

**Booklet 6**

## **BetaShares Geared Australian Equity Fund (hedge fund)**

**ASX Code: GEAR**

ARSN 150 081 691

## **BetaShares U.S. Equities Strong Bear Hedge Fund - Currency Hedged**

**ASX Code: BBUS**

ARSN 602 663 918

## **BetaShares Geared U.S. Equity Fund - Currency Hedged (hedge fund)**

**ASX Code: GGUS**

ARSN 602 666 615

## **Annual Financial Report - 30 June 2019**

**Booklet 6**

**BetaShares Geared Australian Equity Fund (hedge fund)**

**BetaShares U.S. Equities Strong Bear Hedge Fund - Currency Hedged**

**BetaShares Geared U.S. Equity Fund - Currency Hedged (hedge fund)**

**Annual Financial Report**

**For the year ended 30 June 2019**

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## Directors' report

The directors of BetaShares Capital Ltd, the Responsible Entity of the following managed investment funds (the "Funds"), present their report together with the annual financial report of the Funds for the year ended 30 June 2019 and the auditor's report thereon.

<b>Fund name</b>	<b>Referred to in this document as</b>	<b>Financial reporting period</b>	<b>ARSN</b>
BetaShares Geared Australian Equity Fund (hedge fund)	Geared Australian Equity Fund	1 July 2018 to 30 June 2019	150 081 691
BetaShares U.S. Equities Strong Bear Hedge Fund - Currency Hedged	U.S. Equities Strong Bear Hedge Fund	1 July 2018 to 30 June 2019	602 663 918
BetaShares Geared U.S. Equity Fund - Currency Hedged (hedge fund)	Geared U.S. Equity Fund	1 July 2018 to 30 June 2019	602 666 615

## Responsible Entity

The Responsible Entity of the Funds is BetaShares Capital Ltd (ABN 78 139 566 868). The Responsible Entity's registered office and principal place of business is Level 11, 50 Margaret Street, Sydney, NSW 2000.

## Principal activities

The principal activity of each Fund is to invest in accordance with the investment objective and guidelines as set out in the Fund's current Product Disclosure Statements (PDSs) and its Constitution.

The Funds did not have any employees during the year.

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

## Directors

The following persons held office as directors of BetaShares Capital Ltd during or since the end of the financial year and up to the date of this report:

David Nathanson (appointed 21 September 2009)  
Alex Vynokur (appointed 21 September 2009)  
Taeyong Lee (appointed 12 August 2015, resigned 31 August 2018)  
Thomas Park (appointed 12 August 2015)  
Jungho Rhee (appointed 1 September 2018)

## Significant changes in state of affairs

On 5 May 2016, a new tax regime applying to Managed Investment Trusts was established under the Tax Law Amendment (New Tax System for Managed Investment Trusts) Act 2016. The Attribution Managed Investment Trust ("AMIT") regime allows Funds that meet certain requirements to make an irrevocable choice to be an AMIT. The Funds' Constitutions have been amended to allow them to operate as AMITs, and the conditions to adopt the AMIT tax regime have been met effective 1 July 2018. Consequently, the units in the Funds have been reclassified from a financial liability to equity on 1 July 2018 (see Note 3 for further information).

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

## Review and results of operations

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

The results of operations of the Funds are disclosed in the statements of comprehensive income. The income distributions payable by each of the Funds are disclosed in the statements of financial position. The income distributions paid and payable by each of the Funds are disclosed in Note 4 to the financial statements.

**Directors' report (continued)**

**Matters subsequent to the end of the financial year**

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect:

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

**Likely developments, risk management and expected results of operations**

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

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

**Indemnification and insurance of officers and auditors**

No insurance premiums are paid for out of the assets of the Funds in regards to insurance cover provided to either the Responsible Entity, directors or the auditor of the Funds. As long as the officers of the Responsible Entity act in accordance with the Funds' Constitutions and the Law, the officers remain indemnified out of the assets of the Funds against losses incurred while acting on behalf of the Funds. The auditor of the Funds is in no way indemnified out of the assets of the Funds.

**Fees paid to and interests held in the Funds by the Responsible Entity or its associates**

Fees paid to the Responsible Entity and its associates out of Funds' property during the year are disclosed in Note 13 of 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 Funds held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 13 of the financial statements.

**Interests in the Funds**

The movement in units on issue in the Funds during the year is disclosed in Note 3 of the financial statements.

The value of the Funds' assets and liabilities is disclosed in the statements of financial position and derived using the basis set out in Note 2 of the financial statements.

**Environmental regulation**

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

**Directors' report (continued)**

**Rounding of amounts to the nearest thousand dollars**

The Funds are entities of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with that Instrument, amounts in the financial report and the directors' report have been rounded off to the nearest thousand dollars, unless otherwise stated.

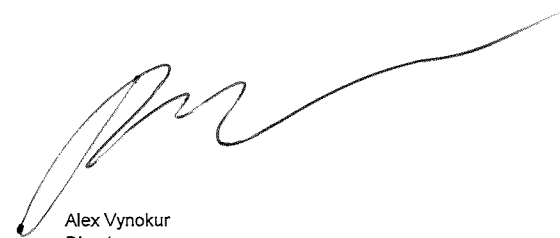
**Auditor's independence declaration**

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.



David Nathanson  
Director



Alex Vynokur  
Director

Sydney  
20 September 2019



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

To the Directors of BetaShares Capital Ltd, as Responsible Entity for the Schemes:

BetaShares Geared Australian Equity Fund (hedge fund)

BetaShares U.S. Equities Strong Bear Hedge Fund - Currency Hedged

BetaShares Geared U.S. Equity Fund – Currency Hedged (hedge fund)

I declare that, to the best of my knowledge and belief, in relation to the audit of Schemes for the financial year ended 30 June 2019 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Nicholas Buchanan

Partner

Sydney

20 September 2019

Statements of comprehensive income

	Notes	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
		30 June	30 June	30 June	30 June	30 June	30 June
		2019	2018	2019	2018	2019	2018
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Investment income</b>							
Dividend/distribution income		9,427	6,352	-	-	978	596
Interest income		-	-	947	791	270	181
Net gains/(losses) on financial instruments at fair value through profit or loss		13,846	12,310	(20,152)	(19,568)	7,020	5,141
Net foreign exchange gains/(losses)		-	-	908	(240)	(2,707)	(2,601)
Other operating income		1	10	-	8	-	2
<b>Total net investment income/(losses)</b>		<b>23,274</b>	<b>18,672</b>	<b>(18,297)</b>	<b>(19,009)</b>	<b>5,561</b>	<b>3,319</b>
<b>Expenses</b>							
Management fees	13	1,442	1,052	885	732	363	246
Expense recoveries	13	117	86	141	117	31	21
Transaction costs		17	8	36	27	3	2
Other operating expenses		-	7	-	3	-	1
<b>Total operating expenses</b>		<b>1,576</b>	<b>1,153</b>	<b>1,062</b>	<b>879</b>	<b>397</b>	<b>270</b>
<b>Operating profit/(loss) before finance costs for the year</b>		<b>21,698</b>	<b>17,519</b>	<b>(19,359)</b>	<b>(19,888)</b>	<b>5,164</b>	<b>3,049</b>
<b>Finance costs attributable to unitholders</b>							
Finance costs - interest expense		(2,875)	(1,913)	(297)	(221)	(1,565)	(811)
Distributions to unitholders*	3	-	(4,420)	-	-	-	(132)
Change in net assets attributable to unitholders*	3	-	(11,186)	-	20,109	-	(2,106)
<b>Profit/(loss) for the year</b>		<b>18,823</b>	<b>-</b>	<b>(19,656)</b>	<b>-</b>	<b>3,599</b>	<b>-</b>
Other comprehensive income		-	-	-	-	-	-
<b>Total comprehensive income/(loss) for the year</b>		<b>18,823</b>	<b>-</b>	<b>(19,656)</b>	<b>-</b>	<b>3,599</b>	<b>-</b>

\* Net assets attributable to unitholders for all Funds are reclassified from liabilities to equity from 1 July 2018. As a result, the Funds' distributions are no longer classified as finance costs in the statements of comprehensive income but rather as distributions paid and payable in the statements of changes in equity. Refer to Note 1 for further detail.

