

Booklet 7

BetaShares Legg Mason Australian Bond Fund (managed fund) - ASX Code: BNDS (ARSN 608 058 493)

BetaShares Legg Mason Emerging Markets Fund (managed fund) - ASX Code: EMMG (ARSN 629 322 247)

BetaShares Legg Mason Equity Income Fund (managed fund) - ASX Code: EINC (ARSN 621 856 406)

BetaShares Legg Mason Real Income Fund (managed fund) - ASX Code: RINC (ARSN 621 862 619)

Annual Financial Report

30 June 2020

Booklet 7
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30 June 2020

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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 2020 and the auditor's report thereon.

Fund name	Referred to in this document as	Financial reporting year	ARSN
BetaShares Legg Mason Australian Bond Fund (managed fund)	Australian Bond Fund	1 July 2019 to 30 June 2020	608 058 493
BetaShares Legg Mason Emerging Markets Fund (managed fund)	Emerging Markets Fund	1 July 2019 to 30 June 2020 (comparatives: 18 October 2018 to 30 June 2019)	629 322 247
BetaShares Legg Mason Equity Income Fund (managed fund)	Equity Income Fund	1 July 2019 to 30 June 2020	621 856 406
BetaShares Legg Mason Real Income Fund (managed fund)	Real Income Fund	1 July 2019 to 30 June 2020	621 862 619

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.

Legg Mason Asset Management Australia Ltd is the Investment Manager of the Funds.

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 Statement 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 the year or since the end of the year and up to the date of this report:

David Nathanson (appointed 21 September 2009)

Alex Vynokur (appointed 21 September 2009)

Jungho Rhee (appointed 1 September 2018)

Thomas Park (appointed 12 August 2015, resigned 6 February 2020)

Young Hwan Kim (appointed 7 February 2020)

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 and 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)

Review and results of operations (continued)

Since the World Health Organisation declared COVID-19 a global pandemic in March 2020, there has been significant disruption to the economy and society. The Directors and management of the Responsible Entity have instigated a response plan to maintain business continuity and continue to deliver services to Fund investors. The Responsible Entity has been taking steps to ensure that the principle activities of the Fund align to PDSs and it continues to monitor and review valuations and the liquidity position of the Fund on a regular basis. Management have taken into account the impacts of the pandemic when preparing these financial statements.

Significant changes in state of affairs

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.

Matters subsequent to the end of the financial year

Since balance date, there continues to be uncertainty and volatility in the market due to the ongoing COVID-19 global pandemic. Management are closely monitoring and consider that there has been no material change in the assets & liabilities presented. No matter or circumstance has arisen since 30 June 2020 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 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 regard to insurance cover provided to either the officers of BetaShares Capital Ltd or the auditor of the Funds. So long as the officers of BetaShares Capital Ltd 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.

Directors' report (continued)

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 the Funds' property during the year are disclosed in Note 12 to the financial statements.

No fees were paid out of the Funds' 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 12 to the financial statements.

Interests in the Funds

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

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

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 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

Sydney
22 September 2020



Alex Vynokur
Director



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 Legg Mason Australian Bond Fund (managed fund)

BetaShares Legg Mason Equity Income Fund (managed fund)

BetaShares Legg Mason Emerging Markets Fund (managed fund)

BetaShares Legg Mason Real Income Fund (managed fund)

I declare that, to the best of my knowledge and belief, in relation to the audit of the Schemes for the financial year ended 30 June 2020 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

22 September 2020

Booklet 7
Statements of comprehensive income
For the year ended 30 June 2020

Statements of comprehensive income		Australian Bond Fund		Emerging Markets Fund¹		Equity Income Fund		Real Income Fund	
		30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Notes		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Investment income									
Interest income		3,604	1,032	-	-	-	-	-	-
Dividend/distribution income		-	-	172	41	1,091	1,066	2,577	1,154
Net gains/(losses) on financial instruments at fair value through profit or loss		571	3,037	(86)	333	(4,210)	543	(14,151)	2,844
Net foreign exchange gains/(losses)		-	-	16	(3)	-	-	-	-
Other operating income		97	51	-	20	-	-	-	-
Total net investment income/(loss)		4,272	4,120	102	391	(3,119)	1,609	(11,574)	3,998
Expenses									
Management fees		481	122	93	5	205	152	406	162
Transaction costs		3	1	6	2	16	7	60	12
Other operating expenses		4	1	30	1	26	33	57	33
Total operating expenses		488	124	129	8	247	192	523	207
Profit/(loss)		3,784	3,996	(27)	383	(3,366)	1,417	(12,097)	3,791
Other comprehensive income		-	-	-	-	-	-	-	-
Total comprehensive income/(loss) for the year		3,784	3,996	(27)	383	(3,366)	1,417	(12,097)	3,791

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

¹ The comparison period for BetaShares Emerging Markets Fund was 18 October 2018 to 30 June 2019.

