>1,333,010</u>	<u>872,012</u>
	<u>5,689,745</u>	<u>4,749,010</u>
<b>Net Surplus</b>	<u>-</u>	<u>178,461</u>

**MASTER BUILDERS FIDELITY FUND**  
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**TRUSTEES' DECLARATION**

The trustees declare that:

- a) The financial statements and notes, as set out on pages 2 to 29, present fairly the trust's financial position as at 30 June 2019 and its performance for the year ended on that date in accordance with Australian Accounting Standards (including Australian Accounting Interpretations); and
- b) There are reasonable grounds to believe that the trust will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the trustees.

Trustee: *James Hanrahan*  
JAMES HANRAHAN

Trustee: *Gary Guy*  
GARY GUY

Dated 3 December 2019