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

**Statements of financial position**

	Notes	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
		30 June	30 June	30 June	30 June	30 June	30 June
		2019	2018	2019	2018	2019	2018
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>							
Cash and cash equivalents		-	-	105,494	66,198	26,890	17,115
Financial assets at fair value through profit or loss	6	179,541	151,896	-	3,041	57,258	45,860
Receivables		1,167	1,275	118	71	35	208
<b>Total assets</b>		<b>180,708</b>	<b>153,171</b>	<b>105,612</b>	<b>69,310</b>	<b>84,183</b>	<b>63,183</b>
<b>Liabilities</b>							
Financial liabilities at fair value through profit or loss	6	-	-	3,083	-	-	-
Borrowings	7	99,331	77,875	19,649	9,730	57,217	45,478
Due to brokers		-	27	-	-	-	-
Distributions payable	4	3,354	1,681	-	-	38	132
Interest payable	7	195	175	51	28	141	114
Other payables		131	205	99	132	36	65
<b>Total liabilities (30 June 2018: excluding net assets attributable to unitholders)</b>		<b>103,011</b>	<b>79,963</b>	<b>22,882</b>	<b>9,890</b>	<b>57,432</b>	<b>45,789</b>
<b>Net assets attributable to unitholders - liability*</b>	3	-	73,208	-	59,420	-	17,394
<b>Net assets attributable to unitholders - equity*</b>	3	<b>77,697</b>	-	<b>82,730</b>	-	<b>26,751</b>	-

\*Net assets attributable to unitholders are classified as equity at 30 June 2019 and as a financial liability at 30 June 2018. Refer to Note 1 for further detail.

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



Statements of changes in equity

	Geared Australian Equity		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2019 \$'000	30 June 2018 \$'000	30 June 2019 \$'000	30 June 2018 \$'000	30 June 2019 \$'000	30 June 2018 \$'000
<b>Total equity at the beginning of the year</b>	-	-	-	-	-	-
Reclassification due to AMIT tax regime implementation*	73,208	-	59,420	-	17,394	-
<b>Comprehensive income for the year</b>						
Profit/(loss) for the year	18,823	-	(19,656)	-	3,599	-
Other comprehensive income	-	-	-	-	-	-
<b>Total comprehensive income</b>	18,823	-	(19,656)	-	3,599	-
<b>Transactions with unitholders</b>						
Applications	57,398	-	85,522	-	17,673	-
Redemptions	(65,509)	-	(42,556)	-	(11,877)	-
Units issued upon reinvestment of distributions	527	-	-	-	-	-
Distributions to unitholders	(6,750)	-	-	-	(38)	-
<b>Total transactions with unitholders</b>	(14,334)	-	42,966	-	5,758	-
<b>Total equity at the end of the year*</b>	77,697	-	82,730	-	26,751	-

\*Effective from 1 July 2018, the Funds' units have been reclassified from financial liability to equity. Refer Note 1 for further detail. As a result, equity transactions including distributions to unitholders have been disclosed in the above statements for the year ended 30 June 2019.

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

Statements of cash flows

	Notes	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
		30 June	30 June	30 June	30 June	30 June	30 June
		2019	2018	2019	2018	2019	2018
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Cash flows from operating activities</b>							
Proceeds from maturity/sales of financial instruments at fair value through profit or loss		192,528	71,747	33	-	38,184	16,264
Payments for maturity/purchase of financial instruments at fair value through profit or loss		(206,354)	(72,415)	(14,061)	(22,288)	(42,562)	(35,821)
Dividends/distributions received		9,548	5,986	-	-	1,161	413
Interest received		-	-	913	795	264	170
Other operating income received		1	12	-	10	-	2
Realised foreign exchange gains/(losses)		-	-	750	(167)	(2,466)	186
Management fees paid		(1,511)	(940)	(914)	(674)	(390)	(198)
Expense recoveries paid		(122)	(77)	(145)	(108)	(33)	(17)
Transactions cost paid		(17)	(8)	(36)	(27)	(3)	(2)
Other expenses paid		(13)	(7)	(13)	(3)	(4)	(4)
<b>Net cash inflow/(outflow) from operating activities</b>	5(a)	<b>(5,940)</b>	4,298	<b>(13,473)</b>	(22,462)	<b>(5,849)</b>	(19,007)
<b>Cash flows from financing activities</b>							
Net proceeds/(payments) from/to borrowings		21,456	1,490	9,919	1,158	11,739	24,674
Proceeds from applications by unitholders		57,398	31,343	85,522	39,804	17,673	12,715
Payments for redemptions by unitholders		(65,509)	(31,726)	(42,556)	(18,907)	(11,877)	(6,381)
Distributions paid		(4,550)	(3,529)	-	-	(132)	(69)
Interest paid on borrowings		(2,855)	(1,876)	(274)	(212)	(1,538)	(726)
<b>Net cash inflow/(outflow) from financing activities</b>		<b>5,940</b>	(4,298)	<b>52,611</b>	21,843	<b>15,865</b>	30,213
<b>Net increase/(decrease) in cash and cash equivalents</b>							
Cash and cash equivalents at the beginning of the year		-	-	39,138	(619)	10,016	11,206
Effects of foreign currency exchange rate changes on cash and cash equivalents		-	-	66,198	66,890	17,115	8,696
		-	-	158	(73)	(241)	(2,787)
<b>Cash and cash equivalents at the end of the year</b>		<b>-</b>	-	<b>105,494</b>	66,198	<b>26,890</b>	17,115
Non-cash financing activities	5(b)	527	392	-	-	-	-

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

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## 1 General information

These financial statements cover the following managed investment funds ("the Funds"). The Funds are registered managed investment schemes under the *Corporations Act 2001*. The Responsible Entity cannot issue or redeem any units from the 80th anniversary of the day before the day the Funds commenced if that issue or redemption would cause a contravention of the rule against perpetuities or any other rule of law or equity. The Funds may be terminated in accordance with the provisions of their Constitutions. The Funds are domiciled in Australia.

Abbreviated Fund name	Registration date	Commencement date	Financial reporting period	Comparative period
Geared Australian Equity Fund	8 April 2011	30 April 2014	1 July 2018 to 30 June 2019	1 July 2017 to 30 June 2018
U.S. Equities Strong Bear Hedge Fund	10 November 2014	24 August 2015	1 July 2018 to 30 June 2019	1 July 2017 to 30 June 2018
Geared U.S. Equity Fund	10 November 2014	17 August 2015	1 July 2018 to 30 June 2019	1 July 2017 to 30 June 2018

The Responsible Entity of the Funds is BetaShares Capital Ltd (the "Responsible Entity"). The Responsible Entity's registered office is Level 11, 50 Margaret Street, Sydney NSW 2000.

On 5 May 2016, a new tax regime applying to Managed Investment Trusts was established under the Tax Law Amendment (New Tax System for Managed Investment Trusts) Act 2016. The Attribution Managed Investment Trust (AMIT) regime allows funds that meet certain requirements to make an irrevocable choice to be an AMIT. The Funds' Constitutions have been amended to allow them to operate as AMITs and the conditions to adopt the AMIT tax regime have been met. The Responsible Entity elected into the AMIT regime for the Funds effective from 1 July 2018. Under the AMIT regime the units in the Funds have been reclassified from financial liability to equity from 1 July 2018.

The financial statements were authorised for issue by the directors of the Responsible Entity on 23 September 2019. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

The financial statements are presented in Australian dollars, which are the Funds' functional currency.

## 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.

### (a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001* in Australia. The Funds are for-profit unit trusts for the purpose of preparing the financial statements.

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

The Funds operated solely in one segment which is the business of investment management within Australia.

The statements of financial position are presented on a liquidity basis. Assets and liabilities are presented in decreasing order of liquidity and are not distinguished between current and non-current. All balances are expected to be recovered or settled within twelve months, except for investment in financial assets and net assets attributable to unitholders.