Statements of financial position		Australian Bond Fund		Emerging Markets Fund¹		Equity Income Fund		Real Income Fund	
		30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
Notes		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Assets									
		7,396	1,211	351	214	687	354	545	820
		124,523	74,873	10,047	6,198	24,391	20,556	42,505	31,942
		-	-	-	6	-	10	608	62
		894	640	46	91	183	123	708	557
		132,813	76,724	10,444	6,509	25,261	21,043	44,366	33,381
Liabilities									
		104	230	30	12	121	323	850	861
		5,388	259	-	26	514	7	10	160
		53	29	17	5	21	15	931	24
		5,545	518	47	43	656	345	1,791	1,045
		127,268	76,206	10,397	6,466	24,605	20,698	42,575	32,336

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

¹ The comparison period for BetaShares Emerging Markets Fund was 18 October 2018 to 30 June 2019.

Booklet 7
Statements of changes in equity
For the year ended 30 June 2020

Statements of changes in equity	Notes	Australian Bond Fund		Emerging Markets Fund¹		Equity Income Fund		Real Income Fund	
		30 June	30 June	30 June	30 June	30 June	30 June	30 June	30 June
		2020	2019	2020	2019	2020	2019	2020	2019
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Total equity at the beginning of the year	3	76,206	-	6,466	-	20,698	-	32,336	-
Reclassification as equity due to AMIT tax regime implementation*	3	-	-	-	-	-	12,719	-	10,221
Comprehensive income for the year									
Profit/(loss) for the year		3,784	3,996	(27)	383	(3,366)	1,417	(12,097)	3,791
Other comprehensive income		-	-	-	-	-	-	-	-
Total comprehensive income/(loss) for the year		3,784	3,996	(27)	383	(3,366)	1,417	(12,097)	3,791
Transactions with unitholders									
Applications	3	71,703	73,053	6,417	6,095	13,244	11,027	35,459	20,116
Redemptions	3	(21,443)	-	(2,429)	-	(5,126)	(3,605)	(11,214)	(561)
Units issued upon reinvestment of distributions	3	79	6	-	-	10	4	74	9
Distributions to unitholders	3,4	(3,061)	(849)	(30)	(12)	(855)	(864)	(1,983)	(1,240)
Total transactions with unitholders		47,278	72,210	3,958	6,083	7,273	6,562	22,336	18,324
Total equity at the end of the year	3	127,268	76,206	10,397	6,466	24,605	20,698	42,575	32,336

* Effective from 1 July 2018, Funds that had a prior financial reporting year had their units reclassified from financial liability to equity. As a result, equity transactions including distributions have been disclosed in the above statements for the year ended 30 June 2020 and 30 June 2019.

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

¹ The comparison period for BetaShares Emerging Markets Fund was 18 October 2018 to 30 June 2019.

Booklet 7
Statements of cash flows
For the year ended 30 June 2020

Statements of cash flows	Australian Bond Fund		Emerging Markets Fund¹		Equity Income Fund		Real Income Fund	
	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 \$'000	30 June 2019 \$'000
Cash flows from operating activities								
Proceeds from sale of financial instruments at fair value through profit or loss	33,952	697	4,514	73	9,558	7,360	23,804	3,277
Payments for purchase of financial instruments at fair value through profit or loss	(77,902)	(72,274)	(8,453)	(5,921)	(17,086)	(15,688)	(49,214)	(22,424)
Dividends/distributions received	-	-	162	9	1,107	1,036	2,385	858
Interest income received	3,356	398	-	-	-	-	-	-
Other operating income received	97	55	-	20	-	-	-	-
Management fees paid	(466)	(103)	(91)	-	(200)	(156)	(397)	(157)
Transaction costs paid	(3)	(1)	(6)	(2)	(16)	(7)	(60)	(12)
Other operating expenses paid	(1)	(1)	(31)	(1)	(26)	(33)	(58)	(33)
Net cash inflow/(outflow) from operating activities	(40,967)	(71,229)	(3,905)	(5,822)	(6,663)	(7,488)	(23,540)	(18,491)
Cash flows from financing activities								
Proceeds from applications by unitholders	71,703	73,053	6,476	6,036	13,169	11,652	35,579	20,092
Payments for redemptions by unitholders	(21,443)	-	(2,422)	-	(5,126)	(3,605)	(10,320)	(560)
Distributions paid	(3,108)	(613)	(12)	-	(1,047)	(658)	(1,994)	(587)
Net cash inflow/(outflow) from financing activities	47,152	72,440	4,042	6,036	6,996	7,389	23,265	18,945
Net increase/(decrease) in cash and cash equivalents	6,185	1,211	137	214	333	(99)	(275)	454
Cash and cash equivalents at the beginning of the financial year	1,211	-	214	-	354	453	820	366
Cash and cash equivalents at the end of the financial year	7,396	1,211	351	214	687	354	545	820
Non-cash financing activities								
Units issued upon reinvestment of distributions	79	6	-	-	10	4	74	9

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

¹ The comparison period for BetaShares Emerging Markets Fund was 18 October 2018 to 30 June 2019.

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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	Registered date	Commenced date	Financial reporting year
Australian Bond Fund	11 September 2015	7 November 2018	1 July 2019 to 30 June 2020
Emerging Markets Fund	18 October 2018	29 May 2019	1 July 2019 to 30 June 2020 (comparatives: 18 October 2018 to 30 June 2019)
Equity Income Fund	6 October 2017	13 February 2018	1 July 2019 to 30 June 2020
Real Income Fund	6 October 2017	13 February 2018	1 July 2019 to 30 June 2020

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.

