

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 2016

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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 2016 and the auditor's report thereon.

Abbreviated Fund name	Referred to in this document as	Financial reporting period	ARSN
BetaShares Geared Australian Equity Fund (hedge fund)	Geared Australian Equity Fund	1 July 2015 to 30 June 2016	150 081 691
BetaShares U.S. Equities Strong Bear Hedge Fund - Currency Hedged	U.S. Equities Strong Bear Hedge Fund	1 July 2015 to 30 June 2016 (comparatives: 10 November 2014 to 30 June 2015)	602 663 918
BetaShares Geared U.S. Equity Fund - Currency Hedged (hedge fund)	Geared U.S. Equity Fund	1 July 2015 to 30 June 2016 (comparatives: 10 November 2014 to 30 June 2015)	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)
 Howard Atkinson (Appointed 2 March 2010, resigned 12 August 2015)
 Taeyong Lee (appointed 12 August 2015)
 Thomas Park (appointed 12 August 2015)

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 6 to the 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.

Directors' report (continued)

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2016 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 principal activity of each Fund is to invest in accordance with the investment objective and guidelines as set out in the Fund's current PDSs and its Constitution.

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 17 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 18 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 or nearest dollar, 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
27 September 2016



Alex Vynokur
Director



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

To: the directors of BetaShares Capital Limited, the Responsible Entity for the Schemes:

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2016, 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

Tanya Gilerman
Partner

Sydney

27 September 2016

Statements of comprehensive income

	Notes	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
		30 June 2016 ² \$'000	30 June 2015 ² \$'000	30 June 2016 ² \$'000	30 June 2015 ² \$'000	30 June 2016 ² \$ ¹	30 June 2015 ² \$ ¹
Investment income							
Dividend and distribution income	4	7,535	1,593	-	-	272,992	-
Interest income		-	-	300	-	83,698	-
Net gains/(losses) on financial instruments held at fair value through profit or loss	5	(3,401)	886	(7,097)	-	471,912	-
Foreign exchange gains/(losses)		-	-	206	-	128,637	-
Other operating income		16	1	-	-	1,215	-
Total net investment (losses)/income		4,150	2,480	(6,591)	-	958,454	-
Expenses							
Management fees	17	1,161	280	217	-	79,189	-
Expense recoveries	17	116	25	37	-	8,243	-
Transaction costs		24	2	7	-	2,180	-
Other operating expenses		-	-	-	-	25	-
Total operating expenses		1,301	307	261	-	89,637	-
Operating profit/(loss) before finance costs for the year		2,849	2,173	(6,852)	-	868,817	-
Finance costs attributable to unitholders							
Finance costs - interest expense		(2,517)	(661)	(61)	-	(120,075)	-
Distributions to unitholders	6	(3,984)	(936)	-	-	(59,089)	-
Change in net assets attributable to unitholders (total comprehensive income/(loss))	3	(3,652)	576	(6,913)	-	689,653	-

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

¹Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in Instrument 2016/191 to round to the nearest thousand dollar

²For each Fund's financial reporting period refer to Note 1

Statements of financial position

	Notes	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
		30 June 2016 ²	30 June 2015 ²	30 June 2016 ²	30 June 2015 ²	30 June 2016 ²	30 June 2015 ²
		\$'000	\$'000	\$'000	\$'000	\$ ¹	\$ ¹
Assets							
Cash and cash equivalents	7	-	-	63,674	-	5,156,416	-
Financial assets held at fair value through profit or loss	9	140,991	70,913	-	-	13,745,696	-
Receivables	10	1,415	400	67	-	13,826	-
Total assets		142,406	71,313	63,741	-	18,915,938	-
Liabilities							
Borrowings	11	74,029	40,507	14,092	-	13,177,353	-
Financial liabilities held at fair value through profit or loss	9	-	-	58	-	-	-
Due to brokers		69	-	-	-	-	-
Distributions payable	6	1,265	509	-	-	59,089	-
Interest payable	11	160	81	-	-	15,679	-
Other payables	12	234	42	57	-	9,801	-
Total liabilities (excluding net assets attributable to unitholders)		75,757	41,139	14,207	-	13,261,922	-
Net assets attributable to unitholders - liability	3	66,649	30,174	49,534	-	5,654,016	-

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

¹Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in Instrument 2016/191 to round to the nearest thousand dollar

²For each Fund's financial reporting period refer to Note 1

Statements of changes in equity

The Funds' net assets attributable to unitholders are classified as a liability under AASB 132 *Financial Instruments: Presentation*. As such, the Funds have no equities and no items of changes in equities have been presented for the current or comparative year.