#### *Compliance with International Financial Reporting Standards (IFRS)*

The financial statements of the Funds also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

#### *Use of estimates and judgement*

Management makes estimates and assumptions that affect the reported amounts in the financial statements. Estimates and assumptions are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

## **2 Summary of significant accounting policies (continued)**

### **(a) Basis of preparation (continued)**

#### *Use of estimates and judgement (continued)*

For the majority of the Funds' financial instruments, quoted market prices are readily available. However, certain financial instruments are fair valued using valuation techniques. Where valuation techniques (for example, pricing models) are used to determine fair values, they are validated and regularly reviewed by experienced personnel of the Responsible Entity independent of the area that created them.

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

For certain other financial instruments, including amounts due from/to brokers and payables, the carrying amounts approximate fair value due to the short-term nature of these financial instruments.

#### *Investment entity exception*

The Funds meet the definition of an investment entity and therefore apply the investment entity amendments to AASB 10 Consolidated Financial Statements, AASB 12 Disclosure of Interest in Other Entities and AASB 127 Separate Financial Statement. AASB 10 is applicable to all investees; among other things, it requires the consolidation of an investee if the Funds control the investee on the basis of de facto circumstances. An exception however exists where an entity meets the definition of an investment entity.

The Funds meet the definition of investment entity due to the following factors:

- (a) the Funds obtain funds from one or more unitholders for the purpose of providing the unitholders with investment management services;
- (b) the Funds commit to their unitholders that their business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- (c) the Funds measure and evaluate the performance of substantially all of their investments on a fair value basis.

In making the above assessments, the Funds have multiple investments and multiple investors. Their investors are generally unrelated parties of the Funds. Unitholders invest for returns from capital appreciation, investment income, or both. Directors of the RE have concluded that the Funds meet the definition of investment entity.

#### *Assessment of the Funds' investments as structured entities*

The Funds have assessed whether the securities in which they invest are structured entities. The Funds have considered the voting rights and other similar rights afforded to investors in these funds, including the rights to remove the fund manager or redeem holdings. The Funds have assessed whether these rights are the dominant factor in controlling the funds, or whether the contractual agreement with the fund manager is the dominant factor in controlling these funds. The Funds have concluded that the managed investment funds in which they invest are not structured entities.

### **(b) Changes in accounting policy and transition**

#### *Change in accounting estimate*

During the year, the Funds changed their valuation inputs for the fair value of listed financial assets and liabilities recognised in the financial statements from bid prices to last traded prices to be consistent with the inputs used for the calculation of unit prices. Therefore there is no difference between the valuation of Funds' assets for unit pricing and financial reporting purposes from 1 July 2018 onwards. This change does not affect the valuation of investments for unit pricing purposes. The use of last traded price is considered by management to be an appropriate estimate of fair value.

There were no other changes in the accounting policies of the Funds during the financial year.

## **2 Summary of significant accounting policies (continued)**

### **(c) New accounting standards and interpretations**

Except as disclosed below, the accounting policies adopted in these financial statements are consistent with those of the previous financial period. On 1 July 2018 the Funds adopted AASB 9 *Financial instruments* and AASB 15 *Revenue from Contracts with Customers*. The impact of these standards and interpretations is set out below:

#### **(i) AASB 9 *Financial Instruments* (and applicable amendments) (applicable from 1 July 2018)**

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It replaces the multiple classification and measurement models in AASB 139 with a new model that classifies financial instruments based on the business model within which the financial instruments are managed, and whether the contractual cashflows under the instrument solely represent the payment of principal and interest. It also introduces revised rules around hedge accounting and impairment.

Under AASB 9, financial instruments are classified as:

- Amortised cost if the objective of the business model is to hold the financial instruments to collect contractual cash flows only and the contractual cash flows under the instrument represent solely payments of principal and interest (SPPI);
- Fair value through other comprehensive income if the objective of the business model is to hold the financial instruments both to collect contractual cashflows from SPPI and for the purpose of sale; or
- All other financial instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial instrument as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income.

The adoption of AASB 9 did not result in a change to the classification or measurement of financial instruments in either the current or prior periods. The Funds' investment portfolio continues to be measured at fair value through profit or loss. The derecognition rules have not been changed from previous requirements and the Funds do not apply hedge accounting. As the Funds' investments are all at fair value through profit or loss, the change in impairment rules will not impact the Funds. The Funds' cash and cash equivalents and receivables continue to be measured at amortised cost under AASB 9 and the impact of any expected credit losses (ECL) is not material.

#### **(ii) AASB 15 *Revenue from Contracts with Customers* (applicable from 1 July 2018)**

AASB 15 establishes a single revenue recognition using a five-step model based on the transfer of goods and services and the consideration expected to be received in return for that transfer.

The Funds' main source of income is investment income, in the form of gains on financial instruments at fair value as well as interest and dividends income. All these income types are outside the scope of the standard. Accordingly, the adoption of new revenue recognition rules did not have a material impact on the Funds' accounting policies or the amounts recognised in the financial statements.

### **(d) Financial instruments**

#### **(i) Classification**

The Funds classify their investments based on their business model for managing those financial assets and their contractual cash flow characteristics. The Funds' portfolios of financial assets are managed and their performance is evaluated on a fair value basis in accordance with the Funds' documented investment strategy. The Funds evaluate the information about their investments on a fair value basis together with other related financial information.

## **2 Summary of significant accounting policies (continued)**

### **(d) Financial instruments (continued)**

#### *(i) Classification (continued)*

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

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

The Funds may hold financial assets and financial liabilities comprising futures contracts, equity instruments and unlisted unit trusts which had previously been designated at fair value through profit or loss under AASB 139 prior to 1 July 2018. On adoption of AASB 9 from 1 July 2018, these securities continued to be measured at fair value but are now mandatorily classified at fair value through profit or loss.

#### *(ii) Recognition/derecognition*

The Funds recognise financial assets and financial liabilities on the date they become party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

Investments are derecognised when the right to receive cash flows from the investments have expired or the Funds have transferred substantially all risks and rewards of ownership.

#### *(iii) Measurement*

At initial recognition, the Funds measure a financial asset at its fair value. Transaction costs of financial assets or liability are expensed in the statements of comprehensive income as incurred.

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

- Fair value in an active market

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets and liabilities is the last traded price.

- Fair value in an inactive market or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Fund uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used may include the use of comparable recent arms length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models or any other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

#### *(iv) Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is 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.

## **2 Summary of significant accounting policies (continued)**

### **(e) Net assets attributable to unitholders**

Units are normally redeemable only by unitholders being Authorised Participants at the unitholders' option (other unitholders only have a right to redeem units in special circumstances. The units can be put back to the Funds at any time (subject to the *Corporations Act 2001* and the Funds' Constitutions) for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting year if unitholders exercised their right to redeem units in the Funds. Prior to 1 July 2018 the Funds had classified their net assets attributable to unitholders as liabilities in accordance with AASB 132. Effective 1 July 2018, the Funds have elected into the AMIT tax regime. The net assets attributable to unitholders of the Funds met the criteria set out under AASB 132 and are classified as equity from 1 July 2018 onwards.

### **(f) Cash and cash equivalents**

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

### **(g) Investment income**

Interest income earned on cash balances is recognised on an accrual basis in the Statement of Comprehensive Income using the nominated interest rates available on the bank accounts held.

Interest income earned from financial assets at amortised cost is recognised 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.

Other changes in fair value for such instruments are recorded in accordance with the accounting policies described in note 2(d).

### **(h) Expenses**

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

### **(i) Income tax**

The Funds are not subject to income tax as unitholders are presently entitled to the income of the Funds.

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

### **(j) Distributions**

In accordance with the Funds' Constitutions, the Funds distribute income adjusted for amounts determined by the Responsible Entity, to unitholders by cash payment or reinvestment. The distributions are recognised in the statements of changes in equity.



