

Stirling Enhanced Yield Fund
Annual Financial Report
For the year ended 30 June 2022
ARSN 650 116 662

Stirling Enhanced Yield Fund

Table of Contents

For the year ended 30 June 2022

	Page
Directors' Report	2
Auditor's Independence Declaration	5
Statement of Profit or Loss and Other Comprehensive Income	6
Statement of Financial Position	7
Statement of Changes in Equity	8
Statement of Cash Flows	9
Notes to the Financial Statements	
1. General information	10
2. Basis of preparation	10
3. Significant accounting policies	11
4. Rent and recoverable outgoings	15
5. Cash and cash equivalents	15
6. Trade and other receivables	15
7. Other assets	15
8. Investment properties	16
9. Derivative financial Instruments	18
10. Trade and other payables	18
11. Borrowings	18
12. Issued equity	19
13. Distributions to unitholders	20
14. Auditor's remuneration	20
15. Financial instruments	20
16. Related parties	24
17. Events subsequent to reporting date	25
18. Contingent assets, liabilities and commitments	25
19. Additional information	25
Directors' Declaration	26
Independent Auditor's Report	27

Stirling Enhanced Yield Fund

Directors' Report

For the year ended 30 June 2022

The Directors of Stirling Property Funds Limited (ABN 19 617 836 736), the Responsible Entity of Stirling Enhanced Yield Fund (formerly Stirling Diversified Enhanced Yield Fund) ('the Fund'), present their report together with the Financial Statements ('Financial Statements') of the Fund for the year ended 30 June 2022 and the Independent Auditor's Report therein.

Directors of the Responsible Entity

The Directors of Stirling Property Funds Limited during and since the end of the financial year are:

Name	Position	Appointed	Resigned
Andrew Mutton	Director	08 Mar 2017	Continuing
Elton Matthew Hyder IV	Director	08 Mar 2017	Continuing
Matthew John Coy	Director	08 Mar 2017	Continuing
Scott Ronald Girard	Director	04 Jun 2019	Continuing

The Company Secretary of Stirling Property Funds Limited during and since the end of the financial year is:

Name		Appointed	Resigned
Matthew John Coy	Director	08 Mar 2017	Continuing

Principal activities

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

The principal activity of the Fund in the course of the financial year was to invest funds in accordance with its investment objectives and guidelines as set out in the current Product Disclosure Statement (PDS) and in accordance with the provisions of the constitution with the key asset category being investment property.

The Fund did not have any employees during the financial year.

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

Significant change in the state of affairs

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

Review of operations

Results

The results of the operations of the Fund are disclosed in the statement of profit or loss and other comprehensive income of these Financial Statements. The Fund's profit from continuing operations for the year ended 30 June 2022 was \$4,257,528 (2021: \$543,332 loss).

Distributions

The Fund distributed \$1,942,168 during the year ended 30 June 2022, being a total of 6.164 cents per unit (2021: \$66,451, being 1.244 cents per unit for the quarter).

Stirling Enhanced Yield Fund

Directors' Report

For the year ended 30 June 2022

Likely developments

The Fund will continue to be managed in accordance with the investment objectives and guidelines set out in the governing documents of the Fund and in accordance with the provisions of the Fund constitution.

The results of the Fund's operations will be affected by a number of factors, including the performance of 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.

Environmental regulation

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

Indemnifying officers or 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 Responsible Entity has not indemnified or agreed to indemnify any auditor or other officer of the Fund, or any related body corporate.

Insurance premiums

The Responsible Entity has paid insurance premiums in respect of Directors' and Officers' liability and legal expense insurance contracts, for current and former Directors and Officers, including senior executives of the Responsible Entity.

Events subsequent to balance date

There are no matters or circumstances which have arisen since the end of the year and the date of this report, in the opinion of the Responsible Entity, which significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund, in future financial years.

Fund information in the Directors' Report

Responsible Entity interests

The following fees were paid and/or payable to the Responsible Entity and its associates during the financial year:

	30 Jun 2022	30 Jun 2021
	\$	\$
Property acquisition fees	632,250	148,800
Fund management fees	351,860	11,600
	<u>984,110</u>	<u>160,400</u>

The Responsible Entity and/or its related parties have held units in the Fund during the financial year as outlined in Note 16 to the Financial Statements.

Stirling Enhanced Yield Fund

Directors' Report

For the year ended 30 June 2022

Fund information in the Directors' Report (continued)

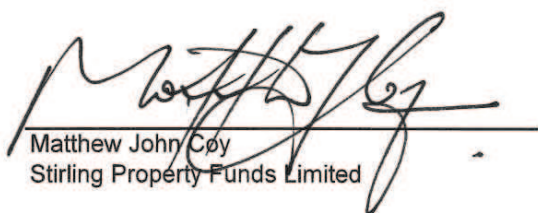
Other Fund information

The number of units in the Fund issued and redeemed during the financial year, and the balance of issued units at the end of the financial year are disclosed in Note 12 to the Financial Statements.