Statements of cash flows

	Notes	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
		30 June 2016 ²	30 June 2015 ²	30 June 2016 ²	30 June 2015 ²	30 June 2016 ²	30 June 2015 ²
		\$'000	\$'000	\$'000	\$'000	\$ ¹	\$ ¹
Cash flows from operating activities							
Dividends received		6,596	1,283	-	-	272,992	-
Interest received		-	-	245	-	91,181	-
Other income received		16	-	-	-	1,215	-
Foreign exchange gains/losses		-	-	145	-	13,030	-
Management fees paid		(1,019)	(252)	(168)	-	(70,194)	-
Expense recoveries paid		(104)	(23)	(29)	-	(7,437)	-
Transactions cost paid		(24)	(2)	(7)	-	(2,180)	-
Other expenses paid		(37)	(7)	(12)	-	(5,656)	-
Proceeds from maturity/sales of financial instruments held at fair value through profit or loss		144,226	16,000	(7,038)	-	12,816,691	-
Purchase of financial instruments held at fair value through profit or loss		(217,635)	(76,786)	(1)	-	(26,090,474)	-
Net cash outflow from operating activities	8	(67,981)	(59,787)	(6,865)	-	(12,980,832)	-
Cash flows from financing activities							
Net proceeds of borrowings		33,522	35,083	14,092	-	13,177,353	-
Proceeds from applications by unitholders		86,435	32,479	56,447	-	9,641,579	-
Payments for redemptions by unitholders		(46,310)	(6,752)	-	-	(4,677,216)	-
Distributions paid		(3,228)	(427)	-	-	-	-
Interest paid on borrowings		(2,438)	(595)	(61)	-	(120,075)	-
Net cash inflow from financing activities		67,981	59,787	70,478	-	18,021,641	-
Net increase/(decrease) in cash and cash equivalents							
Cash and cash equivalents at the beginning of the year		-	-	63,613	-	5,040,809	-
Effect of exchange rate fluctuations in cash and cash equivalents		-	-	61	-	115,607	-
Cash and cash equivalents at the end of the year	7	-	-	63,674	-	5,156,416	-

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

¹Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in Instrument 2016/191 to round to the nearest thousand dollar

²For each Fund's financial reporting period refer to Note 1

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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.

Referred to in this document as	Registration date	Commencement date	Financial reporting period
Geared Australian Equity Fund	8 April 2011	30 April 2014	1 July 2015 to 30 June 2016
U.S. Equities Strong Bear Hedge Fund	10 November 2014	24 August 2015	1 July 2015 to 30 June 2016 (comparatives: 10 November 2014 to 30 June 2015)
Geared U.S. Equity Fund	10 November 2014	17 August 2015	1 July 2015 to 30 June 2016 (comparatives: 10 November 2014 to 30 June 2015)

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 27 September 2016. 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 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

The Funds make estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates 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.

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Use of estimates (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 IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interest in Other Entities and IAS 27 Separate Financial Statement. IFRS 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. Although all units attributable to unitholders are recognized as debt rather than equity, 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

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

(c) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 reporting period and have not been early adopted by the Funds. The directors' assessment of the impact of these new standards (to the extent relevant to the Funds) and interpretations is set out below:

2 Summary of significant accounting policies (continued)

(c) New standards and interpretations not yet adopted (continued)

- AASB 9 *Financial Instruments* (and applicable amendments) (effective from 1 January 2018)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting. The directors do not expect this to have a significant impact on the recognition and measurement of the Funds' financial instruments. The derecognition rules have not changed from the previous requirements, and the Funds do not apply hedge accounting. The Funds have not yet decided when to adopt AASB 9.

