

PIMCO Target Return Fund

ARSN 110 855 055

Annual report

For the year ended 30 June 2023

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This annual report covers PIMCO Target Return Fund as an individual entity.

The Responsible Entity of PIMCO Target Return Fund is PIMCO Australia Management Limited (ABN 37 611 709 507) (AFSL 487505).

The Responsible Entity's registered office is:

Level 19, 5 Martin Place
Sydney, NSW 2000.

Directors' report

The directors of PIMCO Australia Management Limited, the Responsible Entity of PIMCO Target Return Fund (the "Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2023.

Principal activities

The Fund mainly invests in interest bearing securities, fixed interest derivatives, unlisted trusts, and currency contracts in accordance with the Fund's Information Memorandum and the provisions of the Fund's Constitution.

The Fund did not have any employees during the year.

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

Service	Provider
Responsible Entity	PIMCO Australia Management Limited
Investment Manager	PIMCO Australia Pty Limited
Custodian and Administrator	State Street Australia Limited
Statutory Auditor	PricewaterhouseCoopers

Directors

The following persons held office as directors of PIMCO Australia Management Limited during or since the end of the year and up to the date of this report:

Alec Kersman	
V Mangala Ananthanarayanan	
Brendon D Rodda	
David Erdonmez	
Samuel Watkins	(appointed on 1 January 2023)

Review and results of operations

During the year, the Fund continued to invest its funds in accordance with the Fund's Information Memorandum and the provisions of the Fund's Constitution.

The Fund's performance for the year ended 30 June 2023 was 2.38% (net of fees). The Fund's benchmark, Bloomberg AusBond Bank Bills Index, returned 2.89% for the same period.

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

	Year ended	
	30 June 2023	30 June 2022
Operating profit/(loss) for the year (\$'000)	2,154	2,629
Distributions (\$'000)	-	6,931
Distributions (cents per unit)	-	5,994.87

Directors' report (continued)

Significant changes in the state of affairs

There were no significant changes in the state of affairs impacting the financial position of the Fund during the year ended 30 June 2023.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2023 that has significantly affected, or may have a significant effect on:

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

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the Fund's Information Memorandum and the provisions of the Fund's Constitution.

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

Indemnification and insurance of officers

No insurance premiums are paid for out of the assets of the Fund in regards to insurance coverage provided to the officers of PIMCO Australia Management Limited. So long as the officers of PIMCO Australia Management Limited act in accordance with the Fund's Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

Indemnification of auditor

The auditor of the Fund is in no way indemnified out of the assets of the Fund.

Fees paid to and interests held in the Fund by the Responsible Entity and its associates

Fees paid to the Responsible Entity and its associates out of Fund property during the year are disclosed in Note 18 to the financial statements.

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

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 18 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 11 to the financial statements.

The value of the Fund's assets and liabilities is disclosed on the statement of financial position and derived using the basis set out in Note 2 to the financial statements.

Environmental regulation

The operations of the Fund are not subject to any particular or significant environmental regulations under Commonwealth, State or Territory law.

Directors' report (continued)

Rounding of amounts to the nearest thousand dollars

The Fund is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the Directors' report. Amounts in the Directors' report have been rounded to the nearest thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

Auditor's independence declaration

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

This report is made in accordance with a resolution of the directors of PIMCO Australia Management Limited.

A handwritten signature in black ink, consisting of several loops and a long horizontal stroke extending to the right.

Director

Sydney
25 September 2023



Auditor's Independence Declaration

As lead auditor for the audit of PIMCO Target Return Fund for the year ended 30 June 2023, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

A handwritten signature in black ink, appearing to read 'CJ Cummins', written over a horizontal line.

CJ Cummins
Partner
PricewaterhouseCoopers

Sydney
25 September 2023

Statement of comprehensive income

	Note	Year ended	
		30 June 2023 \$'000	30 June 2022 \$'000
Investment income			
Interest income from financial assets at fair value through profit or loss		968	511
Interest income from financial assets at amortised cost		56	4
Distribution income		268	497
Net foreign exchange gain/(loss)		(282)	(240)
Net gains/(losses) on financial instruments at fair value through profit or loss	6	1,399	2,122
Other income		<u>2</u>	<u>4</u>
Total investment income/(loss)		<u>2,411</u>	<u>2,898</u>
Expenses			
Management fee	18	224	221
Transactional and Operational costs		<u>33</u>	<u>48</u>
Total expenses		<u>257</u>	<u>269</u>
Profit/(loss) for the year		<u>2,154</u>	<u>2,629</u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the year		<u>2,154</u>	<u>2,629</u>

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of financial position

		As at	
	Note	30 June 2023 \$'000	30 June 2022 \$'000
Assets			
Cash and cash equivalents	13	2,874	3,215
Receivables	15	225	592
Due from brokers - receivable for securities sold		1,412	8
Financial assets at fair value through profit or loss	7	100,847	94,419
Margin accounts		<u>2,311</u>	<u>4,372</u>
Total assets		<u>107,669</u>	<u>102,606</u>
Liabilities			
Distributions payable	12	-	3,601
Payables	16	42	21
Due to brokers - payable for securities purchased		9,602	-
Financial liabilities at fair value through profit or loss	8	1,582	4,814
Margin accounts		<u>444</u>	<u>1,015</u>
Total liabilities		<u>11,670</u>	<u>9,451</u>
Net assets attributable to unit holders - equity	11	<u>95,999</u>	<u>93,155</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of changes in equity

	Year ended	
	30 June 2023 \$'000	30 June 2022 \$'000
Total equity at the beginning of the year	93,155	94,949
Comprehensive income for the year		
Profit/(loss) for the year	2,154	2,629
Other comprehensive income	-	-
Total comprehensive income	<u>2,154</u>	<u>2,629</u>
Transactions with unit holders		
Applications	690	1,550
Reinvestment of distributions	-	958
Distributions paid and payable	-	(6,931)
Total transactions with unit holders	<u>690</u>	<u>(4,423)</u>
Total equity at the end of the year	<u>95,999</u>	<u>93,155</u>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of cash flows

	Note	Year ended	
		30 June 2023 \$'000	30 June 2022 \$'000
Cash flows from operating activities			
Proceeds from sale of financial instruments at fair value through profit or loss		33,122	53,965
Purchase of financial instruments at fair value through profit or loss		(33,055)	(34,075)
Net foreign exchange gain/(loss)		(288)	(235)
Net movement in margin accounts		1,490	(440)
Interest income received		842	464
Distributions received		679	37
Other income received		2	8
Management fee paid		(203)	(226)
Transactional and Operational costs paid		(33)	(48)
Net cash inflow/(outflow) from operating activities	14(a)	<u>2,556</u>	<u>19,450</u>
Cash flows from financing activities			
Proceeds from applications by unit holders		698	1,542
Distributions paid to unit holders		(3,601)	(19,598)
Net cash inflow/(outflow) from financing activities		<u>(2,903)</u>	<u>(18,056)</u>
Net increase/(decrease) in cash and cash equivalents		(347)	1,394
Cash and cash equivalents at the beginning of the year		3,215	1,826
Effects of foreign currency exchange rate changes on cash and cash equivalents		6	(5)
Cash and cash equivalents at the end of the year	13	<u>2,874</u>	<u>3,215</u>
Non-cash operating and financing activities	14(b)	-	958

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the financial statements

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1 General information

These financial statements cover PIMCO Target Return Fund (the “Fund”) as an individual entity. The Fund is an Australian registered managed investment scheme which was constituted on 1 September 2004 and will terminate on 31 August 2084, unless terminated earlier in accordance with the provisions of the Fund’s Constitution.