The financial statements were authorised for issue by the directors of the Responsible Entity on 22 September 2020. 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 is 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 unless otherwise stated.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001* in Australia.

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

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

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 investments in financial assets and liabilities at fair value through profit or loss and net assets attributable to unitholders.

Management have taken into account the impacts of the COVID-19 pandemic on the valuation and presentation of the Funds' investments and its operating environment when preparing this financial report.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Compliance with International Financial Reporting Standards

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

Use of estimates and judgement

Management make estimates and assumptions that affect the reported amounts in the financial statements. These 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.

While the COVID-19 pandemic has caused uncertainty and market volatility during the period, the Responsible Entity has continued to follow its established policies and process (as set out in the Financial Risk Management note 7) for managing risk, determining fair values and classifying assets and liabilities in the fair value hierarchy for disclosure purposes as at the reporting date.

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 10"), AASB 12 *Disclosure of Interests in Other Entities* and AASB 127 *Separate Financial Statements*. 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 Responsible Entity have concluded that the Funds meet the definition of investment entity.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

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) Australian accounting standards and interpretations

There are no new accounting standards that are not yet effective and that are expected to have a material impact on the Funds in the prior years, or will affect the current or future reporting periods, or will have an impact on foreseeable future transactions.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been early adopted in preparing these financial statements. None of these are expected to have a material effect on the financial statements of the Funds.

(c) Financial instruments

(i) Classification

The Funds classify their investments based on its 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.

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.

2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Recognition/derecognition

The Funds recognise financial assets and financial liabilities on the date they become party to the contractual agreement (trade date) and recognise 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 or liabilities at its fair value. Transaction costs are expensed in the statements of comprehensive income as incurred.

Subsequent to initial recognition, all financial assets and financial 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 during the financial year.

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 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 Funds use 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.

(d) Net assets attributable to unitholders

Australian Bond Fund

The Scheme considers its net assets attributable to unitholders as equity as the Scheme had made an irrevocable choice to be an Attribution Managed Investment Trust ("AMIT"). 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.

2 Summary of significant accounting policies (continued)

(d) Net assets attributable to unitholders (continued)

Emerging Markets Fund, Equity Income Fund and Real Income Fund

The Schemes consider their net assets attributable to unitholders as equity as each Scheme had made an irrevocable choice to be an Attribution Managed Investment Trust ("AMIT"). Subject to market conditions, unitholders may withdraw their units from the Funds at their election by trading on the Australian Securities Exchange at the prevailing market price for sale of the units at the time of the transaction. The Responsible Entity on behalf of each Fund intends to provide liquidity to unitholders by acting as a buyer and seller of units on the exchange. At the end of each trading day, the Responsible Entity will issue or cancel units according to its net position in units bought or sold on the exchange on that day. The price at which the Responsible Entity may buy or sell units will reflect the Responsible Entity's view of the Funds' net asset value per unit. The fair value of units is measured at the net asset value per unit, which approximates fair value at the end of the reporting year if unitholders elected to withdraw units from the Funds.

(e) 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.

(f) Investment income

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

Dividend income is recognised on the ex-dividend date with any related foreign withholding tax recorded as an expense. The Funds currently incur withholding tax imposed by certain countries on investment income. Such income is recorded net of withholding tax in the statements of comprehensive income.

Trust distributions are recognised on an entitlements basis and stated net of foreign withholding tax.

(g) Expenses

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

(h) Income tax

The Funds are not subject to income tax as unitholders are presently entitled to the taxable income (including assessable realised capital gains) of the Funds.

The benefit of foreign tax paid is passed on to unitholders.

(i) Distributions

In accordance with the Funds' Constitutions, the Funds distribute income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment.

The distributions are recognised in the statements of changes in equity as transactions with unitholders.

2 Summary of significant accounting policies (continued)

(j) Due from/to brokers

Amounts due from/to brokers (if applicable) represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the year. Trades are recorded on trade date, and for equities normally settled within two 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.

(k) 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(f) above. The Funds' receivables are measured at amortised cost under AASB 9 and the impact of any expected credit losses (ECL) is not material as amounts are generally received within 30 days of being recorded as receivables. The carrying amount of receivables approximates fair value.

(l) Payables

Payables include liabilities and accrued expenses owing by the Funds which are unpaid as at the end of the reporting year.

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

(m) 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.

(n) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Funds by third parties such as custodial services and 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.

(o) Rounding of amounts

The Funds are an entity of the kind referred to in *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off to the nearest thousand dollars, unless otherwise indicated.

3 Net assets attributable to unitholders

Under AASB 132 *Financial Instrument: 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.

