

BETASHARES GEARED AUSTRALIAN EQUITY FUND (HEDGE FUND)

ASX CODE: GEAR



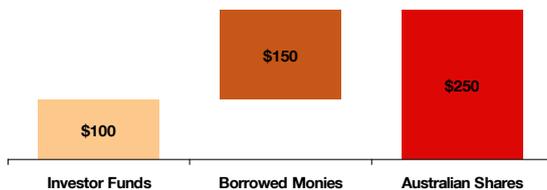
The Geared Fund provides investors with a simple way to obtain a cost-effective geared exposure to the returns of the Australian share market

The Fund aims to provide investors with geared exposure to a diversified portfolio of Australian shares as simply as buying any share on the ASX. As the fund is internally geared, investors do not need to take out margin loans and do not have the possibility of margin calls in relation to their investment in the Fund. Gearing in the fund will be managed between 50-65%, allowing the potential for investors to access greater returns and franking performance relative to an ungeared exposure

What is Gearing?

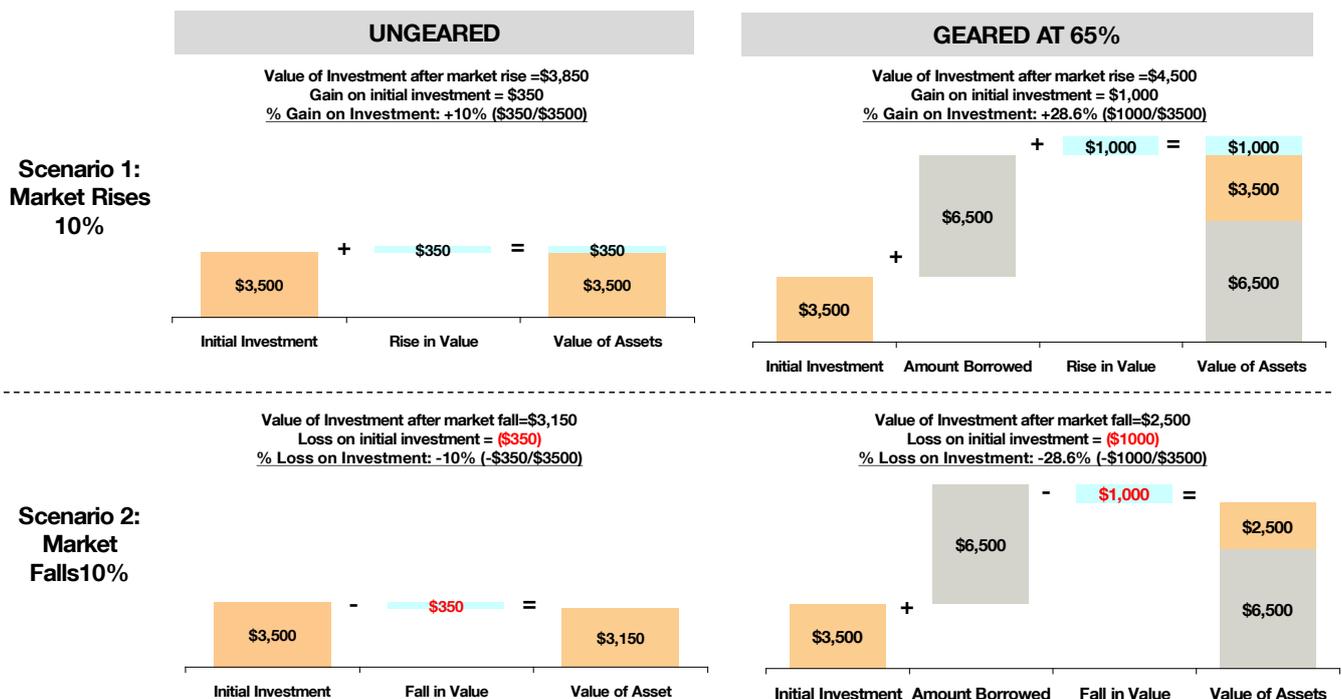
As the below exhibit illustrates, gearing is an investment strategy whereby borrowed money is used to invest, along with an investor's own capital. Borrowing to invest makes the amount available for investing larger. The Geared Fund is 'internally geared' which means that the Fund itself has entered into a borrowing arrangement – this means that investors are not exposed to the possibility of margin calls as all borrowing obligations are met within the Fund. In addition, the Fund uses its capacity as wholesale investor to borrow at significantly lower interest rates than those available directly to individual investors.