The Responsible Entity of the Fund is PIMCO Australia Management Limited (ABN 37 611 709 507) (AFSL 487505) (the “Responsible Entity”). The Responsible Entity’s registered office is Level 19, 5 Martin Place, Sydney, NSW 2000. The financial statements are presented in Australian dollars unless otherwise noted.

The Fund mainly invests in interest bearing securities, fixed interest derivatives, unlisted trusts, and currency contracts in accordance with the Fund’s Information Memorandum and the provisions of the Fund’s Constitution.

On 5 May 2016, a new tax regime applying to Managed Investment Trusts (“MITs”) was established under the *Tax Laws Amendment (New Tax System for Managed Investment Trusts) Act 2016*. The Attribution Managed Investment Trust (“AMIT”) regime allows MITs that meet certain requirements to make an irrevocable choice to be an AMIT. In order to allow the Fund to elect into the AMIT tax regime effective 1 July 2017, the Fund’s Constitution has been amended. The Responsible Entity is therefore no longer contractually obligated to pay distributions. Consequently the units in the Fund have been re-classified from a financial liability to equity on 1 July 2017, see Note 11 for further information.

The financial statements were authorised for issue by the directors on the date the Directors’ declaration was signed. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

2 Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* in Australia. The Fund is a for-profit entity for the purpose of preparing the financial statements.

The financial statements are prepared on the basis of fair value measurement of assets and liabilities except where otherwise stated.

The statement of financial position is presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and do not distinguish between current and non-current. All balances are expected to be recovered or settled within 12 months, except for investments in financial assets and liabilities and net assets attributable to unit holders.

The Fund manages financial assets at fair value through profit or loss based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within 12 months, however, an estimate of that amount cannot be determined as at the reporting date.

In the case of net assets attributable to unit holders, the units are redeemable on demand at the unit holder’s option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within 12 months cannot be reliably determined.

(i) Compliance with International Financial Reporting Standards (IFRS)

The financial statements of the Fund also comply with IFRS as issued by the International Accounting Standards Board (IASB).

(ii) New and amended standards adopted by the Fund

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2022 that have a material impact on the Fund.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iii) *New standards, amendments and interpretations not yet adopted*

A number of other new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 July 2023, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Fund.

(b) Financial asset and liabilities at fair value through profit or loss

(i) *Classification*

Assets

The Fund classifies its investments based on its business model for managing those financial assets and the contractual cash flow characteristics of the financial assets. The Fund's portfolio of financial assets is managed and performance is evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund uses fair value information to assess performance of the portfolio and to make decisions to rebalance the portfolio or to realise fair value gains or minimise losses through sales or other trading strategies. The Responsible Entity evaluates the information about these financial assets on a fair value basis together with other related financial information.

Equity securities are measured at fair value through profit or loss.

For derivatives, the contractual cash flows of these instruments do not represent solely payments of principal and interest ("SPPI"). Consequently, these investments are measured at fair value through profit or loss.

For debt securities, the contractual cash flows are SPPI, however they are neither held for collecting contractual cash flows nor held both for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Fund's business model's objective. Consequently, the debt securities are measured at fair value through profit or loss.

For cash and cash equivalents, margin accounts, other receivables and other payables, including amounts due to/from brokers, these balances are classified at amortised cost as they are deemed to be held in a business model with the objective to collect contractual cash flows through to maturity, and the contractual cash flows under the instrument represent SPPI.

Liabilities

The Fund makes short sales in which a borrowed security is sold in anticipation of a decline in the market value of that security, or it may use short sales for various arbitrage transactions. Short sales are held for trading and are consequently classified as financial liabilities at fair value through profit or loss. Derivative contracts that have a negative fair value are presented as liabilities at fair value through profit or loss.

(ii) *Recognition/derecognition*

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in the fair value of the financial assets or financial liabilities from this date forward.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or the Fund has transferred substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the obligation under the liabilities are discharged.

Accounting for derecognition of financial instruments remains unchanged from the requirements of AASB 139.

(iii) *Measurement*

At initial recognition, the Fund measures financial assets and financial liabilities at fair value, plus in the case of a financial asset or financial liability not measured at fair value through profit or loss, transaction costs. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the Statement of Comprehensive Income.

2 Summary of significant accounting policies (continued)

(b) Financial asset and liabilities at fair value through profit or loss (continued)

(iii) Measurement (continued)

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting year without any deduction for estimated future selling costs. The Fund utilises the Fund's Price Source Agreement ("PSA prices") for its valuation inputs for both quoted financial assets and financial liabilities.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains/losses arising from changes in the fair value of the financial assets or financial liabilities at fair value through profit or loss category are presented in the statement of comprehensive income within 'net gains/(losses) on financial instruments at fair value through profit or loss' in the period in which they arise.

For further details on how the fair value of financial instruments is determined please see Note 5 to the financial statements.

Subsequent to initial recognition, financial assets and financial liabilities measured at amortised cost will use the effective interest rate method and are presented net of provisions for impairment.

(iv) Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position when the Fund has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Financial assets and financial liabilities that have been offset are disclosed in Note 4.

(c) Net assets attributable to unit holders

Units are classified as equity when they satisfy the following criteria under AASB 132 *Financial Instruments: Presentation*:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Fund's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund, and it is not a contract settled in the Fund's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

The Fund's units are classified as equity as they satisfy all the above criteria.

(d) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as trading of these securities represent the Fund's main income generating activity.

2 Summary of significant accounting policies (continued)

(e) Margin accounts

Margin accounts are comprised of cash held as collateral for derivative transactions. The cash is held by the broker and is only available to meet margin calls. It is not included as a component of cash and cash equivalents.

(f) Investment income

Interest income from financial assets at amortised cost is recognised on a time-proportionate basis using the effective interest method and includes interest from cash and cash equivalents.

Interest from financial assets at fair value through profit or loss is determined based on the contractual coupon interest rate and includes interest from debt securities.

Distribution income from financial assets at fair value through profit or loss is recognised in the statement of comprehensive income within distribution income when the Fund's right to receive payments is established.

Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2(b) to the financial statements.

(g) Expenses

All expenses are recognised in the statement of comprehensive income on an accruals basis.

(h) Income tax

Under AMIT legislation, the Fund is not subject to income tax provided it attributes the entirety of its taxable income to its unit holders.

(i) Distributions

The Fund distributes income as determined by the Responsible Entity of the Fund. Distributions are recognised in the statement of changes in equity.