- AASB 15 *Revenue from Contracts with Customers* (effective from 1 January 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 Revenue which covers contracts for goods and services and AASB 111 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer - so the notion of control replaces the existing notion of risks and rewards.

The Funds' main sources of income are interest, dividends and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As consequence, the directors do not expect the adoption of the new revenue recognition rules to have a significant impact on the Funds' accounting policies or the amounts recognised in the financial statements.

There are no other standards that are not yet effective and that are expected to have a material impact on the Funds in the current or future reporting periods and on foreseeable future transactions.

(d) Financial instruments

(i) Classification

The Funds' investments are classified as financial assets or financial liabilities, and are recognised at fair value through profit or loss. They comprise:

- Financial instruments held for trading

These include futures. The Funds do not designate any derivatives as hedges in a hedging relationship.

- Financial instruments designated at fair value through profit or loss upon initial recognition

These include financial assets and financial liabilities such as equity instruments and unit trusts that are classified as not held for trading purposes and which may be sold.

Financial assets and financial liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Funds' documented investment strategies. The Funds' policy is for the Responsible Entity to evaluate the information about these financial assets on a fair value basis together with other related financial information.

(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

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

- *Financial assets and liabilities held at fair value through profit or loss*

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

2 Summary of significant accounting policies (continued)

(d) Financial instruments (continued)

(iii) Measurement (continued)

Subsequent to initial recognition, all financial assets and financial liabilities held at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the statements of comprehensive income within net gains/(losses) on financial instruments held 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 include the use of comparable recent at 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.

(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) and are accordingly therefore classified as financial liabilities. The units can be put back to the Funds at any time (subject to the *Corporations Act 2001* and the Funds' Constitutions) for cash and/or in-kind 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 period if unitholders exercised their right to redeem units in the Funds.

(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 is recognised in the statements of comprehensive income for all financial instruments that are not held at fair value through profit and loss using the effective interest method. Other changes in fair value for such instruments are recorded in accordance with the policies described in Note 2(d).

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 recognised gross of withholding tax in the statements of comprehensive income.

Distributions from listed managed investment funds are recognised as income on the date the unit is quoted ex-distribution with any related foreign withholding tax recognised as a tax expense.

2 Summary of significant accounting policies (continued)

(h) Expenses

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

(i) Income tax

Under current legislation, 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 comprehensive income as finance costs attributable to unitholders.

(k) Change in net assets attributable to unitholders

Income not distributed is included in the net assets attributable to unitholders. Movements in net assets attributable to unitholders are recognised in the statements of comprehensive income.

(l) 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 held at fair value through profit or loss.

(m) 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.

(n) 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

2 Summary of significant accounting policies (continued)

(n) Receivables (continued)

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.

(o) 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.

(p) 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.

(q) 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.

(r) 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.

(s) 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 or nearest dollar in accordance with that Instrument, unless otherwise indicated.

3 Net assets attributable to unitholders

As stipulated within the Funds' Constitutions, each unit represents a right to an individual share in the Funds and does not extend to a right to the underlying assets of the Funds. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Funds (subject to applicable ASIC relief).

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

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
Net assets attributable to unitholders	\$'000	\$'000	\$'000	\$'000	\$ ¹	\$ ¹
Opening balance	30,175	3,871	-	-	-	-
Applications	86,217	32,451	56,447	-	9,641,579	-
Redemptions	(46,309)	(6,752)	-	-	(4,677,216)	-
Units issued upon reinvestment of distributions	218	27	-	-	-	-
Change in net assets attributable to unitholders	(3,652)	576	(6,913)	-	689,653	-
Closing balance	66,649	30,175	49,534	-	5,654,016	-

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
Number of units:	'000	'000	'000	'000		
Opening balance	1,515	200	-	-	-	-
Applications	4,968	1,614	4,650	-	1,100,000	-
Redemptions	(2,700)	(300)	-	-	(500,000)	-
Units issued upon reinvestment of distributions	12	1	-	-	-	-
Change in net assets attributable to unitholders	-	-	-	-	-	-
Closing balance	3,795	1,515	4,650	-	600,000	-

Capital risk management

The Funds consider their net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders are classified as a liability. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders.