## **2 Summary of significant accounting policies (continued)**

### **(k) Foreign currency translation**

#### *(i) Functional and presentation currency*

Items included in the Funds' 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 Funds compete for funds and are regulated. The Australian dollar is also the Funds' 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 and losses resulting from the settlement of such transactions and from the translations at period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statements of comprehensive income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in the statements of comprehensive income on a net basis within net gains/(losses) on financial instruments at fair value through profit or loss.

### **(l) Due from/to brokers**

Amounts due from/to brokers (if applicable) represent payables for securities purchased and receivables for securities sold that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and normally settled within standard market settlement times (typically three business days). A provision for impairment of amounts due from brokers is established when there is objective evidence that the Funds will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

### **(m) Receivables**

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in Note 2(g) above. Amounts are generally received within 30 days of being recorded as receivables. The carrying amount of receivables approximates fair value.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the Funds will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short term receivables are not discounted if the effect of discounting is immaterial.

### **(n) Other payables**

Other payables include liabilities, amounts due to brokers and accrued expenses owing by the Funds which are unpaid as at the end of the reporting period.

The distribution amount payable to unitholders as at the reporting date is recognised separately in the statements of financial position as unitholders are presently entitled to the distributable income.

### **(m) Borrowings and interest expense**

Borrowings are recognised at historical cost where any transaction fees and costs directly related to the borrowings are recognised in the statements of comprehensive income over the expected life of the borrowings. Borrowings are classified as current liabilities where the liability has been drawn under a financing facility which expires within one year. Finance costs include interest expense related to the borrowings which are expensed in the statements of comprehensive income on an effective yield basis.

### **(o) Applications and redemptions**

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

**2 Summary of significant accounting policies (continued)**

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

The GST incurred on the costs of various services provided to the Funds by third parties such as investment management fees have been passed onto the Funds. The Funds qualify for Reduced Input Tax Credits (RITC) at a rate of 55% to 85%; hence investment management fees, custodial fees and other expenses have been recognised in the statements of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statements of financial position. Cash flows relating to GST are included in the statements of cash flows on a gross basis.

**(q) Rounding of amounts**

The Funds are an entity of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191* and in accordance with that Instrument, amounts in the financial report and directors' report have been rounded off to the nearest thousand dollars in accordance with that Instrument, unless otherwise indicated.

**3 Net assets attributable to unitholders**

Under AASB 132 Financial Instruments: Presentation, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Funds shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

Prior to 1 July 2018 the Funds classified their net assets attributable to unitholders as liabilities in accordance with AASB 132. Effective 1 July 2018, the Funds have elected into the AMIT tax regime. The net assets attributable to unitholders of the Funds meet the criteria set out under AASB 132 and are classified as equity from 1 July 2018 onwards.

As a result of the reclassification of net assets attributable to unitholders from liabilities to equity, the Fund's distributions are no longer classified as finance costs in the statements of comprehensive income, but rather as distributions to unitholders in the statements of changes in equity.

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

	<b>Geared Australian Equity Fund</b>				<b>U.S. Equities Strong Bear Hedge Fund</b>			
	<b>30 June</b>	30 June	<b>30 June</b>	30 June	<b>30 June</b>	30 June	<b>30 June</b>	30 June
	<b>2019</b>	2018	<b>2019</b>	2018	<b>2019</b>	2018	<b>2019</b>	2018
	<b>'000</b>	'000	<b>\$'000</b>	\$'000	<b>'000</b>	'000	<b>\$'000</b>	\$'000
<b>Net assets attributable to unitholders</b>								
Opening balance*	<b>3,037</b>	2,970	<b>73,208</b>	62,013	<b>11,775</b>	8,325	<b>59,420</b>	58,632
Applications	<b>2,778</b>	1,450	<b>57,398</b>	31,343	<b>18,675</b>	6,975	<b>85,522</b>	39,804
Redemptions	<b>(2,800)</b>	(1,400)	<b>(65,509)</b>	(31,726)	<b>(8,775)</b>	(3,525)	<b>(42,556)</b>	(18,907)
Units issued upon reinvestment of distributions	<b>26</b>	17	<b>527</b>	392	-	-	-	-
Change in net assets attributable to unitholders*	-	-	-	11,186	-	-	-	(20,109)
Distributions to unitholders	-	-	<b>(6,750)</b>	-	-	-	-	-
Profit/(loss) for the year	-	-	<b>18,823</b>	-	-	-	<b>(19,656)</b>	-
<b>Closing balance*</b>	<b>3,041</b>	3,037	<b>77,697</b>	73,208	<b>21,675</b>	11,775	<b>82,730</b>	59,420

3 Net assets attributable to unitholders (continued)

	Geared U.S. Equity Fund			
	30 June 2019 '000	30 June 2018 '000	30 June 2019 \$'000	30 June 2018 \$'000
<b>Net assets attributable to unitholders</b>				
Opening balance*	1,100	700	17,394	8,954
Applications	1,200	800	17,673	12,715
Redemptions	(800)	(400)	(11,877)	(6,381)
Units issued upon reinvestment of distributions	-	-	-	-
Change in net assets attributable to unitholders*	-	-	-	2,106
Distributions to unitholders	-	-	(38)	-
Profit/(loss) for the year	-	-	3,599	-
<b>Closing balance*</b>	<b>1,500</b>	<b>1,100</b>	<b>26,751</b>	<b>17,394</b>

\*Net assets attributable to unitholders are classified as equity at 30 June 2019 and as a financial liability at 30 June 2018. Refer to Note 1 for further details.

**Capital risk management**

The Funds consider their net assets attributable to unitholders as equity. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Funds are subject to daily applications and redemptions at the discretion of unitholders.

The daily issues and withdrawals of units are reviewed relative to the liquidity of the Funds' underlying assets on a daily basis by the Responsible Entity. Under the terms of the Funds' governing rules, the Responsible Entity may suspend the issue or withdrawal of units in certain circumstances.

4 Distributions to unitholders

The distributions paid/payable for the year were as follows:

	Geared Australian Equity Fund				U.S. Equities Strong Bear Hedge Fund			
	30 June 2019 \$'000	30 June 2019 CPU	30 June 2018 \$'000	30 June 2018 CPU	30 June 2019 \$'000	30 June 2019 CPU	30 June 2018 \$'000	30 June 2018 CPU
<b>Distributions</b>								
Distribution paid - December	3,400	65.60	2,742	109.61	-	-	-	-
Distribution payable - June	3,351	110.17	1,678	55.26	-	-	-	-
<b>Total distributions</b>	<b>6,751</b>	<b>175.77</b>	<b>4,420</b>	<b>164.87</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

	Geared U.S. Equity Fund			
	30 June 2019 \$'000	30 June 2019 CPU	30 June 2018 \$'000	30 June 2018 CPU
<b>Distributions</b>				
Distribution paid - December	-	-	-	-
Distribution payable - June	38	2.54	132	12.01
<b>Total distributions</b>	<b>38</b>	<b>2.54</b>	<b>132</b>	<b>12.01</b>

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

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>(a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities</b>						
Operating profit/(loss)	21,698	17,519	(19,359)	(19,888)	5,164	3,049
Net (gains)/losses on financial instruments at fair value through profit or loss	(13,846)	(12,310)	20,152	19,568	(7,020)	(5,141)
Payments for maturity/purchase of financial instruments at fair value through profit or loss	(206,354)	(72,415)	(14,061)	(22,288)	(42,562)	(35,821)
Proceeds from maturity/sales of financial instruments at fair value through profit or loss	192,528	71,747	33	-	38,184	16,264
Net gains/(losses) on foreign exchange	-	-	(158)	73	241	2,787
Net change in receivables and other assets	108	(364)	(47)	6	173	(197)
Net change in payables and other liabilities	(74)	121	(33)	67	(29)	52
<b>Net cash inflow/(outflow) from operating activities</b>	<b>(5,940)</b>	<b>4,298</b>	<b>(13,473)</b>	<b>(22,462)</b>	<b>(5,849)</b>	<b>(19,007)</b>
<b>(b) Non-cash financing and investing activities</b>						
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	527	392	-	-	-	-
	527	392	-	-	-	-

6 Financial instruments at fair value through profit or loss

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets at fair value through profit or loss</b>						
Futures	-	-	-	3,041	-	-
Listed securities	179,541	151,896	-	-	57,258	45,860
<b>Total financial assets at fair value through profit or loss</b>	<b>179,541</b>	<b>151,896</b>	<b>-</b>	<b>3,041</b>	<b>57,258</b>	<b>45,860</b>
<b>Financial liabilities at fair value through profit or loss</b>						
Futures	-	-	3,083	-	-	-
<b>Total financial liabilities at fair value through profit or loss</b>	<b>-</b>	<b>-</b>	<b>3,083</b>	<b>-</b>	<b>-</b>	<b>-</b>

An overview of the risk exposures relating to financial assets and liabilities is included in Note 8.