(j) Increase/decrease in net assets attributable to unit holders

Income not distributed is included in net assets attributable to unit holders.

(k) Foreign currency translation

(i) Functional and presentation currency

Balances included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates (the "functional currency"). This is the Australian dollar which reflects the currency of the economy in which the Fund competes for funds and is regulated. The Australian dollar is also the Fund's presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains/losses resulting from the settlement of such transactions and from the translations at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

2 Summary of significant accounting policies (continued)

(k) Foreign currency translation (continued)

(ii) Transactions and balances (continued)

The Fund does not isolate that portion of unrealised gains/losses on financial instruments that are measured at fair value through profit or loss and which is due to changes in foreign exchange rates. Such fluctuations are included within the 'net gains/(losses) on financial instruments at fair value through profit or loss'.

(l) Due from/to brokers

Amounts due from/to brokers represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. The due from brokers balance is held for collection and consequently measured at amortised cost.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on amounts due from brokers at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

(m) Receivables

Receivables may include income receivable and applications receivable. Amounts are generally received within 30 days of being recorded as receivables.

These amounts are recognised initially at fair value and subsequently measured at amortised cost. At each reporting date, the Fund shall measure the loss allowance on receivables at an amount equal to the lifetime expected credit losses if the credit risk has increased significantly since initial recognition. If, at the reporting date, the credit risk has not increased significantly since initial recognition, the Fund shall measure the loss allowance at an amount equal to 12-month expected credit losses. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default in payments are all considered indicators that a loss allowance may be required. If the credit risk increases to the point that it is considered to be credit impaired, interest income will be calculated based on the gross carrying amount adjusted for the loss allowance. A significant increase in credit risk is defined by management as any contractual payment which is more than 30 days past due. Any contractual payment which is more than 90 days past due is considered credit impaired.

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

(n) Payables

Payables include liabilities and accrued expenses owing by the Fund which are unpaid as at the end of the reporting period. As the Fund has a contractual obligation to distribute its distributable income, once the determination to distribute has been made by the Responsible Entity of the Fund, a separate distribution payable is recognised in the balance sheet as at the end of each reporting period where this amount remains unpaid as at the end of the reporting period.

These balances are classified at amortised cost as they are deemed to be held in a business model with the objective to collect contractual cash flows through to maturity, and whose terms meet the SPPI criterion by virtue of the fact that payments pertain to only principal and/or simple interest and have a maturity of less than 12 months.

2 Summary of significant accounting policies (continued)

(n) Payables (continued)

Distributions declared effective 30 June in relation to unit holders who have previously elected to reinvest distributions are recognised as reinvested effective 1 July of the following financial year.

(o) Hedge accounting

The Fund does not apply hedge accounting.

(p) Applications and redemptions

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

(q) Goods and services tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as management, administration and custodian services where applicable, have been passed on to the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 55%. Hence, fees for these services and any other expenses have been recognised in the statement of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Amounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statement of financial position. Cash flows relating to GST are included in the statement of cash flows on a gross basis.

(r) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the current and next financial year. Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Certain financial instruments, for example over-the-counter derivatives or unquoted securities, are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and periodically reviewed by experienced personnel of the Investment Manager.

Models use observable data, to the extent practicable. However, areas such as credit risk (both the Fund and counterparty), volatilities and correlations, require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

For more information on how fair value is calculated refer to Note 5 to the financial statements.

(s) Rounding of amounts

The Fund is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

3 Financial risk management

The Fund's activities expose it to a variety of financial risks including market risk (which incorporates price risk, foreign exchange risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Information Memorandum and the investment guidelines of the Fund. It also seeks to maximise the returns derived for the level of risk to which the Fund is exposed and seeks to minimise potential adverse effects on the Fund's financial performance. The Fund's policy allows it to use derivative financial instruments in managing its financial risks.

All investments present a risk of loss of capital. The maximum loss of capital on long debt securities and unit trusts is limited to the fair value of those positions. The maximum loss of capital on derivatives is limited to the notional contract values of those positions. On positions sold short, if any, the maximum loss of capital can be unlimited.

The investments of the Fund, and associated risks, are managed by a specialist Investment Manager, PIMCO Australia Pty Limited (the "Investment Manager") under an Investment Management Agreement (IMA) agreed with the Responsible Entity, and containing the investment strategy and guidelines of the Fund, consistent with those stated in the Fund's Information Memorandum.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include Value at Risk ("VaR") analysis in the case of market risks, and ratings analysis for credit risk.

(a) Market risk

(i) Price risk

Price risk arises mainly from uncertainty about future prices of financial instruments held. It represents the potential loss the Fund might suffer through holding market positions in the face of adverse price movements. The Investment Manager considers the asset allocation of the portfolio in order to minimise the risk associated with particular countries or industry sectors whilst continuing to follow the Fund's investment objectives.

The Investment Manager uses a number of quantitative techniques to assess the impact of market risks including credit events, changes in interest rates, credit spreads and recovery values on the Fund's investment portfolio. The Investment Manager uses VaR analysis, a technique widely used by financial institutions to quantify, assess, and report market risk. VaR is a statistical framework that supports the quantification of market risk within a portfolio at a specified confidence interval over a defined holding period. VaR seeks to quantify the expected maximum dollar losses that may result from the interactive behaviour of all material market prices, spreads, volatilities, and rates based on the historically observed relationships between these markets.

Although the use of derivatives (whether for hedging or investment purposes) may give rise to additional leveraged exposure, any such additional exposure will be covered and will be risk managed using the VaR methodology. The Investment Manager monitors portfolio risk using market factor exposures on a daily basis.

Potential market risk is calculated using the factor model approach. VaR is calculated and reported automatically each day using the closing prices and market information of the most recent business day. Depending on the application of the risk statistics, various confidence levels (such as 99%) and time horizons (weeks, months, or year) might be selected.

In addition to daily VaR measures, three types of stress tests are also conducted for each Fund. The first test includes scenario duration tests that measure what happens to the value of the portfolio if unexpected movements in yields occur in the market. The second test involves a database of historical crisis scenarios that can be executed to test reactions to these crises. The historical crisis scenarios contain many unexpected changes in market conditions and correlation matrices. The third test involves correlation matrices which can be manipulated manually to reflect conditions that may happen in the future but have not happened so far.