Auditor's Independence Declaration

The Auditor's Independence Declaration is set out on page 5 and forms part of the Directors' Report for the year ended 30 June 2022.

This report is signed in accordance with a resolution of the Board of Directors of Stirling Property Funds Limited made pursuant to s.298(2) of the Corporations Act 2001.



Matthew John Coy
Stirling Property Funds Limited



Scott Ronald Girard
Stirling Property Funds Limited

Dated at Sydney this 31st day of October 2022.

31 October 2022

The Board of Directors
Stirling Property Funds Limited
Level 45
19-29 Martin Place
SYDNEY NSW 2000

Dear Board Members,

Auditor's Independence Declaration

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Stirling Property Funds Limited, as Responsible Entity for Stirling Enhanced Yield Fund.

As auditor of the financial statements of Stirling Enhanced Yield Fund for the financial year ended 30 June 2022, 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 contravention of any applicable code of professional conduct in relation to the audit.

Yours faithfully



Bernard Croft
CROFTS
Chartered Accountants

Stirling Enhanced Yield Fund

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2022

		23 Dec 2020 to	
	Note	30 Jun 2022	30 Jun 2021
		\$	\$
Revenue and other income			
Rent and recoverable outgoings	4	3,837,962	125,494
Gain on fair value of investment properties	8	1,547,042	-
Gain on fair value of derivative financial instruments	9	775,687	-
Total revenue and other income		6,160,691	125,494
Expenses			
Loss on fair value of investment properties	8	-	(605,886)
Property related expenses		(1,049,124)	(16,226)
Fund management fees	16	(351,860)	(11,600)
Finance costs		(413,081)	(14,739)
Professional fees		(36,120)	(20,375)
Other expenses		(52,978)	-
Total expenses		(1,903,163)	(668,826)
Net profit/(loss) for the year		4,257,528	(543,332)
Other comprehensive income		-	-
Total comprehensive income/(loss) for the year		4,257,528	(543,332)

Notes 1 to 19 form an integral part of these Financial Statements.

Stirling Enhanced Yield Fund

Statement of Financial Position

As at 30 June 2022

	Note	30 Jun 2022 \$	30 Jun 2021 \$
Assets			
Current assets			
Cash and cash equivalents	5	1,102,963	79,317
Trade and other receivables	6	125,277	5,086
Other assets	7	44,358	2,107,500
Total current assets		1,272,598	2,191,903
Non-current assets			
Investment properties	8	56,000,000	9,920,000
Derivative financial instruments	9	775,687	-
Total non-current assets		56,775,687	9,920,000
Total assets		58,048,285	12,111,903
Liabilities			
Current liabilities			
Trade and other payables	10	786,337	2,186,333
Total current liabilities		786,337	2,186,333
Non-current liabilities			
Borrowings	11	25,168,235	4,731,751
Total non-current liabilities		25,168,235	4,731,751
Total liabilities		25,954,572	6,918,084
Net assets		32,093,713	5,193,819
Equity			
Issued units	12	30,388,136	5,803,602
Undistributed profit/(loss)		1,705,577	(609,783)
Total Equity		32,093,713	5,193,819

Notes 1 to 19 form an integral part of these Financial Statements.

Stirling Enhanced Yield Fund

Statement of Changes in Equity

For the year ended 30 June 2022

	Note	Ordinary units \$	Undistributed profit/(loss) \$	Total unitholder funds \$
Balance at 23 December 2020		-	-	-
Net loss for the year		-	(543,332)	(543,332)
Other comprehensive income		-	-	-
Total comprehensive loss for the year		-	(543,332)	(543,332)
Applications	12	5,910,000	-	5,910,000
Equity raising costs	12	(106,398)	-	(106,398)
Distributions to unitholders	13	-	(66,451)	(66,451)
Balance at 30 June 2021		5,803,602	(609,783)	5,193,819
Net profit for the year		-	4,257,528	4,257,528
Other comprehensive income		-	-	-
Total comprehensive income for the year		-	4,257,528	4,257,528
Applications	12	25,000,000	-	25,000,000
Equity raising costs	12	(415,466)	-	(415,466)
Distributions to unitholders	13	-	(1,942,168)	(1,942,168)
Balance at 30 June 2022		30,388,136	1,705,577	32,093,713

Notes 1 to 19 form an integral part of these Financial Statements.