## **7 Borrowings**

Each Fund has a loan facility with its Custodian/Prime Broker, Deutsche Bank AG, pursuant to a prime brokerage agreement. Deutsche Bank AG has the ultimate discretion as to the amount to lend under each facility. Amounts drawn are repayable on demand. The Product Disclosure Statements (PDS) for each Fund sets out whether, and for what purpose, borrowing may be undertaken by the Fund.

As security for the performance of its obligations under the prime brokerage agreement in relation to each Fund, the Responsible Entity has granted a charge to Deutsche Bank AG over the relevant Fund's assets held by Deutsche Bank AG. Deutsche Bank AG, as the loan provider, has certain rights, including the right to take possession of, and in relation to each Fund, sell the relevant Fund's assets if an event of default occurs in relation to the Fund. An event of default includes (i) failure by the Fund to make any repayment under the loan when due (ii) breach of a material term of the prime brokerage agreement that is not remedied within three business days after receiving notice of the breach (iii) insolvency of the Fund (iv) the Responsible Entity ceasing to be qualified to be the Responsible Entity of the Fund (v) where the Fund's gearing ratio on any day exceeds the maximum gearing ratio specified in the PDSs and is not reduced to below the maximum gearing ratio by the next business day.

Deutsche Bank AG is also entitled at any time to transfer to itself absolute ownership of a portion of the relevant Fund's securities having a value up to, but not exceeding, 100% of the loan amount outstanding from time to time (the "Transferred Securities Limit"). Deutsche Bank AG may deal with any assets so transferred in its absolute discretion and for its own benefit (including selling or lending those assets to third parties). The Fund will have an unsecured, contractual right to the return (at the discretion of Deutsche Bank AG) of either equivalent securities or the then current cash value of the transferred securities. If the Transferred Securities Limit is exceeded for any reason (such as market movements), the Responsible Entity will request that Deutsche Bank AG promptly transfer to the Fund sufficient equivalent securities or cash value so as to comply with the Transferred Securities Limit.

## **8 Financial risk management**

### **(a) Objectives, strategies, policies and processes**

The Funds are active exchange traded managed funds that primarily invest in a portfolio of securities listed on the local and global share markets as well as derivative instruments and cash and cash equivalents.

The Funds' activities expose them to a variety of financial risks: market risk (including price risk, foreign currency risk and interest rate risk), credit risk and liquidity risk. The Funds use different methods to measure different types of risk to which they are exposed. Methods include sensitivity analysis in the case of price risk.

The Funds' overall risk management programs focus on ensuring compliance with the Funds' PDSs and seek to maximise the returns derived for the level of risk to which the Funds are exposed. Financial risk management is carried out by an investment manager under policies approved by the Board of Directors of the Responsible Entity (the Board).

The Board of Directors of the Responsible Entity has the overall responsibility for the establishment and oversight of the Funds' risk management framework. The Funds' overall risk management programs focus on ensuring compliance with the Funds' PDSs and investment guidelines.

Compliance with the Funds' Product Disclosure Statements, Constitutions and investment guidelines are reported to the Board on a regular basis.

### **(b) Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Funds' income or the carrying value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

#### *(i) Price risk*

The Funds are exposed to securities and derivatives price risk. This arises from investments held by the Funds for which prices in the future are uncertain. Securities and derivatives are classified in the statements of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital.

The Funds' overall market positions are reported to the Board on a regular basis.

**8 Financial risk management (continued)**

**(b) Market risk (continued)**

*Sensitivity analysis*

An increase of 10% at the reporting date of the market prices attributable to the assets held by the Funds would have the following impact on the Funds' operating profit/(loss) and net assets attributable to unitholders. This analysis assumes that all other variables remain constant. A decrease of 10% would have an equal, but the opposite effect to the amounts shown below, on the basis that all other variables remain constant.

	<b>Geared Australian Equity Fund</b>		<b>U.S. Equities Strong Bear Hedge Fund</b>		<b>Geared U.S. Equity Fund</b>	
	<b>30 June</b>	30 June	<b>30 June</b>	30 June	<b>30 June</b>	30 June
	<b>2019</b>	2018	<b>2019</b>	2018	<b>2019</b>	2018
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
Funds' operating profit/(loss) and net assets attributable to unitholders	<b>17,208</b>	14,840	<b>(18,650)</b>	(12,835)	<b>5,716</b>	4,551

*(ii) Foreign currency risk*

The Funds may hold monetary assets denominated in currencies other than the Australian dollar. Foreign exchange risk arises as the value of these financial assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates.

BetaShares Geared Australian Equity Fund (hedge fund) is not exposed to significant risks from movements in foreign exchange rates as the Fund has no financial assets or liabilities denominated in foreign currencies.

U.S Equities Strong Bear Hedge Fund and Geared U.S. Equity Fund have exposure to assets/securities denominated in U.S. dollars. However, the Responsible Entity hedges such currency exposure with the objective of substantially offsetting the Fund's exposure to movements in the U.S. dollar. Therefore these Funds are expected to have a minimal exposure to foreign currency risk.

*(iii) Interest rate risk*

The main interest rate risk for these funds arises from their cash holdings, and for Funds that employ borrowing, from their loan obligations, in that a change in interest rates will directly impact the interest earned on long balances and payable on borrowings.

Geared Australian Equity Fund and Geared U.S. Equity Fund borrow to gear their investment exposure and are therefore exposed to interest rate risk. An increase in the Funds' costs of borrowing resulting from an increase in interest rates or an increase in the borrowing rates charged by the Funds' Prime Brokers will have an impact on the Funds' profit from operating activities.

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market rates.

Interest bearing financial assets are exposed to fluctuations in the prevailing levels of market interest rates on their financial position and cash flows. Financials instruments with variable interest rates expose Funds to cash flow interest rate risk. Financial instruments with fixed interest rates expose Funds to fair value interest rate risk. The risk is measured using sensitivity analysis.

8 Financial risk management (continued)

(b) Market risk (continued)

(iii) Interest rate risk (continued)

The table below summarises the Funds' exposure to interest rate risks.

BetaShares Geared Australian Equity	Floating	Fixed	Non interest	Total	Floating	Fixed	Non interest	Total
	interest rate	interest rate	bearing		interest rate	interest rate	bearing	
	30 June	30 June	30 June		30 June	30 June	30 June	
	2019	2019	2019	2019	2018	2018	2018	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>								
Cash and cash equivalents	-	-	-	-	-	-	-	-
Financial assets at fair value through profit or loss	-	-	179,541	179,541	-	-	151,896	151,896
Receivables	-	-	1,167	1,167	-	-	1,275	1,275
<b>Liabilities</b>								
Borrowings	(99,331)	-	-	(99,331)	(77,875)	-	-	(77,875)
Due to brokers	-	-	-	-	-	-	(27)	(27)
Distributions payable	-	-	(3,354)	(3,354)	-	-	(1,681)	(1,681)
Interest payable	-	-	(195)	(195)	-	-	(175)	(175)
Other payables	-	-	(131)	(131)	-	-	(205)	(205)
	<b>(99,331)</b>	<b>-</b>	<b>177,028</b>	<b>77,697</b>	<b>(77,875)</b>	<b>-</b>	<b>151,083</b>	<b>73,208</b>
<b>BetaShares U.S. Equities Strong Bear</b>								
	Floating	Fixed	Non interest	Total	Floating	Fixed	Non interest	Total
	interest rate	interest rate	bearing		interest rate	interest rate	bearing	
	30 June	30 June	30 June		30 June	30 June	30 June	
	2019	2019	2019	2019	2018	2018	2018	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>								
Cash and cash equivalents	105,494	-	-	105,494	66,198	-	-	66,198
Financial assets at fair value through profit or loss	-	-	-	-	-	-	3,041	3,041
Receivables	-	-	118	118	-	-	71	71
<b>Liabilities</b>								
Financial liabilities at fair value through profit or loss	-	-	(3,083)	(3,083)	-	-	-	-
Borrowings	(19,649)	-	-	(19,649)	(9,730)	-	-	(9,730)
Interest payable	-	-	(51)	(51)	-	-	(28)	(28)
Other payables	-	-	(99)	(99)	-	-	(132)	(132)
	<b>85,845</b>	<b>-</b>	<b>(3,115)</b>	<b>82,730</b>	<b>56,468</b>	<b>-</b>	<b>2,952</b>	<b>59,420</b>