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

	Australian Bond Fund				Emerging Markets Fund			
	30 June 2020 Units '000	30 June 2019 Units '000	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 Units '000	30 June 2019 Units '000	30 June 2020 \$'000	30 June 2019 \$'000
Net assets attributable to unitholders								
Opening balance	2,850	-	76,206	-	1,203	-	6,466	-
Applications	2,650	2,850	71,703	73,053	1,102	1,203	6,417	6,095
Redemptions	(800)	-	(21,443)	-	(441)	-	(2,429)	-
Units issued upon reinvestment of distributions	3	-	79	6	-	-	-	-
Distribution to unitholders	-	-	(3,061)	(849)	-	-	(30)	(12)
Profit/(loss) for the year	-	-	3,784	3,996	-	-	(27)	383
Closing balance	4,703	2,850	127,268	76,206	1,864	1,203	10,397	6,466
	Equity Income Fund				Real Income Fund			
	30 June 2020 Units '000	30 June 2019 Units '000	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 Units '000	30 June 2019 Units '000	30 June 2020 \$'000	30 June 2019 \$'000
Net assets attributable to unitholders								
Opening balance	2,472	1,557	20,698	12,719	3,397	1,205	32,336	10,221
Applications	1,629	1,369	13,244	11,027	3,730	2,254	35,459	20,116
Redemptions	(683)	(454)	(5,126)	(3,605)	(1,532)	(63)	(11,214)	(561)
Units issued upon reinvestment of distributions	1	-	10	4	8	1	74	9
Distribution to unitholders	-	-	(855)	(864)	-	-	(1,983)	(1,240)
Profit/(loss) for the year	-	-	(3,366)	1,417	-	-	(12,097)	3,791
Closing balance	3,419	2,472	24,605	20,698	5,603	3,397	42,575	32,336

3 Net assets attributable to unitholders (continued)

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 eligible 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 for the year were as follows:

	Australian Bond Fund				Emerging Markets Fund			
	30 June 2020 \$'000	30 June 2020 CPU	30 June 2019 \$'000	30 June 2019 CPU	30 June 2020 \$'000	30 June 2020 CPU	30 June 2019 \$'000	30 June 2019 CPU
Distributions paid - July	133	3.91	-	-	-	-	-	-
Distributions paid - August	146	3.90	-	-	-	-	-	-
Distributions paid - September	235	5.79	-	-	-	-	-	-
Distributions paid - October	149	3.59	-	-	-	-	-	-
Distributions paid - November	166	4.01	36	3.62	-	-	-	-
Distributions paid - December	143	3.05	79	6.84	-	-	-	-
Distributions paid - January	228	4.75	70	5.16	-	-	-	-
Distributions paid - February	178	3.59	77	4.67	-	-	-	-
Distributions paid - March	989	23.27	125	6.61	-	-	-	-
Distributions paid - April	274	6.44	91	3.88	-	-	-	-
Distributions paid - May	316	7.35	141	5.41	-	-	-	-
Distributions payable - June	104	2.21	230	8.08	30	1.64	12	1.00
Total distributions	3,061		849		30		12	

4 Distributions to unitholders (continued)

	Equity Income Fund				Real Income Fund			
	30 June 2020 \$'000	30 June 2020 CPU	30 June 2019 \$'000	30 June 2019 CPU	30 June 2020 \$'000	30 June 2020 CPU	30 June 2019 \$'000	30 June 2019 CPU
Distributions paid - September	261	9.84	197	8.96	178	3.98	54	3.08
Distributions paid - December	219	7.06	168	7.26	618	10.70	278	12.93
Distributions paid - March	254	7.95	176	7.06	337	5.75	47	1.85
Distributions payable - June	121	3.55	323	13.06	850	15.17	861	25.34
Total distributions	855		864		1,983		1,240	

5 Financial assets and liabilities at fair value through profit or loss

	Australian Bond Fund		Emerging Markets Fund		Equity Income Fund		Real Income Fund	
	30 June 2020 \$'000	30 June 2019 \$'000						
Financial assets at fair value through profit or loss								
Bond futures	35	25	-	-	-	-	-	-
Fixed interest securities	121,310	72,635	-	-	-	-	-	-
Floating rate notes	3,178	2,213	-	-	-	-	-	-
Listed securities	-	-	10,047	6,198	24,391	20,556	42,505	31,777
Unlisted securities	-	-	-	-	-	-	-	165
Total financial assets at fair value through profit or loss	124,523	74,873	10,047	6,198	24,391	20,556	42,505	31,942

An overview of the risk exposures relating to financial assets and liabilities at fair value through profit or loss is included in Note 7.

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

	Australian Bond Fund		Emerging Markets Fund		Equity Income Fund		Real Income Fund	
	30 June 2020 \$'000	30 June 2019 \$'000						
Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities								
Profit/(loss)	3,784	3,996	(27)	383	(3,366)	1,417	(12,097)	3,791
Proceeds from sale of financial instruments at fair value through profit or loss	33,952	697	4,514	73	9,558	7,360	23,804	3,277
Payments for the purchase of financial instruments at fair value through profit or loss	(77,902)	(72,274)	(8,453)	(5,921)	(17,086)	(15,688)	(49,214)	(22,424)
Net (gains)/losses on financial instruments at fair value through profit or loss	(571)	(3,037)	86	(333)	4,210	(543)	14,151	(2,844)
Net foreign exchange (gains)/losses	-	-	(16)	3	-	-	-	-
Net change in dividends/distributions receivable	-	-	(10)	(32)	16	(30)	(177)	(296)
Net change in receivables and other assets	(254)	(640)	(4)	-	(1)	(2)	(20)	(5)
Net change in payables and other liabilities	24	29	5	5	6	(2)	13	10
Net cash inflow/(outflow) from operating activities	(40,967)	(71,229)	(3,905)	(5,822)	(6,663)	(7,488)	(23,540)	(18,491)

7 Financial risk management

The Funds are exchanged traded managed funds that primarily invest in Australian equity securities, including unit trusts, cash and cash equivalents and bond futures.