Stirling Enhanced Yield Fund

Statement of Cash Flows

For the year ended 30 June 2022

		23 Dec 2020 to
	Note	30 Jun 2022
		30 Jun 2022
		\$
		\$
Cash flows from operating activities		
Rental income received		3,877,563
Payments to suppliers		(1,711,270)
Interest paid		(297,000)
Net cash generated by operating activities	5	<u>1,869,293</u>
Cash flows from investing activities		
Payments with respect to investment properties		(42,222,047)
Net cash used in investing activities		<u>(42,222,047)</u>
Cash flows from financing activities		
Proceeds on issue of units	12	25,000,000
Equity raising costs		(427,126)
Proceeds from borrowings	11	20,740,000
Payments to procure borrowings	11	(165,989)
Payments to procure derivative financial instruments	11	(197,140)
Distributions paid		(1,465,845)
Loan proceeds from related parties	10	-
Loan repayments to related parties	10	(2,107,500)
Net cash generated by financing activities		<u>41,376,400</u>
Net increase in cash and cash equivalents		1,023,646
Cash and cash equivalents at beginning of the financial year		79,317
Cash and cash equivalents at end of the financial year	5	<u>1,102,963</u>
		<u>79,317</u>

Notes 1 to 19 form an integral part of these Financial Statements.

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

1. General information

Stirling Enhanced Yield Fund (formerly Stirling Diversified Enhanced Yield Fund) ('the Fund') is a registered managed investment scheme under the Corporations Act 2001 and is domiciled in Australia. The principal activity of the Fund during the course of the year was to invest funds in accordance with its investment objectives and guidelines as set out in the current Product Disclosure Statement (PDS) and in accordance with the provisions of the constitution with the key asset category being investment property.

2. Basis of preparation

(a) Statement of compliance

The Financial Statements ('Financial Statements') are general purpose financial statements which have been prepared in accordance with the Fund's constitution, the Corporations Act 2001, Australian Accounting Standards (AASB) including Interpretations, and with other requirements of the law.

The Financial Statements of the Fund comply with International Financial Reporting Standards ('IFRS') issued by the International Accounting Standards Board ('IASB').

For the purposes of preparing the Financial Statements, the Fund is a for-profit entity.

The Financial Report was authorised for issue in accordance with a resolution of the Board of Directors of Stirling Property Funds Limited, the Responsible Entity, on 31 October 2022.

(b) Basis of measurement

The Financial Statements have been prepared on an accruals basis and are based on historical cost, except for certain non-current assets and financial instruments that are measured at revalued amounts or fair value, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

(c) Use of estimates and judgements

In the application of the Fund's accounting policies, the Responsible Entity is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making judgements. 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 year in which the estimate is revised if the revision affects only that period; or in the period of the revision and future periods if the revision affects both current and future periods. The key estimates and judgements in the Financial Statements relate to the valuation of investment properties (refer to Note 8).

Judgements made by the Responsible Entity that have significant effects on the Financial Statements and estimates with significant risk of material adjustments in the next year are disclosed, where applicable, in the relevant notes to the Financial Statements.

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

2. Basis of preparation (continued)

(d) Going concern

The Financial Statements have been prepared on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business.

In making this assessment, the Directors have considered the ongoing effects of the Covid-19 pandemic and its impact on the financial position and financial performance of the Fund, and concluded that there are reasonable grounds to believe the basis of preparation of the financial statements on a going concern basis is appropriate.

(e) Adoption of new and revised accounting standards

In the current year, the Fund has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the current reporting year.

(f) Functional and presentation currency

The Financial Statements are presented in Australian dollars, which is the Fund's functional currency.

(g) Segment reporting

The Fund operates in one segment, being investment in Australian investment properties. The Fund has determined its one operating segment based on the internal information that is used in making strategic decisions by and provided to the chief operating decision maker, being the Responsible Entity.

3. Significant accounting policies

(a) Receivables

Receivables are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method, less any allowance under the expected credit loss ('ECL') model.

At each reporting year, the Fund assesses whether financial assets carried at amortised cost are 'credit-impaired'. A financial asset is 'credit-impaired' when one or more events that has a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The Fund recognises loss allowances at an amount equal to lifetime ECL on trade and other receivables. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the trade receivables and are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between cash flows due to the Fund in accordance with the contract and the cash flows that the Fund expects to receive.

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

3. Significant accounting policies (continued)

(b) Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both. All tenant leases are on an arm's length basis. Investment properties are initially recorded at cost which includes any directly attributable acquisition costs. Subsequently, the investment properties are measured at fair value by independent valuers, or through appropriate valuation techniques adopted by the Responsible Entity, with any change therein included in profit or loss in the year in which they arise.

An investment property is recognised as an asset of the Fund when it is probable future economic benefits associated with the investment property will flow to the Fund and the cost of the investment property can be measured reliably.

An investment property is derecognised upon disposal. Any gain or loss arising from derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included as revenue or as an expense in the year in which the property is derecognised.