8 Financial risk management (continued)

(b) Market risk (continued)

(iii) Interest rate risk (continued)

BetaShares Geared U.S. Equity Fund	Floating	Fixed	Non interest	Total	Floating	Fixed	Non interest	Total
	interest rate	interest rate	bearing		interest rate	interest rate	bearing	
	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June
	2019	2019	2019	2019	2018	2018	2018	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Assets</b>								
Cash and cash equivalents	26,890	-	-	26,890	17,115	-	-	17,115
Financial assets at fair value through profit or loss	-	-	57,258	57,258	-	-	45,860	45,860
Receivables	-	-	35	35	-	-	208	208
<b>Liabilities</b>								
Borrowings	(57,217)	-	-	(57,217)	(45,478)	-	-	(45,478)
Distributions payable	-	-	(38)	(38)	-	-	(132)	(132)
Interest payable	-	-	(141)	(141)	-	-	(114)	(114)
Other payables	-	-	(36)	(36)	-	-	(65)	(65)
	<b>(30,327)</b>	-	<b>57,078</b>	<b>26,751</b>	<b>(28,363)</b>	-	<b>45,757</b>	<b>17,394</b>

Sensitivity analysis - Interest rate risk

The analysis is based on the assumption that interest rates increase or decrease by a "predetermined basis points" from the period end rates with all other variables held constant. The "predetermined basis points" are disclosed in the table below.

	Currency	Sensitivity rate (basis points)	Impact on net assets attributable to unitholders			
			Strengthened	Weakened	Strengthened	Weakened
			30 June 2019	30 June 2019	30 June 2018	30 June 2018
			\$'000	\$'000	\$'000	\$'000
BetaShares Geared Australian Equity Fund	AUD	100	(993)	993	(779)	779
BetaShares U.S. Equities Strong Bear Hedge Fund	AUD	100	858	(858)	565	(565)
BetaShares Geared U.S. Equity Fund	AUD	100	(303)	303	(284)	284

(c) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Funds.

(i) 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 purchase on the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.



**8 Financial risk management (continued)**

**(c) Credit risk (continued)**

*(ii) Cash and cash equivalents*

In relation to U.S. Equities Strong Bear Hedge Fund, the Fund maintains a net cash balance with its prime broker/custodian, Deutsche Bank AG. Deutsche Bank AG as at 30 June 2019 had a credit rating of BBB+ (S&P).

*(iii) Other*

The Funds are not materially exposed to credit risk on other financial assets.

**(d) Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with financial liabilities.

The Funds are exposed to daily cash redemptions of redeemable units. The Funds therefore primarily hold investments that are traded in an active market and can be readily realisable.

The tables below analyse the Funds' derivative and non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts in the table are the contractual undiscounted cash flows.

**Geared Australian Equity Fund**

**At 30 June 2019**

Distributions payable  
Borrowings  
Interest payable  
Other payables

**Total financial liabilities**

	On Demand \$'000	Less than 6 months \$'000	Greater than 6 months \$'000	Total \$'000
Distributions payable	-	3,354	-	3,354
Borrowings	99,331	-	-	99,331
Interest payable	-	195	-	195
Other payables	-	131	-	131
<b>Total financial liabilities</b>	<b>99,331</b>	<b>3,680</b>	<b>-</b>	<b>103,011</b>

**At 30 June 2018**

Distributions payable  
Borrowings  
Due to brokers  
Interest payable  
Other payables  
Net assets attributable to unitholders - liability\*  
Total financial liabilities

	On Demand \$'000	Less than 6 months \$'000	Greater than 6 months \$'000	Total \$'000
Distributions payable	-	1,681	-	1,681
Borrowings	77,875	-	-	77,875
Due to brokers	-	27	-	27
Interest payable	-	175	-	175
Other payables	-	205	-	205
Net assets attributable to unitholders - liability*	73,208	-	-	73,208
<b>Total financial liabilities</b>	<b>77,875</b>	<b>2,088</b>	<b>-</b>	<b>153,171</b>

\*Net assets attributable to unitholders are classified as equity at 30 June 2019 and as a financial liability at 30 June 2018. Refer to Note 1 for further details.

8 Financial risk management (continued)

(d) Liquidity risk (continued)

**U.S. Equities Strong Bear Hedge Fund**

**At 30 June 2019**

Financial liabilities at fair value through profit or loss

Borrowings

Interest payable

Other payables

**Total financial liabilities**

On Demand	Less than 6 months	Greater than 6 months	Total
\$'000	\$'000	\$'000	\$'000
-	3,083	-	3,083
19,649	-	-	19,649
51	-	-	51
-	99	-	99
<b>19,700</b>	<b>3,182</b>	<b>-</b>	<b>22,882</b>

At 30 June 2018

Borrowings

Interest payable

Other payables

Net assets attributable to unitholders - liability\*

Total financial liabilities

On Demand	Less than 6 months	Greater than 6 months	Total
\$'000	\$'000	\$'000	\$'000
9,730	-	-	9,730
28	-	-	28
-	132	-	132
59,420	-	-	59,420
9,758	132	-	69,310

**Geared U.S. Equity Fund**

**At 30 June 2019**

Distributions payable

Borrowings

Interest payable

Other payables

**Total financial liabilities**

On Demand	Less than 6 months	Greater than 6 months	Total
\$'000	\$'000	\$'000	\$'000
-	38	-	38
57,217	-	-	57,217
-	141	-	141
-	36	-	36
<b>57,217</b>	<b>215</b>	<b>-</b>	<b>57,432</b>

At 30 June 2018

Distributions payable

Borrowings

Interest payable

Other payables

Net assets attributable to unitholders - liability\*

Total financial liabilities

On Demand	Less than 6 months	Greater than 6 months	Total
\$'000	\$'000	\$'000	\$'000
-	132	-	132
45,478	-	-	45,478
-	114	-	114
-	65	-	65
17,394	-	-	17,394
45,478	311	-	63,183

## 9 Fair value measurements

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).

### Fair value estimation

The carrying amounts of the Funds' assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities held at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments at fair value through profit or loss are measured at fair value with changes in their fair value recognised in the statements of comprehensive income.

#### (i) Fair value in an active market (Level 1)

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 period without any deduction for estimated future selling costs.

The Funds value their investments in accordance with the accounting policies set out in Note 2. For the majority of their investments, the Funds rely on information provided by independent pricing services for the valuation of their investments.

The quoted market price used for financial assets held by the Funds is the last traded price. Where the last traded price does not fall within the bid-ask spread, an assessment is performed by management to determine the appropriate valuation price to use that is most representative of fair value.

In the prior year, the current bid or asking price was used for the quoted market price. There has been no material impact on the valuation of assets and liabilities from this change in estimates.

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.

#### (ii) 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 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.

For other pricing models, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Funds for similar financial instruments.

9 Fair value measurements (continued)

Fair value estimation (continued)

(iii) Recognised fair value measurements

The tables below set out the Funds' financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy at 30 June 2019 and 30 June 2018.