ILLUSTRATION OF A 'GEARED' INVESTMENT STRATEGY (ASSUMING 60% GEARING RATIO)



Gearing ratio = total amount borrowed expressed as a percentage of the total assets of the Fund

Borrowing to invest will be profitable if the returns generated on the geared investment are higher than the cost of investing (including interest on the borrowed funds). As such, should the investment increase in value, the gains on the investment in a geared investment will be magnified compared to a non-geared strategy. Should an investment decrease in value, the losses on the investment in a geared investment will also be magnified compared to a non-geared strategy. The example below shows how gearing can magnify both the gains and losses on investments:



Illustrative only – not intended to reflect actual performance of the Fund. Illustration excludes any borrowing costs or fund management costs, which would have the effect of reducing returns, whether positive or negative.

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Gearing magnifies gains and losses and may not be a suitable strategy for all investors. Investors in geared strategies should be willing to accept higher levels of investment volatility and potentially large moves (both up and down) in the value of their investment. Geared investments involve significantly higher risk than non-geared investments and investors should seek professional financial advice before investing, and monitor their investment actively. Note that the Fund does not track a published benchmark and past performance is not an indication of future performance.

Product Structure & Investment Strategy

BetaShares' Geared Fund is a registered managed fund (i.e. unit trust) that trades on the ASX.

The Fund will implement the investment strategy by combining funds received from investors with borrowed funds, and invest the proceeds in a broadly diversified share portfolio. The share portfolio consists of the largest 200 equity securities listed on the ASX weighted by market capitalisation (as measured by the S&P/ASX 200 Index). The Fund is expected to earn dividends and franking credits on the underlying share portfolio.

Gearing Strategy

The Fund is 'internally geared', which means that as part of its investment strategy, the Fund will use borrowed funds to provide geared exposure to the returns of the Australian share market. Being internally geared allows the Fund to use its capacity as a wholesale investor to borrow at competitive interest rates. Also, due to this structure, investors do not need to apply for loans to obtain geared exposure or pay 'margin calls' in market downturns, as all gearing obligations are met within the Fund. At the time of writing, the Fund has established a loan facility with Deutsche Bank AG.

The Fund's gearing ratio (the total amount borrowed expressed as a percentage of the total assets of the Fund) will be managed between 50-65%. Gearing levels will be actively monitored and adjusted to stay within this range, with the latest gearing level published and updated daily on the BetaShares website. If through market movements the gearing ratio exceeds 65% or decreases below 50%, the Fund will aim to bring the ratio back towards the middle of the gearing range by selling Fund assets and repaying borrowing, or conversely, by increasing the level of borrowing and buying additional Fund assets.

In addition, the Fund's portfolio management team will monitor gearing levels and income from the underlying share portfolio with the objective of ensuring that the income from the underlying share portfolio is sufficient to meet the borrowing costs (i.e. so that the Fund will be 'positively geared'). Should expected income not be sufficient to meet borrowing costs, the Fund may decrease the gearing ratio by selling Fund assets and repaying a portion of the borrowings.

Ease of Access

The ASX-traded BetaShares Geared Fund provides a simple to access, cost-efficient way to obtain geared exposure to a broad portfolio of Australian equities. Current alternatives may variously involve higher levels of downside risk, more complicated administration or higher borrowing rates. The table below summarises the primary differences:

	BETASHARES GEARED FUND	MARGIN LOANS	LISTED WARRANTS
GEARING LEVELS	50-65% - set by Fund	Customisable by investor	Set by issuer – typically between 50-90%
ACCESS	Bought and sold like a share	Requires loan agreement, credit checks	Requires client agreement form
DOWNSIDE RISK	Limited to capital invested	Unlimited – recourse to client	Limited to capital invested
DIVERSIFICATION	High – broadly diversified share portfolio	Varies depending on underlying exposure	Varies depending on underlying exposure
MARGIN CALLS	No margin calls for investors	Yes – investors can experience margin calls	No margin calls for investors
BORROWING COST	Access to wholesale funding rates	Retail funding rates	Retail funding rates
POTENTIAL FOR INTEREST DEDUCTIONS	Yes – interest costs reduce taxable distributions to investors	Yes	Yes
INVESTOR ABILITY TO PRE-PAY INTEREST	No	Yes	Yes – included in purchase price
ISSUER CREDIT RISK	No	No	Exposed to full counterparty risk of issuer
SUPER FUND/ SMSF ELIGIBLE	Yes	Generally not	Yes

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Benefits of the BetaShares Geared Fund

- Cost Effective - management fee lower than most geared fund alternatives
- Wholesale Funding - Fund uses its capacity as wholesale investor to borrow at significantly lower interest rates than those available directly to individual investors
- SMSF Eligible - a means to access gearing in SMSFs/super as a component of a diversified portfolio
- No Margin Calls for investors – gearing obligations met by the Fund with no further recourse to the investor and no need for investors to provide collateral as security
- Performance - potential for greater returns and franking performance
- Access - Administrative ease compared to other alternatives providing gearing – no need for margin loans, application forms or credit checks
- Diversification – broadly diversified portfolio of shares representative of the Australian share market, assisting with risk management of a geared investment
- Transparency – gearing ratio and underlying share portfolio available on website and updated daily
- Liquid - buy or sell throughout the day like any share on the ASX

Uses of the BetaShares Geared Fund

The Geared Fund is a simple way to implement a cost-effective geared investment strategy. It seeks to be positively geared and may be suitable for a number of strategies. Examples include:

- Increasing market exposure via an efficient use of capital
- Accessing the potential for enhanced franking credit exposure for tax-effective investing
- Increasing exposure to the share market for SMSFs that have reached the concessional contribution cap

Trading Information

BetaShares Funds can be bought or sold during the trading day on the ASX, and trade like ordinary shares.

EXCHANGE	ASX
ASX CODE	GEAR
CURRENCY	AUD
TRADING	10:00-16:00 (AEST)
BLOOMBERG CODE	GEAR AU
IRESS CODE	GEAR.AXW
ASX INAV CODE	YGEA

Fund Information

ISSUER	BetaShares Capital Ltd
FUND ADMINISTRATOR	FundBPO
CUSTODIAN	Deutsche Bank AG
AUDITOR	KPMG
DISTRIBUTIONS	Semi-Annual
MANAGEMENT FEE*	0.74% p.a (gross asset value)
EXPENSES CAP	0.06% p.a (gross asset value)
FUND INCEPTION	30 April 2014

*Other costs apply, including borrowing costs

www.betashares.com.au

T: 1300 487 577 (Australia)

T: + 61 2 9290 6888 (ex Australia)

info@betashares.com.au

There are risks associated with an investment in the Fund, including market risk, gearing risk and lender risk. For more information on risks and other features of the Fund please see the Product Disclosure Statement.

An investment in any BetaShares Fund ("Fund") is subject to investment risk including possible delays in repayment and loss of income and principal invested. Neither BetaShares Capital Ltd ("BetaShares") nor BetaShares Holdings Pty Ltd guarantees the performance of any Fund or the repayment of capital or any particular rate of return. Past performance is not an indication of future performance. This information is prepared by BetaShares Capital Ltd (ACN 139 566 868 AFS License 341181) ("BetaShares"), the product issuer. It is general information only and does not take into account your objectives, financial situation or needs so it may not be appropriate for you. Before making an investment decision you should consider the product disclosure statement ("PDS") and your circumstances and obtain financial advice. The PDS is available at www.betashares.com.au or by calling 1300 487 577 (within Australia) or +61 2 9290 6888 (outside Australia). Only investors who are authorised as trading participants under the Australian Securities Exchange (ASX) Operating Rules may invest through the PDS. Other investors may buy units in the Fund on the ASX through a stockbroker, financial adviser or online broker. This document does not constitute an offer of, or an invitation to purchase or subscribe for securities. This information was prepared in good faith and to the extent permitted by law BetaShares accepts no liability for any errors or omissions or loss from reliance on any of it.

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