(c) Impairment

At each reporting date, the Fund assesses whether financial assets carried at amortised cost are credit-impaired. A financial asset is credit-impaired when one or more events occur that have a detrimental impact on the estimated future cash flows of the financial asset. Debts that are known to be uncollectable are written off as an expense when identified.

(d) Financial instruments

Derivative financial instruments

The Fund holds derivative financial instruments in the form of an interest rate swap to hedge its interest rate exposures.

Derivatives are initially recognised at fair value and attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and the resulting gain or loss is recognised in profit or loss.

The fair value of interest rate swaps is the estimated amount that the entity would receive or pay to transfer the swap at reporting date, taking into account current interest rates and the current creditworthiness of the swap counterparties.

The Fund has not applied hedge accounting to its derivative financial instruments.

(e) Payables

Trade payables and other accounts payable are recognised when the Fund becomes obliged to make future payments resulting from the purchase of goods and services and are recorded initially at fair value, net of any attributable transaction costs. Subsequent to initial recognition they are measured at amortised cost.

Distributions payable are recognised as distributions within equity. A liability is recognised where distributions have been declared but not been paid.

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

3. Significant accounting policies (continued)

(f) Borrowings

Borrowings are recorded initially at fair value, net of any attributable transaction costs. Subsequent to initial recognition borrowings are measured at amortised cost using the effective interest rate method with any difference between the initial and recognised amount and redemption value being recognised as an expense over the period of borrowing and are derecognised when the contractual obligations are discharged, cancelled or expire.

(g) Revenue

i. Rental income

Rental income from investment properties is recognised as revenue on a straight line basis over the term of the associated lease. Rental income not received at reporting date is reflected in the statement of financial position as an asset. If rents are paid in advance these amounts are recorded as a liability in the statement of financial position.

Lease incentives granted are recognised as an integral part of the net consideration agreed for the use of the leased premises, irrespective of the incentive's nature or form or the timing of payments. The aggregate cost of lease incentives are recognised as a reduction of rental income on a straight-line basis over the lease term.

Leasing costs that are directly associated with negotiating and arranging an operating lease (including commissions, legal fees and lease documentation preparation fees) are capitalised and amortised on a straight-line basis over the lease term on the same basis as the lease income.

Contingent rents based on the future amount of a factor that changes other than with the passage of time are only recognised when charged.

ii. Recoverable outgoings

The Fund recovers the costs associated with general building and tenancy operation from lessees in accordance with specific clauses within lease agreements. These are invoiced monthly based on an annual estimate. The consideration is due 30 days from the invoice date. Should any adjustment be required based on actual costs incurred, this is recognised in the statement of profit or loss and other comprehensive income within the same reporting period and billed annually.

iii. Interest income

Interest income is recognised as revenue as it accrues, using the effective interest rate of the instrument calculated at the acquisition or origination date.

(h) Expenses

i. Finance costs

Finance costs include interest expense and amortised borrowing costs. Interest expense is recognised as an expense as it accrues. Finance costs are recognised using the effective interest rate applicable to the financial liability.

ii. Other expenses

All other expenses, including management fees, are recognised on an accruals basis.

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

3. Significant accounting policies (continued)

(i) Distribution and taxation

Under current legislation the Fund is not subject to income tax when its taxable income (including assessable realised capital gains) is distributed in full to the unitholders. In accordance with the Fund constitution, the Fund fully distributes its distributable income to the unitholders who are presently entitled to the income under the constitution.

Investments and financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised that portion of the gain that is subject to capital gains tax will be distributed so that the Fund is not subject to capital gains tax.

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

Distributions paid and payable are recognised as distributions within equity. A liability is recognised where distributions have been declared but not been paid. Distributions paid are included in cash flows from financing activities in the statement of cash flows.

(j) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- (i) where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO), or
- (ii) for receivables and payables, which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the ATO is included in receivables or payables in the Statement of Financial Position.

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

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

	30 Jun 2022 \$	30 Jun 2021 \$
4. Rent and recoverable outgoings		
Rental income	2,631,044	95,497
Recoverable outgoings	982,507	20,337
Straight-lining of leases revenue	224,411	9,660
	3,837,962	125,494

5. Cash and cash equivalents

Cash at bank balances	1,102,963	79,317
	1,102,963	79,317

Reconciliation of profit/(loss) for the year to net cash flows from operating activities:

Net profit/(loss) for the year	4,257,528	(543,332)
Adjustments for:		
(Gain)/loss on fair value of investment properties	(1,547,042)	605,886
Gain on fair value of derivatives	(775,687)	-
Amortisation of borrowing costs	59,613	911
Change in deferred rent	(224,411)	9,660
Changes in operating assets and liabilities:		
(Increase) in receivables	(120,191)	(5,086)
Increase in other assets	(44,358)	-
Increase in payables	263,841	46,173
Net cash generated by operating activities	1,869,293	114,212

6. Trade and other receivables

<i>Current</i>		
Trade receivables	76,826	-
Accrued income	48,412	-
GST receivable	-	5,086
Other current receivables	39	-
	125,277	5,086

The Fund expects to recover the full amount of trade and other receivables.