3 Financial risk management (continued)

(a) Market risk (continued)

(i) Price risk (continued)

The daily VaR measures for the portfolios are an estimate, using a confidence level of 99%, of the potential worst case portfolio loss that is not expected to be exceeded if the current market risk positions were to be held unchanged for one month. The use of a 99% confidence level means that, within a one month horizon, losses exceeding the VaR figure should not occur, on average, more than once every one hundred months. For example when a portfolio is estimated to have a VaR of \$1 million over a monthly horizon at the 99 percent confidence level, under normal market conditions, the expected losses should not exceed \$1 million over the next eight year period (with 99% probability). The following table sets out the potential maximum monthly risk of loss for the portfolios as at 30 June 2023 and 30 June 2022 as indicated by the VaR model:

	As at 30 June 2023		As at 30 June 2022	
	VaR (A\$'000)	% of Net Assets	VaR (A\$'000)	% of Net Assets
PIMCO Target Return Fund	1,805	1.880	1,686	1.810

Not all risks to which the portfolio may be exposed are intended to be captured by the VaR and, in particular, the framework does not seek to capture liquidity risk, counterparty credit risk, or extreme credit events such as an issuer default. In practice, the actual trading results will differ from the VaR and may not provide a meaningful indication of profits and losses in stressed market conditions. To determine the reliability of the VaR models, actual outcomes are monitored to test the validity of the assumptions and parameters used in the VaR calculation. Market risk positions are also subject to regular stress tests to ensure that the Fund would withstand an extreme market event.

(ii) Foreign exchange risk

The Fund operates internationally and holds both monetary and non-monetary assets denominated in currencies other than the Australian dollar. Foreign exchange risk arises as the value of monetary securities denominated in other currencies fluctuate due to changes in exchange rates. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk and not foreign exchange risk. However, the Investment Manager monitors the exposure of all foreign currency denominated assets and liabilities.

Foreign exchange risk is managed as a part of price risk, and measured using VaR analysis.

3 Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk (continued)

The table below summarises the fair value of the Fund's financial assets and liabilities, monetary and non-monetary, which are denominated in a currency other than the Australian dollar.

As at 30 June 2023	Gross fair value of exposures denominated in foreign currencies A\$'000	Foreign currency and cross currency swap contracts A\$'000	Net A\$'000
British Pound	27	(27)	-
Danish Krone	1	-	1
Euro	96	(80)	16
Indian Rupee	1	475	476
Indonesian Rupiah	(3)	251	248
Japanese Yen	1,768	718	2,486
New Taiwan Dollar	8	(466)	(458)
New Zealand Dollar	80	(155)	(75)
Singapore Dollar	9	(481)	(472)
South African Rand	6	-	6
United States Dollar	<u>46,502</u>	<u>(49,290)</u>	<u>(2,788)</u>
	<u>48,495</u>	<u>(49,055)</u>	<u>(560)</u>

As at 30 June 2022	Gross fair value of exposures denominated in foreign currencies A\$'000	Foreign currency and cross currency swap contracts A\$'000	Net A\$'000
British Pound	27	(46)	(19)
Danish Krone	1	-	1
Euro	303	(367)	(64)
Japanese Yen	848	(848)	-
Mexican Peso	32	(32)	-
New Zealand Dollar	104	(114)	(10)
South African Rand	7	-	7
United States Dollar	<u>45,630</u>	<u>(45,208)</u>	<u>422</u>
	<u>46,952</u>	<u>(46,615)</u>	<u>337</u>

(iii) Interest rate risk

The Fund's interest bearing financial assets expose it to risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows.

The Fund's main interest rate risk arises from its investments in fixed interest securities and fixed interest derivatives.

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

Interest rate risk is managed as part of price risk and measured using VaR analysis.

The table below summarises the Fund's exposure to interest rate risk at the end of the reporting period.

As at 30 June 2023	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
Assets				
Cash and cash equivalents	2,874	-	-	2,874
Receivables	-	-	225	225
Due from brokers - receivable for securities sold	-	-	1,412	1,412
Financial assets at fair value through profit or loss	10,162	26,536	64,149	100,847
Margin accounts	2,311	-	-	2,311
Total assets	<u>15,347</u>	<u>26,536</u>	<u>65,786</u>	<u>107,669</u>
Liabilities				
Payables	-	-	42	42
Due to brokers - payable for securities purchased	-	-	9,602	9,602
Financial liabilities at fair value through profit or loss	21	938	623	1,582
Margin accounts	444	-	-	444
Total liabilities	<u>465</u>	<u>938</u>	<u>10,267</u>	<u>11,670</u>
Net increase/(decrease) in exposure from fixed interest futures (notional principal)	42,897	(42,897)	-	-
Net increase/(decrease) in exposure from interest rate swaps (notional principal)	(17,259)	17,259	-	-
Net exposure	<u>40,520</u>	<u>(40)</u>	<u>55,519</u>	<u>95,999</u>

3 Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

As at 30 June 2022	Floating interest rate \$'000	Fixed interest rate \$'000	Non-interest bearing \$'000	Total \$'000
Assets				
Cash and cash equivalents	3,215	-	-	3,215
Receivables	-	-	592	592
Due from brokers - receivable for securities sold	-	-	8	8
Financial assets at fair value through profit or loss	15,577	12,220	66,622	94,419
Margin accounts	4,372	-	-	4,372
Total assets	23,164	12,220	67,222	102,606
Liabilities				
Distributions payable	-	-	3,601	3,601
Payables	-	-	21	21
Financial liabilities at fair value through profit or loss	-	1,005	3,809	4,814
Margin accounts	1,015	-	-	1,015
Total liabilities	1,015	1,005	7,431	9,451
Net increase/(decrease) in exposure from fixed interest futures (notional principal)	31,762	(31,762)	-	-
Net increase/(decrease) in exposure from interest rate swaps (notional principal)	(9,440)	9,440	-	-
Interest rate options (notional principal)	6,391	(6,391)	-	-
Net exposure	50,862	(17,498)	59,791	93,155

(b) Credit risk

The Fund is exposed to credit risk, which is the risk that a counterparty will be unable to pay its obligations in full when they fall due, causing a financial loss to the Fund.

The Fund minimises concentrations of credit risk by undertaking transactions with a large number of customers and counterparties. The main concentration of credit risk, to which the Fund is exposed, arises from the Fund's investment in debt securities. While the Fund may be exposed to credit (issuer or counterparty) risk in relation to amounts treated as cash and cash equivalents, due from brokers and other receivables, the credit risk associated with these exposures is considered low and therefore has not been incorporated in the following table. Given existing collateral arrangements associated with open derivative contracts, the credit risk has been assessed as low and not incorporated in the following table.

The Fund determines credit risk and measures expected credit losses for financial assets measured at amortised cost using probability of default, exposure at default and loss given default. Management considers both historical analysis and forward looking information in determining any expected credit loss. At 30 June 2023 and 30 June 2022, all receivables, amounts due from brokers, cash and short-term deposits were held with counterparties with a credit rating of AA/Aa or higher and were either callable on demand or due to be settled within 1 week. Management considers the probability of default to be close to zero as these instruments have a low risk of default and the counterparties have a strong capacity to meet their contractual obligations in the near term. As a result, no loss allowance has been recognised based on 12-month expected credit losses as any such impairment would be wholly insignificant to the Fund.

3 Financial risk management (continued)

(b) Credit risk (continued)

(i) Debt securities

The Fund invests in debt securities which have an investment grade categorisation as rated by Standard and Poor's or Moody's. For unrated assets a rating is assigned by the Investment Manager using an approach that is consistent with the approach used by rating agencies. The Fund invests in debt securities in line with requirements outlined in the Fund's Information Memorandum.