The Funds' activities expose them to a variety of financial risks which may include: market risk (including price risk, foreign exchange risk and interest rate risk), counterparty/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' Product Disclosure Statements (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 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' PDSs, Constitutions and investment guidelines are reported to the Board on a regular basis.

7 Financial risk management (continued)

(a) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity 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.

Included in the following analysis are tables that summarise the sensitivity of the operating profit and net assets attributable to unitholders to changes in market prices (e.g. equity prices, foreign exchange rates and interest rates). The analysis is based on reasonably possible movements in the specified risk variable with other variables held constant. Actual movements in the risk variables in any period may be greater or less than indicated. The market price risk information is intended to be a relative estimate of risk rather than a precise and accurate number. It represents a hypothetical outcome and is not intended to be predictive. The analysis is based on historical data and cannot take account of the fact that future market price movements (e.g. in times on market stress) may bear no relation to historical patterns.

(i) Price risk

The Funds except Australian Bond Fund are exposed to equity securities price risk. This arises from investments held by the Funds for which prices in the future are uncertain. Equity securities are classified on the statements of financial position as at fair value through profit or loss. All securities investments present a risk of loss of capital.

The Australian Bond Fund holds cash (including cash denominated in currencies other than the Australian dollar) and interest bearing securities. These investments have exposure to interest rate risk and credit risk.

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

Sensitivity analysis

A 10% movement at the report date of the market prices attributable to financial assets or financial liabilities by the relevant Funds would have the following impact on the Funds' profit/(loss) and net assets attributable to unitholders. The calculations include the impact of any derivatives that may be held by a Fund. It is assumed that the relevant change occurs at the balance date.

	Emerging Markets Fund		Equity Income Fund		Real Income Fund	
	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2020 \$'000	30 June 2019 \$'000
+10% Price movement - impact on the Funds' profit/(loss) and net assets attributable to unitholders	1,005	620	2,439	2,056	4,250	3,194
-10% Price movement - impact on the Funds' profit/(loss) and net assets attributable to unitholders	(1,005)	(620)	(2,439)	(2,056)	(4,250)	(3,194)

7 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk

Australian Bond Fund

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. Financial instruments with variable interest rate expose Funds to cash flow interest rate risk. Financial instruments with fixed interest rates expose the Fund to fair value interest rate risk. This risk is measured using sensitivity analysis.

Interest rate risk is not considered to be significant to the Funds, except for Australian Bond Fund (see below), other than cash holdings.

The table below summaries the Fund's exposure to interest rate risks.

Australian Bond Fund	Floating interest rate	Fixed interest rate	Non-interest bearing	Total	Floating interest rate	Fixed interest rate	Non-interest bearing	Total
	30 June 2020 \$'000	30 June 2020 \$'000	30 June 2020 \$'000	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2019 \$'000	30 June 2019 \$'000	30 June 2019 \$'000
Assets								
Cash and cash equivalents	7,396	-	-	7,396	1,211	-	-	1,211
Financial assets at fair value through profit or loss	3,178	121,310	35	124,523	2,213	72,635	25	74,873
Other receivables	-	-	894	894	-	-	640	640
Liabilities								
Distributions payable	-	-	(104)	(104)	-	-	(230)	(230)
Due to brokers - payable for securities purchased	-	-	(5,388)	(5,388)	-	-	(259)	(259)
Other payables	-	-	(53)	(53)	-	-	(29)	(29)
Net exposure	10,574	121,310	(4,616)	127,268	3,424	72,635	147	76,206

7 Financial risk management (continued)

(a) Market risk (continued)

(ii) Interest rate risk (continued)

Sensitivity analysis - Interest rate risk

The table below summarises the sensitivities of the interest rate risk. The analysis is based on the assumption that interest rates increase or decrease by a "predetermined basis points" from the year end rates with all other variables held constant. The impact mainly arises from changes in the fair value of debt securities. The "predetermined basis points" for 30 June 2020 are noted in the table below (30 June 2019: 100bps). Management have considered the movements for each investment asset type to be reasonable given the Fund's economic environment.

	Impact on net assets attributable to unitholders						
	Currency	Sensitivity rate (basis points)	Increase	Decrease	Sensitivity rate (basis points)	Increase	Decrease
		30 June 2020	30 June 2020	30 June 2020	30 June 2019	30 June 2019	30 June 2019
Australian Bond Fund	Australian Dollars	25	(1,449)	1,449	100	(3,362)	3,362

The other Funds are exposed to interest rate risk on their cash holdings. Interest income from cash holdings is earned at variable interest rates. Investments in cash holdings are at call.

(iii) Foreign exchange risk

Emerging Markets Fund

Except Emerging Markets Fund, all other Funds are not directly subject to significant foreign exchange risk as securities held are predominately domiciled in Australia.