7. Other assets

<i>Current</i>		
Prepaid rates, taxes and other property outgoings	44,358	-
Deposits paid for investment properties	-	2,107,500
	44,358	2,107,500

In May 2021, the Responsible Entity paid a deposit for the acquisition of 555 Kessels Road, MacGregor QLD which settled in the current financial year.

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

	30 Jun 2022 \$	30 Jun 2021 \$
8. Investment properties		
Opening balance	9,920,000	-
Acquisitions	42,150,000	9,920,000
Settlement adjustments [^]	(675,000)	
Stamp duty and other purchase costs	2,833,547	596,226
Total purchase costs for the year	44,308,547	10,516,226
Change in deferred rent	224,411	9,660
Gain/(loss) on fair value	1,547,042	(605,886)
Closing balance	56,000,000	9,920,000

[^] Settlement adjustments include a rental guarantee provided by the vendor of 555 Kessels Road, MacGregor QLD. This has been receipted in full by the Fund, and is non-refundable.

Property	30 June 2022 Valuer	30 June 2022 Fair Value \$	Last Independent Valuation \$	Last Independent Valuation Date	Independent Valuer
9 Channel Road, Mayfield West NSW	Independent	7,150,000	7,150,000	Jun 2022	Knight Frank
11 Channel Road, Mayfield West NSW	Independent	3,850,000	3,850,000	Jun 2022	Knight Frank
555 Kessels Road, MacGregor QLD	Independent	45,000,000	45,000,000	Jun 2022	Knight Frank
		56,000,000	56,000,000		

Valuation techniques and significant unobservable inputs

The fair values of the investment properties were determined by the Directors of the Responsible Entity or by an external, independent valuation company having an appropriate recognised professional qualification and recent experience in the location and category of the properties being valued. Fair value is based on market values, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

The valuations were prepared by considering the following valuation methodologies:

- Capitalisation Approach: the annual market net rental income is capitalised at an appropriate market yield to arrive at the property's market value. Appropriate capital adjustments are then made where necessary to reflect the specific cash flow profile and the general characteristics of the property.
- Discounted Cash Flow Approach: this approach incorporates the estimation of future annual cash flows over a 10 year period by reference to expected rental growth rates, ongoing capital expenditure, terminal sale value and acquisition and disposal costs. The present value of future cash flows is then determined by the application of an appropriate discount rate to derive a net present value for the property.
- Direct Comparison Approach: this approach identifies comparable sales on a dollar per square metre of lettable area basis and compares the equivalent rates to the property being valued to determine the property's market value.

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

8. Investment properties (continued)

Valuation techniques and significant unobservable inputs (continued)

The valuations reflect, when appropriate: the highest and best use of the property, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting of vacant accommodation and the market's general perception of their credit-worthiness; the allocation of maintenance and insurance responsibilities between the lessor and lessee; and the remaining economic life of the property. It has been assumed that whenever rent reviews or lease renewals are pending with anticipated reversionary increases, all notices and, where appropriate, counter notices have been served validly and within the appropriate time.

Fair value measurement

The fair value measurement of investment properties have been categorised as a Level 3 fair value as it is derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

The following table outlines the significant unobservable inputs used in the above valuation techniques and their relationship with the fair value measurement:

Significant unobservable inputs	Relevant valuation methods	Range of inputs	Relationship with fair value
Discount rate	Discounted Cash Flow	6.75%	The higher/lower the rate, the lower/higher the fair value.
Capitalisation rate	Capitalisation	5.50% to 5.75%	The higher/lower the rate, the lower/higher the fair value.

A further sensitivity analysis was undertaken by the Fund to assess the fair value of investment properties. The table below illustrates the impact on valuation of movements in capitalisation rates:

Fair Value 30 Jun 2022	Capitalisation rate impact	
	-0.25%	+0.25%
\$ 56,000,000	\$ 1,950,404	\$ (3,108,575)

Leases as lessor

The Fund leases out its investment properties under operating leases. The future minimum lease payments receivable under non-cancellable leases are as follows:

	30 Jun 2022	30 Jun 2021
	\$	\$
Less than one year	2,966,879	615,566
Between one and five years	11,449,461	2,652,548
More than five years	2,259,100	1,323,062
	<u>16,675,439</u>	<u>4,591,176</u>

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

9. Derivative financial Instruments

Type of contract	Commencement	Expiration	Contracted fixed interest rate	Notional amount of contract \$	Fair value of assets \$
30 Jun 2022					
Interest rate cap	05 Nov 21	05 Nov 24	2.0% cap	12,750,000	485,718
Interest rate cap and collar	05 Nov 24	05 May 26	2.5% cap and 0.5% collar	12,750,000	289,969
					<u>775,687</u>
30 Jun 2021					
Nil					-
					<u>-</u>

Under interest rate cap and collar contracts, the Responsible Entity agrees to fix interest rates at specified ceiling and floor amounts and for agreed notional principal amounts. Such contracts enable the Fund to mitigate the risk of changing interest rates on the cash flow exposures on the variable rate debt held. The above table details the specific instruments held at reporting date. The Fund paid a hedging fee of \$197,140 to secure the two hedging arrangements.