The table below summarises the credit rating composition for the Fund's interest bearing securities using Standard and Poor's or Moody's ratings.

	As at	
	30 June 2023	30 June 2022
	%	%
Debt securities rating		
AAA	34	58
AA	38	9
A	12	13
BBB	11	11
BB	2	2
B	1	2
CCC	-	2
Unrated	2	3
Total	100	100

(ii) Derivative financial instruments

The Fund restricts its exposure to credit losses on the trading of derivative instruments it holds by entering into master netting arrangements with counterparties (approved brokers) with whom it undertakes a significant volume of transactions. Credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if an event of default occurs, all amounts with the counterparty are closed and settled on a net basis. The Fund's overall exposure to credit risk on derivative instruments subject to a master netting arrangement can change substantially within a short period, as it is affected by each transaction subject to the arrangements. Refer to Note 4 to the financial statements for further analysis of the Fund's master netting arrangements.

(iii) Settlement of securities transactions

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment. Payment is made once the securities purchased have been received by the broker. The trade will fail if either party fails to meet its obligations.

(iv) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of AA (as determined by Standard and Poor's) or higher.

(v) Other

The Fund is not materially exposed to credit risk on other financial assets.

3 Financial risk management (continued)

(b) Credit risk (continued)

(vi) Maximum exposure to credit risk

The maximum exposure to credit risk before any credit enhancements at the end of each reporting period is the carrying amount of the financial assets. None of these assets are impaired nor past due but not impaired.

(c) Liquidity risk

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

Exposure to liquidity risk for the Fund may arise from the requirement to meet daily unit holder redemption requests or to fund foreign exchange related cash flow requirements.

Current liabilities of financial derivative instruments consist of the market value of interest rate swaps, credit default swaps, written options, future contracts and foreign currency contracts as at year end. As the instruments are not expected to be held to maturity or termination, the current market value represents the estimated cash flow that may be required to dispose of the positions. Future cash flows of the Fund and realised liabilities may differ from current liabilities based on changes in market conditions. The Investment Manager manages liquidity risk by monitoring the portfolios and considering investments deemed to be illiquid or not readily and easily sold, to ensure there are sufficient segregated liquid assets to cover the outstanding liabilities of the Fund.

In order to manage the Fund's overall liquidity, the Responsible Entity has the discretion to reject an application for units and to defer or adjust redemption of units if the exercise of such discretion is in the best interests of unit holders. The Fund did not reject or withhold any redemptions during 2023 and 2022.

(i) Maturities of non-derivative financial liabilities

The table below discloses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at reporting date to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows. Units are redeemed on demand at the unit holder's option. However, the Responsible Entity does not envisage that the contractual maturity disclosed in the table below will be representative of the actual cash outflows, as holders of these instruments typically retain them for the medium to long term.

As at 30 June 2023	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
Payables	42	-	-	-	42
Due to brokers - payable for securities purchased	9,602	-	-	-	9,602
Margin accounts	444	-	-	-	444
Contractual cash flows (excluding derivatives)	10,088	-	-	-	10,088

3 Financial risk management (continued)

(c) Liquidity risk (continued)

(i) Maturities of non-derivative financial liabilities (continued)

As at 30 June 2022	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
Distributions payable	3,601	-	-	-	3,601
Payables	21	-	-	-	21
Margin accounts	1,015	-	-	-	1,015
Contractual cash flows (excluding derivatives)	4,637	-	-	-	4,637

(ii) Maturities of net settled derivative financial instruments

The table below analyses the Fund's net settled derivative financial instruments based on their contractual maturity. The Fund may, at its discretion, settle financial instruments prior to their original contractual settlement date, in accordance with its investment strategy, where permitted by the terms and conditions of the relevant instruments.

As at 30 June 2023	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
Net settled derivatives					
Foreign currency contracts	581	(88)	-	-	493
Swap contracts	-	(19)	(46)	(982)	(1,047)
Futures contracts	-	334	-	-	334
Total net settled derivatives	581	227	(46)	(982)	(220)

As at 30 June 2022	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
Net settled derivatives					
Foreign currency contracts	(1,745)	86	-	-	(1,659)
Swap contracts	-	(15)	(1)	(598)	(614)
Futures contracts	-	73	-	-	73
Options contracts	(21)	(17)	-	-	(38)
Total net settled derivatives	(1,766)	127	(1)	(598)	(2,238)

3 Financial risk management (continued)

(c) Liquidity risk (continued)

(iii) Maturities of gross settled derivative financial instruments

The table below analyses the Fund's gross settled derivative financial instruments based on their contractual maturity. The Fund may, at its discretion, settle financial instruments prior to their original contractual settlement date, in accordance with its investment strategy, where permitted by the terms and conditions of the relevant instruments.

As at 30 June 2023	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
Cross currency swaps					
Inflows	-	-	8,200	4,800	13,000
(Outflows)	-	-	(8,287)	(4,851)	(13,138)
Total gross settled derivatives	-	-	(87)	(51)	(138)

As at 30 June 2022	Less than 1 month \$'000	1-6 months \$'000	6-12 months \$'000	Over 12 months \$'000	Total \$'000
Cross currency swaps					
Inflows	-	-	-	13,000	13,000
(Outflows)	-	-	-	(13,791)	(13,791)
Total gross settled derivatives	-	-	-	(791)	(791)

4 Offsetting financial assets and financial liabilities

The gross and net positions of financial assets and liabilities that have been offset in the statement of financial position are disclosed in the first three columns of the tables below.

	Effects of offsetting on the statement of financial position			Related amount not offset		
	Gross amounts of financial instruments	Gross amounts set off in the statement of financial position	Net amount of financial instruments presented in the statement of financial position	Amounts subject to master netting arrangements	Collateral received/pledged	Net amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
As at 30 June 2023						
Financial assets						
Derivative financial instruments	14,405	(13,181)	1,224	(394)	-	830
Total	14,405	(13,181)	1,224	(394)	-	830
Financial liabilities						
Derivative financial instruments	14,763	(13,181)	1,582	(394)	(978)	210
Total	14,763	(13,181)	1,582	(394)	(978)	210
As at 30 June 2022						
Financial assets						
Derivative financial instruments	15,945	(14,160)	1,785	(1,113)	-	672
Total	15,945	(14,160)	1,785	(1,113)	-	672
Financial liabilities						
Derivative financial instruments	18,974	(14,160)	4,814	(1,113)	(1,012)	2,689
Total	18,974	(14,160)	4,814	(1,113)	(1,012)	2,689

(a) Master netting arrangement – not currently enforceable

Agreements with derivative counterparties are based on the International Swaps and Derivatives Association (ISDA) Master Agreement. Under the terms of these arrangements, only when certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Fund does not presently have a legally enforceable right of set-off, these amounts have not been offset in the statement of financial position, but have been presented separately in the above table.

5 Fair value measurement

The Fund measures and recognises financial assets and liabilities at fair value through profit or loss on a recurring basis. The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current reporting period.