	Geared Australian Equity Fund							
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June
	2019	2019	2019	2019	2018	2018	2018	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>								
Financial assets at fair value through profit or loss								
Listed securities	179,541	-	-	179,541	151,896	-	-	151,896
<b>Total assets</b>	<b>179,541</b>	<b>-</b>	<b>-</b>	<b>179,541</b>	<b>151,896</b>	<b>-</b>	<b>-</b>	<b>151,896</b>

	U.S. Equities Strong Bear Hedge Fund							
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June
	2019	2019	2019	2019	2018	2018	2018	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>								
Financial assets at fair value through profit or loss								
Listed securities	-	-	-	-	3,041	-	-	3,041
<b>Total assets</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3,041</b>	<b>-</b>	<b>-</b>	<b>3,041</b>

	U.S. Equities Strong Bear Hedge Fund							
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June
	2019	2019	2019	2019	2018	2018	2018	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial liabilities</b>								
Financial liabilities at fair value through profit or loss								
Futures	3,083	-	-	3,083	-	-	-	-
<b>Total liabilities</b>	<b>3,083</b>	<b>-</b>	<b>-</b>	<b>3,083</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

	Geared U.S. Equity Fund							
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June
	2019	2019	2019	2019	2018	2018	2018	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Financial assets</b>								
Financial assets at fair value through profit or loss								
Listed securities	57,258	-	-	57,258	45,860	-	-	45,860
<b>Total assets</b>	<b>57,258</b>	<b>-</b>	<b>-</b>	<b>57,258</b>	<b>45,860</b>	<b>-</b>	<b>-</b>	<b>45,860</b>

(iv) Transfers between levels

There were no transfers between levels during the year ended 30 June 2019.

**9 Fair value measurements (continued)**

(v) *Movement in level 3 instruments*

There were no investments classified as level 3 within the Funds as at 30 June 2019.

(vi) *Fair value of financial instruments not carried at fair value*

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

Net assets attributable to unitholders' carrying value differs 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 period.

**10 Offsetting financial assets and liabilities**

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is 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. The gross and net positions of financial assets and liabilities that have been offset in the statements of financial position are disclosed in the first three columns of the following tables.

Agreements with the funding counterparty, Deutsche Bank are based upon the Prime Broker Agreement. Under the terms of this arrangement, only when certain credit events occur (such as default), the net position owing to Deutsche Bank, after taking into consideration the assets held by Deutsche Bank, will be taken as owing and all the relevant arrangements terminated. As, except in the event of default, the relevant Funds do not have a legally enforceable right of set-off, these amounts have not been offset in the statements of financial position, but have been presented separately in the tables below:

	Effects of offsetting on the statement of financial position			Related amounts not offset in the statement of financial position		
	Gross amounts of financial assets/liabilities	Gross amounts set off in the statement of financial position	Net amount of financial assets/ (liabilities) presented in the statement of financial position	Financial instruments (including non-cash collateral)	Cash collateral pledged	Net amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Geared Australian Equity Fund</b>						
<b>As at 30 June 2019</b>						
Financial assets - listed securities	179,541	-	179,541	-	-	179,541
Financial liabilities - borrowings	(99,331)	-	(99,331)	-	-	(99,331)
<b>Total</b>	<b>80,210</b>	<b>-</b>	<b>80,210</b>	<b>-</b>	<b>-</b>	<b>80,210</b>
<b>As at 30 June 2018</b>						
Financial assets - listed securities	151,896	-	151,896	-	-	151,896
Financial liabilities - borrowings	(77,875)	-	(77,875)	-	-	(77,875)
<b>Total</b>	<b>74,021</b>	<b>-</b>	<b>74,021</b>	<b>-</b>	<b>-</b>	<b>74,021</b>

10 Offsetting financial assets and liabilities (continued)

	Effects of offsetting on the statement of financial position			Related amounts not offset in the statement of financial position		
	Gross amounts of financial assets/liabilities	Gross amounts set off in the statement of financial position	Net amount of financial assets/ (liabilities) presented in the statement of financial position	Financial instruments (including non-cash collateral)	Stock and cash collateral pledged	Net amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>U.S. Equities Strong Bear Hedge Fund</b>						
<b>As at 30 June 2019</b>						
Financial liabilities - futures	(3,083)	-	(3,083)	-	-	(3,083)
Financial liabilities - borrowings	(19,649)	-	(19,649)	-	105,494	85,845
<b>Total</b>	<b>(22,732)</b>	<b>-</b>	<b>(22,732)</b>	<b>-</b>	<b>105,494</b>	<b>82,762</b>
<b>As at 30 June 2018</b>						
Financial assets - futures	3,041	-	3,041	(3,041)	-	-
Financial liabilities - borrowings	(9,730)	-	(9,730)	-	66,198	56,468
<b>Total</b>	<b>(6,689)</b>	<b>-</b>	<b>(6,689)</b>	<b>(3,041)</b>	<b>66,198</b>	<b>56,468</b>

	Effects of offsetting on the statement of financial position			Related amounts not offset in the statement of financial position		
	Gross amounts of financial assets/liabilities	Gross amounts set off in the statement of financial position	Net amount of financial assets/ (liabilities) presented in the statement of financial position	Financial instruments (including non-cash collateral)	Stock and cash collateral pledged	Net amount
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
<b>Geared U.S. Equity Fund</b>						
<b>As at 30 June 2019</b>						
Financial assets - listed securities	57,258	-	57,258	-	-	57,258
Financial liabilities - borrowings	(57,217)	-	(57,217)	-	26,890	(30,327)
<b>Total</b>	<b>41</b>	<b>-</b>	<b>41</b>	<b>-</b>	<b>26,890</b>	<b>26,931</b>
<b>As at 30 June 2018</b>						
Financial assets - listed securities	45,860	-	45,860	-	-	45,860
Financial liabilities - borrowings	(45,478)	-	(45,478)	-	17,115	(28,363)
<b>Total</b>	<b>382</b>	<b>-</b>	<b>382</b>	<b>-</b>	<b>17,115</b>	<b>17,497</b>

**11 Derivative financial instruments**

**U.S. Equities Strong Bear Hedge Fund**

In the normal course of business the Fund enters into transactions in certain derivative financial instruments with 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 include:

- hedging to protect an asset or liability of the Fund against a fluctuation in market values or to reduce volatility;
- a substitution for trading of physical securities;
- 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.

The Fund holds the following derivatives:

**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.

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

	<b>Contract/ notional \$'000</b>	<b>Assets \$'000</b>	<b>Liabilities \$'000</b>
<b>U.S. Equities Strong Bear Hedge Fund</b>			
<b>As at 30 June 2019</b>			
Futures	(186,494)	-	3,083
<b>Total</b>	<b>(186,494)</b>	<b>-</b>	<b>3,083</b>
<b>As at 30 June 2018</b>			
Futures	(96,683)	3,041	-
<b>Total</b>	<b>(96,683)</b>	<b>3,041</b>	<b>-</b>

**12 Auditor's remuneration**

During the year the following fees were paid or payable for services provided by the auditor of the Funds. Audit fees were borne by the Responsible Entity.

	<b>Geared Australian Equity Fund</b>		<b>U.S. Equities Strong Bear Hedge Fund</b>		<b>Geared U.S. Equity Fund</b>	
	<b>30 June 2019</b>	<b>30 June 2018</b>	<b>30 June 2019</b>	<b>30 June 2018</b>	<b>30 June 2019</b>	<b>30 June 2018</b>
	\$	\$	\$	\$	\$	\$
<b>KPMG</b>						
Audit and other assurance services						
Audit and review of financial reports	4,982	4,860	7,529	7,345	7,529	7,345
Audit of compliance plan	1,230	1,200	1,230	1,200	1,230	1,200
Total remuneration for audit and other assurance services	<b>6,212</b>	<b>6,060</b>	<b>8,759</b>	<b>8,545</b>	<b>8,759</b>	<b>8,545</b>

**13 Related party transactions**

**Responsible Entity**

The Responsible Entity of the Funds is BetaShares Capital Ltd.