Refer to Note 15 for details on the Fund's exposure to risks associated with financial assets and liabilities.

10. Trade and other payables

Current

	30 Jun 2022 \$	30 Jun 2021 \$
Trade creditors and expenses payable	29,857	917
Accrued expenses	111,129	58,365
Interest payable	64,062	7,594
Prepaid income	37,316	11,957
Distributions payable	476,323	-
GST payable	67,650	-
Loans from related parties	-	2,107,500
	<u>786,337</u>	<u>2,186,333</u>

Loans from related parties in the 2021 year related to the deposit paid for the acquisition of 555 Kessels Road, MacGregor QLD which settled and was repaid in the current financial year.

11. Borrowings

Non-current

	30 Jun 2022 \$	30 Jun 2021 \$
Secured loan	25,500,000	4,760,000
Borrowing costs	(331,765)	(28,249)
	<u>25,168,235</u>	<u>4,731,751</u>

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

11. Borrowings (continued)

The Fund had the following secured loan facility, which is drawn over three loan drawdowns for each of the investment properties:

	Maturity Date	Debt Facility Limit \$	Drawn Amount \$	Hedged Amount \$	Funds Available \$
30 Jun 2022					
Secured facility	5 May 26	25,500,000	25,500,000	12,750,000	-
		25,500,000	25,500,000	12,750,000	-
30 Jun 2021					
Secured facility	5 May 26	4,760,000	4,760,000	-	-
		4,760,000	4,760,000	-	-

This facility is secured by a registered first mortgage over the Fund's investment properties.

All covenant requirements were complied with during the year.

Reconciliation of movements in debt facilities arising from financing activities

	30 Jun 2022 \$	30 Jun 2021 \$
Opening balance	4,731,751	-
<i>Cash flows</i>		
Proceeds from borrowings	20,740,000	4,760,000
Payments to procure borrowings	(165,989)	(29,160)
Payments to hedge interest rates	(197,140)	-
<i>Non-cash flows</i>		
Amortisation of borrowing costs	59,613	911
Closing balance	25,168,235	4,731,751

12. Issued equity

	30 Jun 2022		30 Jun 2021	
	No. of units	\$	No. of units	\$
Opening balance	5,910,000	5,803,602	-	-
Applications	25,000,000	25,000,000	5,910,000	5,910,000
Issue costs	-	(415,466)	-	(106,398)
Closing balance	30,910,000	30,388,136	5,910,000	5,803,602

All units in the Fund are of the same class and carry equal rights to capital and income distributions.

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

	30 Jun 2022 \$	30 Jun 2022 \$
13. Distributions to unitholders		
September quarter distribution	353,085	-
December quarter distribution	556,380	-
March quarter distribution	556,380	-
June quarter distribution	476,323	66,451
	<u>1,942,168</u>	<u>66,451</u>

14. Auditor's remuneration

The following fees were paid or payable for audit services provided by the Auditor, Crofts CA Pty Limited, in respect of the current and prior financial years:

Audit of Financial Statements	8,000	10,000
Audit of Half-Yearly Financial Statements	8,000	-
	<u>16,000</u>	<u>10,000</u>

In addition to the above, the following fees were paid or payable for non-audit services provided by Crofts CA Pty Limited:

Annual taxation compliance and financial statements	10,000	10,000
Half-yearly financial statements	4,720	-
General consultancy	2,100	-
	<u>16,820</u>	<u>10,000</u>

15. Financial instruments

A. Fair value

The Directors of the Responsible Entity consider that the carrying amount of the financial assets and financial liabilities approximate their value in the financial statements, with the exception of borrowings which approximate their nominal value in the financial statements.

Independent valuations are obtained from third parties to support the fair value measurement of financial instruments at each reporting date to meet the requirements of International Financial Reporting Standards.

These financial assets and liabilities are recognised in accordance with the accounting policies described in Note 3 to the Financial Statements.

Valuation techniques

The fair value of financial assets and financial liabilities are determined as follows:

- Financial assets and financial liabilities with standard terms and conditions which are traded on active liquid markets are determined with reference to quoted market prices.
- Other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis, using prices from observable current market transactions and dealer quotes for similar instruments.