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

The Fund values its investments in accordance with the accounting policies set out in Note 2 to the financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

(a) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives) are based on quoted market prices at the close of trading at the end of the reporting period without any deduction for estimated future selling costs.

The Fund utilises the PSA prices for its fair value inputs for both quoted financial assets and financial liabilities.

When the Fund holds derivatives with offsetting market risks, it uses bid and ask prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

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

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate at the end of the reporting period applicable for an instrument with similar terms and conditions.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the end of the reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date. The fair value of an option contract is determined by applying the Black Scholes option valuation model.

Investments in unlisted unit trusts are recorded at the redemption value per unit as reported by the investment managers of such funds. The Fund may make adjustments to the value based on considerations such as: liquidity of the Investee Fund or its underlying investments, the value date of the net asset value provided, or any restrictions on redemptions and the basis of accounting.

5 Fair value measurement (continued)

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

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

(c) Recognised fair value measurements

The table below presents the Fund's financial assets and liabilities measured and recognised at fair value as at 30 June 2023 and 30 June 2022.

As at 30 June 2023	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss:				
Foreign currency contracts	-	889	-	889
Swap contracts	-	1	-	1
Futures contracts	334	-	-	334
Unit trusts	-	63,260	-	63,260
Fixed interest securities	-	36,363	-	36,363
Total financial assets at fair value through profit or loss	334	100,513	-	100,847
Financial liabilities at fair value through profit or loss:				
Foreign currency contracts	-	396	-	396
Swap contracts	-	1,186	-	1,186
Total financial liabilities at fair value through profit or loss	-	1,582	-	1,582
As at 30 June 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets at fair value through profit or loss:				
Foreign currency contracts	-	1,138	-	1,138
Swap contracts	-	503	-	503
Futures contracts	144	-	-	144
Unit trusts	-	65,484	-	65,484
Fixed interest securities	-	27,148	2	27,150
Total financial assets at fair value through profit or loss	144	94,273	2	94,419

5 Fair value measurement (continued)

(c) Recognised fair value measurements (continued)

As at 30 June 2022	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial liabilities at fair value through profit or loss:				
Foreign currency contracts	-	2,797	-	2,797
Swap contracts	-	1,908	-	1,908
Futures contracts	71	-	-	71
Options contracts	<u>6</u>	<u>32</u>	<u>-</u>	<u>38</u>
Total financial liabilities at fair value through profit or loss	<u>77</u>	<u>4,737</u>	<u>-</u>	<u>4,814</u>

(d) Transfer between levels

Management's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period.

There were no transfers between levels in the fair value hierarchy at the end of the reporting period.

(e) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the movement in level 3 instruments for the year ended 30 June 2023 and 30 June 2022.

	Fixed interest securities \$'000
Opening balance - 1 July 2021	2
Gains/(losses) recognised in the statement of comprehensive income	<u>-</u>
Closing balance - 30 June 2022	<u>2</u>
Gains/(losses) recognised in the statement of comprehensive income	<u>(2)</u>
Closing balance - 30 June 2023	<u>-</u>

5 Fair value measurement (continued)

(e) Fair value measurements using significant unobservable inputs (level 3) (continued)

Valuation inputs and relationships to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in the level 3 fair value measurements. See Note 5(b) for the valuation techniques adopted.

Description	Fair value \$'000	Unobservable inputs	Range of inputs (probability- weighted average)	Relationship of unobservable inputs to fair value
As at 30 June 2023				
Fixed interest securities	-	Broker quote	Not applicable	Direct
As at 30 June 2022				
Fixed interest securities	2	Broker quote	Not applicable	Direct

Valuation processes

Portfolio reviews are undertaken regularly by management to identify securities that potentially may not be actively traded or have stale security pricing. This process identifies securities which possibly could be regarded as being level 3 securities. Further analysis, should it be required, is undertaken to determine the accounting significance of the identification. For certain security types, in selecting the most appropriate valuation model, management performs back testing and considers actual market transactions. Changes in allocation to or from level 3 are analysed at the end of each reporting period.

(f) Financial instruments not carried at fair value

The carrying value of receivables and payables are assumed to approximate their fair values.

Net assets attributable to unit holders' carrying value differ from its fair value (deemed to be redemption price for individual units) due to differences in valuation inputs. This difference is not material in the current or prior reporting period.

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

Net gains/(losses) recognised in relation to financial assets and liabilities at fair value through profit or loss:

	Year ended	
	30 June 2023 \$'000	30 June 2022 \$'000
Financial assets		
Net realised gain/(loss) on financial assets at fair value through profit or loss	3,616	15,590
Net unrealised gain/(loss) on financial assets at fair value through profit or loss	<u>2,981</u>	<u>(4,163)</u>
Net gains/(losses) on financial assets at fair value through profit or loss	<u>6,597</u>	<u>11,427</u>
Financial liabilities		
Net realised gain/(loss) on financial liabilities at fair value through profit or loss	(8,398)	(7,823)
Net unrealised gain/(loss) on financial liabilities at fair value through profit or loss	<u>3,200</u>	<u>(1,482)</u>
Net gains/(losses) on financial liabilities at fair value through profit or loss	<u>(5,198)</u>	<u>(9,305)</u>
Total net gains/(losses) on financial instruments at fair value through profit or loss	<u>1,399</u>	<u>2,122</u>

7 Financial assets at fair value through profit or loss

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
Financial assets at fair value through profit or loss		
Derivatives (Note 9)	1,224	1,785
Unit trusts	63,260	65,484
Fixed interest securities	<u>36,363</u>	<u>27,150</u>
Total financial assets at fair value through profit or loss	<u>100,847</u>	<u>94,419</u>

8 Financial liabilities at fair value through profit or loss

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
Financial liabilities at fair value through profit or loss		
Derivatives (Note 9)	<u>1,582</u>	4,814
Total financial liabilities at fair value through profit or loss	<u>1,582</u>	4,814

9 Derivative financial instruments

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

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

Derivative transactions include many different instruments such as forwards, futures and options. Derivatives are considered to be part of the investment process and the use of derivatives is an essential part of the Fund's portfolio management. Derivatives are not managed in isolation. Consequently, the use of derivatives is multifaceted and includes:

- hedging to protect an asset or liability of the Fund against a fluctuation in market values, foreign exchange risk or to reduce volatility;
- a substitution for trading of physical securities; and
- adjusting asset exposures within the parameters set in the investment strategy, and adjusting the duration of fixed interest portfolios or the weighted average maturity of cash portfolios.

Certain transactions may give rise to a form of leverage. Such transactions may include, among others, reverse repurchase agreements, loans of portfolio securities, and the use of when-issued, delayed-delivery or forward commitment transactions. Leverage may be incurred when it is believed that is advantageous to increase the investment capacity of a Fund or to facilitate the clearance of transactions. Leverage creates opportunity for greater total returns for the Fund, but it also may magnify losses. The use of derivatives may also create leverage risk.