The Fund may hold both monetary and non-monetary assets denominated in currencies other than the Australian dollar. The foreign exchange risk relating to non-monetary assets and liabilities is a component of price risk not foreign exchange risk. Foreign exchange risk arises as the value of monetary assets denominated in other currencies fluctuates due to changes in exchange rates. The risk is measured using sensitivity analysis.

The table below summarises the Fund's assets and liabilities, monetary and non-monetary, that are denominated in a currency other than the Australian dollar (calculated after the effect of associated foreign derivatives).

	Emerging Markets Fund			
	30 June 2020	30 June 2020	30 June 2019	30 June 2019
Currency	\$'000	\$'000	Currency	\$'000
HKD	2,805	2,805	HKD	1,457
USD	1,938	1,938	USD	1,086
KRW	1,719	1,719	KRW	826
INR	940	940	INR	700
GBP	5	5	GBP	618
Others	2,682	2,682	Others	1,551
Net foreign currency exposure	10,089	10,089	6,237	6,237

7 Financial risk management (continued)

(a) Market risk (continued)

(iii) Foreign exchange risk (continued)

Sensitivity analysis - Foreign exchange risk

The following table summarises the sensitivity of the Fund's monetary assets and liabilities to foreign exchange risk.

	Emerging Markets Fund	
	30 June	30 June
	2020	2019
	\$'000	\$'000
Impact on profit/(loss) from operating activities and net assets attributable to unitholders		
10% AUD appreciation against foreign currency (2019: 10%)	(4)	(4)

10% AUD depreciation against foreign currency would have an equal, but opposite effect to the amounts shown in the table above.

(b) 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.

The main concentration of credit risk to which the Funds are exposed arise from the Funds' investment in cash and cash equivalents, and investment in debt securities.

(i) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is considered low as the Funds only invest their assets into bank deposit accounts held with banks that are regulated in Australia by Australian Prudential Regulatory Authority as authorised deposit taking institutions, and all counterparties have a credit rating of at least A-.

In accordance with the Funds' policy, the Responsible Entity monitors the Funds' credit position on a regular basis.

(ii) 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.

7 Financial risk management (continued)

(b) Credit risk (continued)

(iii) Debt securities

Certain Funds invest in debt securities being bank issued senior floating rate notes. An analysis of debt securities by rating of the issuer is set out in the table below for Fund which have such securities.

	Australian Bond Fund	
	30 June 2020 \$'000	30 June 2019 \$'000
Rating		
AAA	51,864	31,735
AA+ to AA-	25,294	15,924
A+ to A-	28,486	18,416
BBB+ to BBB-	18,346	8,772
NON-RATED	498	-
Total	124,488	74,847

(iv) Other

The custody of the Funds' assets is mainly concentrated with one counterparty, namely RBC Investor Services Trust. RBC Investor Services Trust is a subsidiary of a company listed on a major securities exchange, and at 30 June 2020 had a credit rating of AA- by Standard & Poor's (S&P) (30 June 2019 AA-/A-1+ (Stable) by Standard & Poor's (S&P)). At 30 June 2020, substantially all cash and cash equivalents, balances due from brokers and investments are held in custody by RBC Investor Services Trust.

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

7 Financial risk management (continued)

(c) Liquidity risk

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

The Funds are exposed to daily cash redemptions of redeemable units. The Funds' investments in cash and cash equivalents and debt securities are considered to be readily realisable and the Funds maintain adequate liquidity to pay withdrawals and distributions when required.

Certain Funds may invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the Funds may not be able to quickly liquidate their investments in these instruments at an amount close to their fair value to meet their liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer or counterparty.

The following tables analyse the Funds' 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 tables are the contractual undiscounted cash flows.

	Australian Bond Fund							
	On demand	Less than	Greater than	Total	On demand	Less than	Greater than	Total
	30 June	6 months	6 months	30 June	30 June	6 months	6 months	30 June
	2020	2020	2020	2020	2019	2019	2019	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Distributions payable	-	104	-	104	-	230	-	230
Due to brokers - payable for securities purchased	-	5,388	-	5,388	-	259	-	259
Other payables	-	53	-	53	-	29	-	29
Contractual cash flows (excluding net settled derivatives)	-	5,545	-	5,545	-	518	-	518

	Emerging Markets Fund							
	On demand	Less than	Greater than	Total	On demand	Less than	Greater than	Total
	30 June	6 months	6 months	30 June	30 June	6 months	6 months	30 June
	2020	2020	2020	2020	2019	2019	2019	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Distributions payable	-	30	-	30	-	12	-	12
Due to brokers - payable for securities purchased	-	-	-	-	-	26	-	26
Other payables	-	17	-	17	-	5	-	5
Contractual cash flows (excluding net settled derivatives)	-	47	-	47	-	43	-	43

7 Financial risk management (continued)

(c) Liquidity risk (continued)