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

15. Financial instruments (continued)

A. Fair value (continued)

When measuring the fair value of an asset or a liability, the Fund uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows.

- Level 1: derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the Fund can access at the measurement date.
- Level 2: derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes 'observable' requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be that market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

B. Capital Management

The capital structure of the Fund consists of cash and cash equivalents and the proceeds from the issue of the units of the Fund.

The risk associated with meeting redemption requests is minimal as the Responsible Entity has discretion in approving redemptions.

The Fund has no restrictions or specific capital requirements on the application and redemption of units, other than the approval of the Responsible Entity.

The Fund's overall investment strategy remains unchanged throughout the period.

C. Financial risk management objectives

The Fund is exposed to a variety of financial risks as a result of its activities. These risks include market risk, credit risk and liquidity risk. The Fund's risk management and investment policies are established to identify and analyse these risks faced by the Fund, to set appropriate risk limits and controls and to monitor risks and adherence to these limits. The Fund, through hiring qualified staff, appropriate training and setting of management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations, subsequently seeking to minimise the potential adverse effects of these risks on the Fund's financial performance.

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

15. Financial instruments (continued)

D. Market risk

Market risk is the risk that changes in market prices - such as foreign exchange rates, interest rates and equity prices - will affect the Fund's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising return. The Fund's activities expose it primarily to interest rate risks at the date of this report.

There has been no change to the manner in which the Fund manages and measures the risk throughout the period.

Interest rate risk management

In respect of income-earning financial assets and interest-bearing financial liabilities, the following table indicates amounts and effective interest rates and therefore concentration of risk at reporting date:

	Note	30 Jun 2022		30 Jun 2021	
		Effective interest rate	Total \$	Effective interest rate	Total \$
Financial assets					
Cash and cash equivalents	5	0.00%	1,102,963	0.00%	79,317
Interest rate cap	9	2.00%	775,687	-	-
			<u>1,878,650</u>		<u>79,317</u>
Financial liabilities					
Borrowings (excluding borrowing costs)	11	2.24%	25,500,000	1.86%	4,760,000
			<u>25,500,000</u>		<u>4,760,000</u>

The sensitivity analysis below has been determined based on the Fund's exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period, in the case of financial assets and financial liabilities that have variable interest rates.

At reporting date, if variable interest rates had been 100 basis points higher or lower and all other variables were held constant, the impact to the Fund would have been as follows:

	Variable + / -	Sensitivity impact	
		Rate increase \$	Rate decrease \$
30 Jun 2022			
Net (loss)/profit	1.00%	(243,970)	43,993
		<u>(243,970)</u>	<u>43,993</u>
30 Jun 2021			
Net (loss)/profit	1.00%	(46,807)	46,807
		<u>(46,807)</u>	<u>46,807</u>

The methods and assumptions used to prepare the sensitivity analysis have not changed during the year.

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

15. Financial instruments (continued)

E. Credit risk

Credit risk is the risk of financial loss to the Fund if a tenant or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Fund's trade and other receivables from tenants.

The carrying amount of financial assets best represents the maximum credit exposure at the reporting date.

The Fund has adopted the policy of dealing with creditworthy counterparties and obtaining sufficient collateral or other security where appropriate, as a means of mitigating the financial risk of financial loss from default. The Fund's exposure and the credit ratings of its counterparties are continuously monitored by the Responsible Entity. The methods and assumptions used to manage credit risk have not changed throughout the year.

Credit risk from balances with banks and financial institutions is managed by the Responsible Entity in accordance with the Fund's investment policy. Cash investments are made only with approved counterparties.

At 30 June 2022, the main financial assets exposed to credit risk are trade and other receivables. There were no significant concentrations of credit risk to counterparties at 30 June 2022.

F. Liquidity risk

The Fund's strategy of managing liquidity risk is in accordance with the Fund's investment strategy. The Fund manages liquidity risk by maintaining adequate banking facilities and through the continuous monitoring of forecast and actual cash flows and aligning the profiles of financial assets and liabilities.

The following tables summarise the maturity profile of the Fund's financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Fund can be required to pay. The tables include both interest and principal cash flows:

	Effective interest rate	Total	Less than 1 year	1 to 5 years	5+ years
30 Jun 2022					
Trade and other payables	-	786,337	786,337	-	-
Borrowings	2.24%	27,693,633	570,282	27,123,351	-
Interest rate cap	-	-	-	-	-
		28,479,970	1,356,619	27,123,351	-
30 Jun 2021					
Trade and other payables	-	2,186,333	2,186,333	-	-
Borrowings	1.86%	5,189,096	88,536	5,100,560	-
		7,375,429	2,274,869	5,100,560	-

The principal amount included in the above borrowings is \$25,500,000 (2021: \$4,760,000).