To mitigate leverage risk, the Fund will set aside short term liquid assets that the Investment Manager reasonably believes to be sufficient to cover net long exposures resulting from swap, bond futures and forward positions held in the Fund. Short term liquid assets are defined as Investment Grade securities (minimum S&P/Moody's rating of A3/P3, or equivalent) with a duration of 1 year or less. To the extent the Fund's net long positions are 'covered' by short term liquid assets, the Fund will be deemed not to be leveraged.

The Fund holds the following derivatives:

(a) Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a future date at a specified price, established in an organised financial market.

(b) Options

An option is a contractual arrangement under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of securities or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of future securities price risk. The Fund is exposed to credit risk on purchased options to the extent of their carrying amount, which is their fair value.

(c) Forward currency contracts

Forward currency contracts are primarily used by the Fund to economically hedge against foreign currency exchange rate risks on its non-Australian dollar denominated trading securities. The Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Forward currency contracts are valued at the prevailing bid price at the end of each reporting period. The Fund recognises a gain or loss equal to the change in fair value at the end of each reporting period.

9 Derivative financial instruments (continued)

(d) Swaps

An interest rate swap is an agreement between two parties to exchange their interest obligations (payments) or receipts at set intervals on a notional principal amount over an agreed time period.

A credit default swap is an agreement whereby one counterparty pays a regular fee, usually expressed as a percentage of the notional principle, to another counterparty in return for security against default by the underlying loan or asset.

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

The Fund's derivative financial instruments at year end are detailed below:

As at 30 June 2023

	Contractual/ notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
Foreign currency contracts	112,996	889	396
Swap contracts	42,945	1	1,186
Futures contracts	44,043	334	-
Total	199,984	1,224	1,582

As at 30 June 2022

	Contractual/ notional \$'000	Fair values	
		Assets \$'000	Liabilities \$'000
Foreign currency contracts	195,597	1,138	2,797
Swap contracts	47,114	503	1,908
Futures contracts	44,036	144	71
Options contracts	7,249	-	38
Total	293,996	1,785	4,814

Information about the Fund's exposure to credit risk, foreign exchange, interest rate risk and about the methods and assumptions used in determining fair values is provided in Note 3 and Note 5 to the financial statements. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of derivative financial instruments disclosed above.

10 Structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, and the relevant activities are directed by means of contractual arrangements.

The Fund considers all investments in managed investment schemes (the "Schemes") to be structured entities. The Fund invests in Schemes for the purpose of capital appreciation and/or earning investment income.

The exposure to investments in related Schemes at fair value, and any related amounts recognised in the statement of comprehensive income is disclosed at Note 18(i) to the financial statements.

10 Structured entities (continued)

The exposure to investments in Schemes at fair value is disclosed in the following table:

	Fair value of investments	
	30 June 2023 \$'000	30 June 2022 \$'000
PIMCO Australian Short-Term Bond Fund	18,709	23,502
PIMCO Absolute Return Strategy Fund	25,850	23,991
PIMCO Multi-Asset Alternative Risk Premia Strategy Offshore Fund	13,749	12,845
PIMCO TRENDS Managed Futures Strategy Fund	4,952	5,146
Total Schemes	63,260	65,484

The fair value of the Schemes is included in financial assets at fair value through profit or loss in the statement of financial position.

The Fund's maximum exposure to loss from its interest in the Schemes is equal to the fair value of its investments in the Schemes as there are no off-balance sheet exposures relating to any of the Schemes. Once the Fund has disposed of its units in a Scheme, it ceases to be exposed to any risk from that Scheme.

During the year ended 30 June 2023, total gains/(losses) incurred on investments in the Schemes were \$2,348,580 (2022: \$5,063,301). The Fund also earned distribution income of \$267,865 (2022: \$497,453) as a result of its interests in the Schemes.

11 Net assets attributable to unit holders

Under AASB 132 *Financial Instruments: Presentation*, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Fund classifies the net assets attributable to unit holders as equity as they satisfy the following criteria:

- the puttable financial instrument entitles the holder to a pro-rata share of net assets in the event of the Fund's liquidation;
- the puttable financial instrument is in the class of instruments that is subordinate to all other classes of instruments and class features are identical;
- the puttable financial instrument does not include any contractual obligations to deliver cash or another financial asset, or to exchange financial instruments with another entity under potentially unfavourable conditions to the Fund, and it is not a contract settled in the Fund's own equity instruments; and
- the total expected cash flows attributable to the puttable financial instrument over the life are based substantially on the profit or loss.

Net assets attributable to unit holders are classified as equity, the Fund's distributions are classified as distributions paid and payable in the statement of changes in equity.

11 Net assets attributable to unit holders (continued)

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

	Year ended			
	30 June 2023 Units'000	30 June 2023 \$'000	30 June 2022 Units'000	30 June 2022 \$'000
Opening balance	117	93,155	114	94,949
Applications	1	690	2	1,550
Reinvestment of distributions	-	-	1	958
Distributions paid and payable	-	-	-	(6,931)
Profit/(loss) for the year	-	2,154	-	2,629
Closing balance	118	95,999	117	93,155

As stipulated within the Fund's Constitution, each unit represents a right to an individual share in the Fund and does not extend to a right in the underlying assets of the Fund.

There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

Units are redeemed on demand at the unit holder's option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within twelve months after the end of the reporting period cannot be reliably determined.

Capital risk management

The Fund considers its net assets attributable to unit holders as capital. The amount of net assets attributable to unit holders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unit holders.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis (business days) by the Responsible Entity. Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust redemption of units if the exercise of such discretion is in the best interests of unit holders.

12 Distributions to unit holders

The distributions declared during the year were as follows:

	Year ended		30 June 2022 \$'000	30 June 2022 CPU
	30 June 2023 \$'000	30 June 2023 CPU		
Distributions				
December	-	-	1,770	1,545.42
March	-	-	1,560	1,360.29
June (payable)	-	-	3,601	3,089.16
Total distributions	-	-	<u>6,931</u>	<u>5,994.87</u>

There were no distributions declared for the year ended 30 June 2023.

13 Cash and cash equivalents

	As at	
	30 June 2023 \$'000	30 June 2022 \$'000
Cash at bank	878	1,218
Money market securities	<u>1,996</u>	<u>1,997</u>
Total cash and cash equivalents	<u>2,874</u>	<u>3,215</u>

These accounts are earning a floating interest rate of between -0.35% and 1.52% as at 30 June 2023 (30 June 2022: -1.35% to 0.24%).

Money market securities are bearing a floating interest rate between 0.00% and 0.01% as at 30 June 2023 (30 June 2022: 0.01%).