	Equity Income Fund							
	On demand	Less than	Greater than	Total	On demand	Less than	Greater than	Total
	30 June	6 months	6 months	30 June	30 June	6 months	6 months	30 June
	2020	30 June	30 June	2020	2019	30 June	30 June	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Distributions payable	-	121	-	121	-	323	-	323
Due to brokers - payable for securities purchased	-	514	-	514	-	7	-	7
Other payables	-	21	-	21	-	15	-	15
Contractual cash flows (excluding net settled derivatives)	-	656	-	656	-	345	-	345
	Real Income Fund							
	On demand	Less than	Greater than	Total	On demand	Less than	Greater than	Total
	30 June	6 months	6 months	30 June	30 June	6 months	6 months	30 June
	2020	30 June	30 June	2020	2019	30 June	30 June	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Distributions payable	-	850	-	850	-	861	-	861
Due to brokers - payable for securities purchased	-	10	-	10	-	160	-	160
Other payables	-	931	-	931	-	24	-	24
Contractual cash flows (excluding net settled derivatives)	-	1,791	-	1,791	-	1,045	-	1,045

8 Offsetting financial assets and financial 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 tables below.

	Effects of offsetting on the statements of financial position			Related amounts not offset in the statements of financial position		
	Gross amounts of financial assets/(liabilities)	Gross amounts set off in the statements of financial position	Net amount of financial assets/(liabilities) presented in the statements of financial position	Financial instruments (including non-cash collateral)	Stock and cash collateral pledged	Net amounts
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Australian Bond Fund						
As at 30 June 2020						
Financial assets						
Bond futures	35	-	35	-	-	35
Total	35	-	35	-	-	35
As at 30 June 2019						
Financial assets						
Bond futures	25	-	25	-	-	25
Total	25	-	25	-	-	25

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 year approximate their fair values.

Financial assets and liabilities 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 financial 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 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 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.

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 recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

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

9 Fair value measurements (continued)

Fair value estimation (continued)

(ii) Fair value in an inactive or unquoted market (Level 2 and Level 3) (continued)

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.

(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:

	Australian Bond 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
	2020	2020	2020	2020	2019	2019	2019	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets								
Financial assets at fair value through profit or loss:								
Bond futures	35	-	-	35	25	-	-	25
Fixed interest securities	-	121,310	-	121,310	-	72,635	-	72,635
Floating rate notes	-	3,178	-	3,178	-	2,213	-	2,213
Total	35	124,488	-	124,523	25	74,848	-	74,873
	Emerging Markets 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
	2020	2020	2020	2020	2019	2019	2019	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial assets								
Financial assets at fair value through profit or loss:								
Listed securities	10,047	-	-	10,047	6,198	-	-	6,198
Total	10,047	-	-	10,047	6,198	-	-	6,198

9 Fair value measurements (continued)

Fair value estimation (continued)

	Equity Income Fund							
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	30 June 2020 \$'000	30 June 2020 \$'000	30 June 2020 \$'000	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2019 \$'000	30 June 2019 \$'000	30 June 2019 \$'000
Financial assets								
Financial assets at fair value through profit or loss:								
Listed securities	24,391	-	-	24,391	20,556	-	-	20,556
Total	24,391	-	-	24,391	20,556	-	-	20,556
	Real Income Fund							
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
	30 June 2020 \$'000	30 June 2020 \$'000	30 June 2020 \$'000	30 June 2020 \$'000	30 June 2019 \$'000	30 June 2019 \$'000	30 June 2019 \$'000	30 June 2019 \$'000
Financial assets								
Financial assets at fair value through profit or loss:								
Listed securities	42,505	-	-	42,505	31,777	-	-	31,777
Unlisted securities	-	-	-	-	165	-	-	165
Total	42,505	-	-	42,505	31,942	-	-	31,942

(iv) Transfers between levels

There were no transfers between levels during the year ended 30 June 2020 and 30 June 2019.

(v) Movement in level 3 instruments

There were no investments classified as Level 3 within the Funds as at 30 June 2020 and 30 June 2019.

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

The carrying values of financial instruments not carried at fair value are assumed to approximate their fair values.

10 Derivative financial instruments

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

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

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

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

While derivatives are used for trading purposes, they are not used to gear (leverage) a portfolio. Gearing a portfolio would occur if the level of exposure to the markets exceeds the underlying value of the Funds.

The following Fund held derivative instruments:

	Australian Bond Fund					
	Contract/ notional	Assets	Liabilities	Contract/ notional	Assets	Liabilities
	30 June	30 June	30 June	30 June	30 June	30 June
	2020	2020	2020	2019	2019	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Bond futures	7,001	35	-	543	25	-
	7,001	35	-	543	25	-

11 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:

	Australian Bond Fund		Emerging Market Fund		Equity Income Fund		Real Income Fund	
	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019	30 June 2020	30 June 2019
	\$	\$	\$	\$	\$	\$	\$	\$
KPMG								
<i>Audit and other assurance service</i>								
Audit and review of financial reports	4,982	4,982	4,982	4,982	4,982	4,982	4,982	4,982
Audit of compliance plan	1,230	1,230	1,230	1,230	1,230	1,230	1,230	1,230
Total remuneration of audit and other assurance services	6,212	6,212	6,212	6,212	6,212	6,212	6,212	6,212

12 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:

Jungho Rhee (appointed 1 September 2018)
 Thomas Park (appointed 12 August 2015, resigned 6 February 2020)
 Young Hwan Kim (appointed 7 February 2020)

12 Related party transactions (continued)

Key management personnel (continued)

(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 financial year.