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

16. Related parties

Key Management Personnel

The Fund does not employ personnel in its own right. However, the Directors of the Responsible Entities are considered related parties to the Fund. Their names are:

Andrew Mutton
Elton Matthew Hyder IV
Matthew John Coy
Scott Ronald Girard

No compensation is paid directly by the Fund to any of the Directors or Key Management Personnel of the Responsible Entity.

Key Management Personnel loan disclosures

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

Responsible Entity fees and other transactions

The following fees were paid and/or payable to the Responsible Entity and its associates during the year:

	30 Jun 2022	30 Jun 2021
	\$	\$
Property acquisition fees	632,250	148,800
Fund management fees	351,860	11,600
	<u>984,110</u>	<u>160,400</u>

At reporting date an amount of \$32,543 (2021: \$2,107,500) was owing to the Responsible Entity and included in trade and other payables. The payables are non-interest bearing with payment terms and conditions consistent with normal commercial practices.

All transactions with related parties are conducted on normal commercial terms and conditions. From time to time Stirling Property Funds Limited, its Directors 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.

Related party investments held by the Fund

The Fund has no investments in the Responsible Entity or its associates.

Stirling Enhanced Yield Fund

Notes to the Financial Statements

For the year ended 30 June 2022

16. Related parties (continued)

Units in the Fund held by related parties

At reporting date, related parties of the Responsible Entity held units in the Fund as follows:

	30 Jun 2022		30 Jun 2021	
	Closing units held	Closing interest held	Closing units held	Closing interest held
Stirling Property Funds Limited	-	-	100,000	1.69%
Elton Matthew Hyder IV	550,000	1.78%	-	-
Matthew John Coy	350,000	1.13%	-	-
Scott Ronald Girard	100,000	0.32%	-	-
	<u>1,000,000</u>	<u>3.24%</u>	<u>100,000</u>	<u>1.69%</u>

No other related parties of the Responsible Entity held units in the Fund as at the reporting date.

Other transactions within the Fund

No Director has entered into a material contract with the Fund during the year and there were no material contracts involving Directors' interests subsisting at year end.

17. Events subsequent to reporting date

There are no matters or circumstances which have arisen since the end of the year and the date of this report, in the opinion of the Responsible Entity, which significantly affect the operations of the Fund, the results of those operations, or the state of affairs of the Fund, in future financial years.

18. Contingent assets, liabilities and commitments

The Fund has no contingent assets, liabilities or commitments as at 30 June 2022.

19. Additional information

The registered office and principal place of business of the Fund and the Responsible Entity is as follows:

Level 45, 19-29 Martin Place
SYDNEY NSW 2000

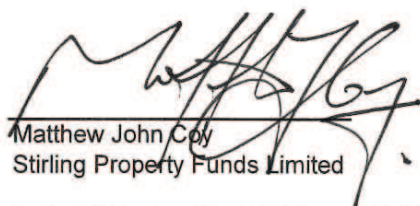
Stirling Enhanced Yield Fund Directors' Declaration

For the year ended 30 June 2022

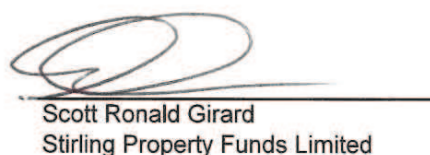
In the opinion of the Directors of Stirling Property Funds Limited, the Responsible Entity of Stirling Enhanced Yield Fund ('the Fund'):

- (a) the Financial Statements and notes thereto are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Fund's financial position as at 30 June 2022 and of its performance for the period ended on that date;
 - (ii) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
 - (iii) complying with International Financial Reporting Standards, as stated in Note 2(a) to the Financial Statements; and
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Board of Directors of the Responsible Entity made pursuant to s.295(5) of the Corporations Act 2001.



Matthew John Coy
Stirling Property Funds Limited



Scott Ronald Girard
Stirling Property Funds Limited

Dated at Sydney this 31st day of October 2022.

Independent Auditor's Report To the Unitholders of Stirling Enhanced Yield Fund

Report on the Financial Report

Opinion

We have audited the accompanying Financial Report of Stirling Enhanced Yield Fund ('the Fund'), which comprises the statement of financial position as at 30 June 2022, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Responsible Entity.

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

- a) Giving a true and fair view of the Fund's financial position as at 30 June 2022 and of its performance for the year ended on that date; and
- b) Complying the 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") 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Other Information is financial and non-financial information in the Fund's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. Directors of the Responsible Entity are responsible for the Other Information.

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

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

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

Directors' Responsibility for the Financial Report

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

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

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

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

Yours faithfully



Bernard Croft
CROFTS
Chartered Accountants

31 October 2022, North Sydney