**Key management personnel**

The Funds do not employ personnel in their own right. However, the Funds are required to have an incorporated Responsible Entity to manage the activities and this is considered to be key management personnel. The directors of the Responsible Entity, which are key management personnel of the Responsible Entity, during or since the end of the financial year are:

**(a) Directors**

Executive Directors:

David Nathanson (appointed 21 September 2009)  
 Alex Vynokur (appointed 21 September 2009)

Non-Executive Directors:

Taeyong Lee (appointed 12 August 2015, resigned 31 August 2018)  
 Thomas Park (appointed 12 August 2015)  
 Jungho Rhee (appointed 1 September 2018)

**(b) Other key management personnel**

There were no other persons with responsibility for planning, directing and controlling the activities of the Funds, directly or indirectly during the year.



**13 Related party transactions (continued)**

**(c) Responsible Entity fees and other transactions**

The Responsible Entity's fees are calculated in accordance with the Funds' Constitutions. The Responsible Entity's fees comprise of a management fee and (if applicable) expense recoveries (after taking account of GST and reduced input tax credits), which are calculated as a percentage of the gross/net asset value of the Funds and are disclosed in the statements of comprehensive income.

The following table discloses the Responsible Entity's fees for 30 June 2019 and 30 June 2018:

Fund	Basis for calculation	Management fee	Expense recoveries
		%	%
Geared Australian Equity Fund	Gross asset value	0.74	0.06
U.S. Equities Strong Bear Hedge Fund	Net asset value	1.19	0.19
Geared U.S. Equity Fund	Gross asset value	0.74	0.06

The related party transactions during the year and amounts payable at year end were as follows:

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2019	30 June 2018	30 June 2019	30 June 2018	30 June 2019	30 June 2018
	\$	\$	\$	\$	\$	\$
Management fees expensed to the Responsible Entity	1,441,700	1,052,123	884,994	732,394	362,663	245,611
Management fees payable to the Responsible Entity as at the reporting date	120,867	190,128	85,153	113,618	32,743	60,299
Expense recoveries expensed to the Responsible Entity	116,898	86,200	141,302	116,937	31,085	21,047
Expense recoveries payable to the Responsible Entity as at the reporting date	9,800	15,416	13,596	18,141	2,807	5,169

**14 Events occurring after the reporting period**

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Funds disclosed in the statements of financial position as at 30 June 2019 or on the results and cash flows of the Funds for the year ended on that date.

**15 Contingent assets and liabilities and commitments**

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2019 (2018: nil).

**Directors' declaration**

BetaShares Capital Ltd present the Directors' Declaration in respect of the following funds:

BetaShares Geared Australian Equity Fund (hedge fund)  
BetaShares U.S. Equities Strong Bear Hedge Fund - Currency Hedged  
BetaShares Geared U.S. Equity Fund - Currency Hedged (hedge fund)

In the opinion of the directors of BetaShares Capital Ltd, the Responsible Entity of the Funds:

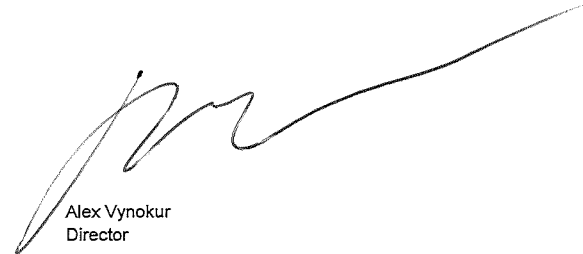
- (a) the financial statements and notes set out on pages 6 to 32 are in accordance with the *Corporations Act 2001*, including:
  - (i) complying with Australian Accounting Standards, and interpretations issued by the Australian Accounting Standards Board and the *Corporations Regulations 2001*; and
  - (ii) giving a true and fair view of the Funds' financial position as at 30 June 2019 and of their performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Funds will be able to pay their debts as and when they become due and payable; and
- (c) note 2(a) confirms that the financial statements comply with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

Signed in accordance with a resolution of the directors of BetaShares Capital Ltd.



David Nathanson  
Director

Sydney  
20 September 2019



Alex Vynokur  
Director



# Independent Auditor's Report

To the respective unitholders of the following Schemes:

BetaShares Geared Australian Equity Fund (hedge fund)

BetaShares U.S. Equities Strong Bear Hedge Fund - Currency Hedged

BetaShares Geared U.S. Equity Fund (hedge fund)

For the purpose of this report, the term Scheme and Schemes denote the individual and distinct entity for which the financial information is prepared and upon which our audit is performed. Each is to be read as a singular subject matter.

## Opinions

We have audited each of the **Financial Reports** of the Schemes.

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

- giving a true and fair view of that Scheme's financial position as at 30 June 2019 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The respective **Financial Reports** of the individual Schemes comprise:

- Statements of financial position as at 30 June 2019;
- Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration made by the Directors of BetaShares Capital Limited (the Responsible Entity).

## Basis for opinions

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

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

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

## Key Audit Matters

**Key Audit Matters** are those matters that, in our professional judgment, were of most significance in our respective audits of the Financial Reports of each Scheme in the current period.

These matters were addressed in the context of our audits of each of the Financial Reports as a whole, and in forming our opinions thereon, and we do not provide a separate opinion on these matters.

The **Key Audit Matter** we identified for BetaShares Geared Australian Equity Fund (hedge fund), BetaShares U.S. Equities Strong Bear Hedge Fund-Currency Hedged, BetaShares Geared U.S. Equity Fund (hedge fund) is:

- Valuation and existence of financial instruments.

The **Key Audit Matter** we identified for BetaShares U.S. Equities Strong Bear Hedge Fund - Currency Hedged and BetaShares Geared U.S. Equity Fund (hedge fund) is:

- Existence of cash and cash equivalents.



**Valuation and existence of financial instruments**  
 (BetaShares Geared Australian Equity Fund (hedge fund) \$179,541,000,  
 BetaShares U.S. Equities Strong Bear Hedge Fund - Currency Hedged  
 \$-3,083,000, BetaShares Geared U.S. Equity Fund (hedge fund)  
 \$57,258,000).

Refer to Note 6 to the Financial Reports.

**The Key Audit Matter**

Valuation and existence of financial instruments is a Key Audit Matter due to the significance of the balance to the financial statements and as the key driver of operations and performance results.

**How the matter was addressed in our audits**

- Our procedures included:
- Read the Responsible Entity’s fund administrator’s and custodian’s ASAE 3402 *Assurance Reports on Controls at a Service Organisation* (ASAE 3402) reports to assess the control environment at the custodian and the impact on our procedures.
  - Assessed the scope, competency and objectivity of the auditors of the ASAE 3402 reports.
  - Checked the valuation of financial instruments, as recorded in the general ledger, to externally quoted market prices.
  - Checked the Responsible Entity’s external custody reports to assess the ownership of the financial instruments.

**Existence of cash and cash equivalents**  
 (BetaShares U.S. Equities Strong Bear Hedge Fund- Currency Hedged  
 \$105,494,000, BetaShares Geared U.S. Equity Fund (hedge fund)  
 \$26,890,000).

**The Key Audit Matter**

Existence of cash and cash equivalents is a Key Audit Matter due to the significance of the balance to the financial statements.

**How the matter was addressed in our audits**

- Our procedures included:
- Read the Responsible Entity’s custodian’s ASAE 3402 Assurance Reports on Controls at Service Organisations (ASAE 3402) report to assess the control environment at the custodian and its impact on our procedures.
  - Assessed the scope, competence and objectivity of the auditors of the ASAE 3402 report.
  - Obtained third party confirmations of cash balances and checked to the Schemes’ cash balances, as recorded in the general ledger.

**Other Information**

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

Our opinions on the Financial Reports do 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 audits of the Financial Reports, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Reports or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

### Responsibilities of the Directors for the Financial Reports

The Directors of the Responsible Entity are responsible for:

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

### Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

- to obtain reasonable assurance about whether each of the Financial Reports as a whole are free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinions.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

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

A further description of our responsibilities for the audits of the Financial Reports is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar2.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar2.pdf). This description forms part of our Auditor's Report.



KPMG



Nicholas Buchanan

Partner

Sydney

20 September 2019