Responsible Entity's management fees and other transactions

The Responsible Entity's fees are calculated in accordance with the Funds' Constitutions. The Responsible Entity's fees comprise a management fee (after taking account of GST and reduced input tax credits), which are calculated as a percentage of the net asset value of the Funds and are disclosed in the statements of comprehensive income. The following table discloses the Responsible Entity's fees ended 30 June 2020 and 30 June 2019:

Funds	Management fee	
	30 June 2020 %	30 June 2019 %
Australian Bond Fund	0.42	0.42
Emerging Markets Fund	1.00	1.00
Equity Income Fund	0.85	0.85
Real Income Fund	0.85	0.85

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

	Australian Bond Fund		Emerging Markets Fund		Equity Income Fund		Real Income Fund	
	30 June 2020 \$	30 June 2019 \$	30 June 2020 \$	30 June 2019 \$	30 June 2020 \$	30 June 2019 \$	30 June 2020 \$	30 June 2019 \$
Management fees expensed to the Responsible Entity	480,814	121,920	93,259	4,516	204,628	151,582	406,356	161,856
Management fees payable to the Responsible Entity at reporting date	46,467	24,584	9,719	4,894	19,590	14,290	35,353	21,943

Related party unitholdings

Parties related to the Funds (including BetaShares Capital Ltd and other schemes managed by BetaShares Capital Ltd), held no units in the Funds during the financial year.

13 Events occurring after the reporting period

Since balance date, there continues to be uncertainty and volatility in the market due to the ongoing COVID-19 global pandemic. Management are closely monitoring and consider that there has been no material change in the assets & liabilities presented. 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 2020 or on the results and cash flows of the Funds for the year ended on that date.

14 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2020 and 30 June 2019.

Directors' declaration

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

BetaShares Legg Mason Australian Bond Fund (managed fund)
BetaShares Legg Mason Emerging Markets Fund (managed fund)
BetaShares Legg Mason Equity Income Fund (managed fund)
BetaShares Legg Mason Real Income Fund (managed 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 35 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 positions as at 30 June 2020 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
22 September 2020



Alex Vynokur
Director



Independent Auditor's Report

To the respective unitholders of the following Schemes:

BetaShares Legg Mason Australian Bond Fund (managed fund)

BetaShares Legg Mason Emerging Markets Fund (managed fund)

BetaShares Legg Mason Equity Income Fund (managed fund)

BetaShares Legg Mason Real Income Fund (managed 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 2020 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 2020;
- 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 (including Independence Standards)* (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 each of the Schemes is:

- Valuation and existence of financial instruments.



Valuation and existence of financial instruments (BetaShares Legg Mason Australian Bond Fund (managed fund \$124,523,000), BetaShares Legg Mason Emerging Markets Fund (managed fund) \$ 10,047,000, BetaShares Legg Mason Equity Income Fund (managed fund) \$24,391,000, BetaShares Legg Mason Real Income Fund (managed fund) \$42,505,000)

Refer to Note 5 to the Financial Report.

The Key Audit Matter

How the matter was addressed in our audits

Financial instruments at fair value through profit or loss comprise investments in listed securities, debt securities and derivatives ("investments").

The Scheme outsources certain processes and controls relevant to:

- Executing transactions as instructed by the Responsible Entity and recording and valuing investments to the Scheme administrator; recording and valuing investments to the Scheme administrator;
- Maintaining custody and underlying records of investments to the custodian;

Valuation and existence of investments is a key audit matter due to the:

Our procedures included:

- We assessed the appropriateness of the accounting policies applied by the Scheme, including those relevant to the fair value of investments, against the requirements of the accounting standards.
- We obtained and read the Scheme's Service Provider's ASAE 3402 *Assurance Reports on Controls at a Service Organisation* and GS007 (*Guidance Statement 007 Audit Implications of the Use of Service Organisations for Investment Management Services*) assurance reports to understand the processes and assess the controls relevant to the:
 - Scheme administrator – to execute transactions, record and value the Scheme's investments;

- Size of the Scheme's portfolio of investments. These investments represent a significant percentage of the Scheme's total assets at year end; and
- Importance of the performance of these investments in driving the Scheme's investment income and capital performance, as reported in the Financial Report.

As a result, this was the area with greatest effect on our overall audit strategy and allocation of resources in planning and performing our audit.

- Custodian – to maintain custody and underlying records of the Scheme's investments;
- We obtained and read the custodians bridging letter over the period not covered by the ASAE3402 and GS007 assurance reports. We have checked that there were no instances of non-compliance over controls in place at the service provider.
- We assessed the reputation, professional competence and independence of the auditors of the ASAE 3402 and GS007 assurance reports.
- We checked the existence of investments, being the ownership and quantity held to external sources such as independent confirmations for derivative investments as at 30 June 2020.
- We checked the valuation of investments, as recorded in the general ledger, to independently sourced prices as at 30 June 2020.
- We evaluated the Scheme's disclosures of investments, using our understanding obtained from our testing, against the requirements of the accounting standards.



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: https://www.auasb.gov.au/admin/file/content102/c3/ar2_2020.pdf. This description forms part of our Auditor's Report.

KPMG

Nicholas Buchanan

Partner

Sydney

22 September 2020