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

	Year ended	
	30 June 2023	30 June 2022
	\$'000	\$'000
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Profit/(loss) for the year	2,154	2,629
Proceeds from sale of financial instruments at fair value through profit or loss	33,122	53,965
Purchase of financial instruments at fair value through profit or loss	(33,055)	(34,075)
Net (gains)/losses on financial instruments at fair value through profit or loss	(1,399)	(2,122)
Net foreign exchange (gain)/loss	(6)	5
Net interest bought/(sold)	(23)	(17)
Amortisation income	(107)	(7)
Net movement in margin accounts	1,490	(440)
Net change in receivables	359	(483)
Net change in payables	21	(5)
Net cash inflow/(outflow) from operating activities	2,556	19,450
(b) Non-cash operating and financing activities		
The following distribution payments to unit holders were satisfied by the issue of units under the distribution reinvestment plan	-	958
Total non-cash operating and financing activities	-	958

As described in Note 2(j), income not distributed is included in net assets attributable to unit holders. The change in this amount for the year (as reported in (a) above) represents a non-cash financing cost as it is not settled in cash until such time as it is paid.

15 Receivables

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Interest receivable	154	102
Distribution receivable	66	477
Applications receivable	-	8
GST receivable	4	5
Other receivables	1	-
Total receivables	225	592

16 Payables

	As at	
	30 June 2023	30 June 2022
	\$'000	\$'000
Management fee payable	42	21
Total payables	42	21

17 Remuneration of auditor

During the year the following fees were paid or payable for services provided by the auditor of the Fund:

	Year ended	
	30 June 2023	30 June 2022
	\$	\$
PricewaterhouseCoopers Australia		
Audit of financial report	26,007	24,535
Audit of compliance plan	7,635	7,271
Total remuneration of PricewaterhouseCoopers Australia	33,642	31,806

The auditor's remuneration is borne by the Fund. Fees are stated exclusive of GST.

The remuneration of PricewaterhouseCoopers Australia is included in Management fee.

18 Related party transactions

The Responsible Entity of PIMCO Target Return Fund is PIMCO Australia Management Limited (ABN 37 611 709 507) (AFSL 487505). Accordingly, transactions with entities related to PIMCO Australia Management Limited are disclosed below.

The Responsible Entity has contracted services to PIMCO Australia Pty Limited, to act as Investment Manager for the Fund, and State Street Australia Limited to act as Custodian and Administrator for the Fund. The contracts are on normal commercial terms and conditions.

(a) Key management personnel

(i) Directors

Key management personnel include persons who were directors of PIMCO Australia Management Limited at any time during or since the end of the financial year and up to the date of this report.

Alec Kersman

V Mangala Ananthanarayanan

Brendon D Rodda

David Erdonmez

Samuel Watkins

(appointed on 1 January 2023)

18 Related party transactions (continued)

(a) Key management personnel (continued)

(ii) Other key management personnel

There were no other key management personnel with responsibility for planning, directing and controlling activities of the Fund, directly or indirectly during the financial year.

(b) Transactions with key management personnel

There were no transactions with key management personnel during the reporting period.

(c) Key management personnel unit holdings

Key management personnel did not hold units in the Fund as at 30 June 2023 (30 June 2022: Nil).

(d) Key management personnel compensation

Key management personnel were not paid by the Responsible Entity during the reporting period. Payments made from the Fund to the Responsible Entity do not include any amounts directly attributable to the compensation of key management personnel.

(e) Key management personnel loans

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.

(f) Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the financial year and there were no material contracts involving management personnel's interests existing at year end.

(g) Responsible Entity and Investment Manager's fees and other transactions

Under the terms of the Fund's Constitution and Information Memorandum for the Fund, the Responsible Entity and the Investment Manager are entitled to receive management fees.

Management fees are calculated with reference to the rate in the applicable Information Memorandum. Ordinary expenses such as those payable to the Investment Manager, Responsible Entity, Custodian, Administrator, Auditor and other ordinary expenses of operating the Fund are paid out of the management fee.

The transactions during the year and amounts payable as at year end between the Fund, the Responsible Entity and the Investment Manager were as follows:

	Year ended	
	30 June 2023	30 June 2022
	\$	\$
Management fee expense for the year	223,565	220,839
Total management fee payable at year end	41,876	20,552

18 Related party transactions (continued)

(h) Related party unit holdings

Parties related to the Fund (including PIMCO Australia Management Limited, its related parties and other schemes managed by PIMCO Australia Management Limited and the Investment Manager) held no units in the Fund as at 30 June 2023 (2022: Nil).

(i) Investments

The Fund held investments in the following schemes which are also managed by PIMCO Australia Management Limited or its related parties:

	Fair value of investments \$	Interest held %	Distributions received \$	Distributions receivable \$	Units acquired during the year	Units disposed during the year
As at 30 June 2023						
PIMCO Australian Short-Term Bond Fund	18,709,316	7.02	201,931	65,934	301	(5,484)
PIMCO Absolute Return Strategy Fund	25,850,287	29.68	-	-	-	-
PIMCO Multi-Asset Alternative Risk Premia Strategy Offshore Fund	13,749,397	2.29	-	-	-	-
PIMCO TRENDS Managed Futures Strategy Fund	4,952,259	2.17	-	-	356,742	-
	Fair value of investments \$	Interest held %	Distributions received \$	Distributions receivable \$	Units acquired during the year	Units disposed during the year
As at 30 June 2022						
PIMCO Australian Short-Term Bond Fund	23,501,622	6.94	8,922	84,825	25	(8,775)
PIMCO Absolute Return Strategy Fund	23,991,257	23.79	-	-	-	-
PIMCO Global Credit Opportunities Fund	-	-	-	-	-	(5,641)
PIMCO Multi-Asset Alternative Risk Premia Strategy Offshore Fund	12,845,380	1.39	11,575	-	-	-
PIMCO TRENDS Managed Futures Strategy Fund	5,145,532	4.46	-	392,131	4,681,161	-

19 Events occurring after the reporting period

No significant events have occurred since the end of the year which would impact on the financial position of the Fund as disclosed in the statement of financial position as at 30 June 2023 or on the results and cash flows of the Fund for the year ended on that date.

20 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2023 and 30 June 2022.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) The financial statements and notes set out on pages 6 to 41 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2023 and of its performance for the financial year ended on that date.
- (b) There are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
- (c) Note 2(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

This declaration is made in accordance with a resolution of the directors of PIMCO Australia Management Limited.



Director

Sydney
25 September 2023



Independent auditor's report

To the unitholders of PIMCO Target Return Fund

Our opinion

In our opinion:

The accompanying financial report of PIMCO Target Return Fund (the Registered Scheme) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Registered Scheme's financial position as at 30 June 2023 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the statement of financial position as at 30 June 2023
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the statement of cash flows for the year then ended
- the notes to the financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

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

Independence

We are independent of the Registered Scheme in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Liability limited by a scheme approved under Professional Standards Legislation.



Other information

The directors of PIMCO Australia Management Limited (the Responsible Entity) are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2023, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the directors of the Responsible Entity 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* and for such internal control as the directors of the Responsible Entity determines is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors of the Responsible Entity are responsible for assessing the ability of the Registered Scheme 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 of the Responsible Entity either intends to liquidate the Registered Scheme or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.



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

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'CJ Cummins', written in a cursive style.

CJ Cummins
Partner

Sydney
25 September 2023