Daily applications and redemptions 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' Constitutions, the Responsible Entity has the discretion to reject an application for units and to extend the period allowed for satisfaction of redemption of units or reject or spread redemptions in specified circumstances.

4 Dividend and distribution income

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	\$'000	\$'000	\$'000	\$'000	\$ ¹	\$ ¹
Trust distribution	594	166	-	-	-	-
Dividend income	6,941	1,427	-	-	272,992	-
Total	7,535	1,593	-	-	272,992	-

¹Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in Instrument 2016/191 to round to the nearest thousand dollar

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

Net (losses)/gains recognised in relation to financial assets and financial liabilities held 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 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	\$'000	\$'000	\$'000	\$'000	\$ ¹	\$ ¹
Net unrealised gain/(loss) on financial instruments held at fair value through profit or loss	1,630	(214)	(59)	-	467,261	-
Net realised (loss)/gain on financial instruments held at fair value through profit or loss	(5,031)	1,099	(7,038)	-	4,651	-
Total net (losses)/gains on financial instruments held at fair value through profit or loss	(3,401)	886	(7,097)	-	471,912	-

6 Distributions to unitholders

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

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	\$'000	\$'000	\$'000	\$'000	\$ ¹	\$ ¹
Distributions						
Distribution paid - December	2,719	427	-	-	-	-
Distribution payable - June	1,265	509	-	-	59,089	-
Total Distribution	3,984	936	-	-	59,089	-

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	Cents per unit	Cents per unit	Cents per unit	Cents per unit	Cents per unit	Cents per unit
Distributions						
Distribution paid - December	61.15	38.74	-	-	-	-
Distribution payable - June	33.33	33.54	-	-	9.85	-
Total Distribution	94.48	72.28	-	-	9.85	-

7 Cash and cash equivalents

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	\$'000	\$'000	\$'000	\$'000	\$ ¹	\$ ¹
Cash and cash equivalents	-	-	63,674	-	5,156,416	-
	-	-	63,674	-	5,156,416	-

¹Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in Instrument 2016/191 to round to the nearest thousand dollar

8 Reconciliation of operating (loss)/profit 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 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$ ¹	30 June 2015 \$ ¹
Operating profit/(loss) for the year	2,849	2,173	(6,852)	-	868,817	-
Net (gains)/losses on financial instruments held at fair value through profit or loss	3,401	(886)	7,097	-	(471,912)	-
Purchase of financial instruments held at fair value through profit or loss	(217,635)	(76,786)	(1)	-	(26,090,474)	-
Proceeds from maturity/sales of financial instruments held at fair value through profit or loss	144,226	16,000	(7,038)	-	12,816,691	-
Gains on foreign exchange	-	-	(61)	-	(115,607)	-
Net change in receivables	(939)	(318)	(55)	-	7,482	-
Net change in payables and other liabilities	117	30	45	-	4,171	-
Net cash outflow from operating activities	(67,981)	(59,787)	(6,865)	-	(12,980,832)	-

Non-cash financing and investing activities

During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan

	218	27	-	-	-	-
	218	27	-	-	-	-

9 Financial assets and liabilities held 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 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$'000	30 June 2015 \$'000	30 June 2016 \$ ¹	30 June 2015 \$ ¹
Financial Assets						
Designated at fair value through profit or loss						
Listed equities	120,562	61,598	-	-	13,745,696	-
Listed unit trusts	20,429	9,315	-	-	-	-
Total financial assets held at fair value through profit or loss	140,991	70,913	-	-	13,745,696	-
Financial liabilities						
Designated at fair value through profit or loss						
Derivatives - futures	-	-	(58)	-	-	-
Total financial liabilities held at fair value through profit or loss	-	-	(58)	-	-	-

An overview of the risk exposures relating to financial assets and liabilities is included in note 13.

¹Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in Instrument 2016/191 to round to the nearest thousand dollar

10 Receivables

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	\$'000	\$'000	\$'000	\$'000	\$¹	\$ ¹
Dividends receivable	1,331	392	-	-	-	-
Interest receivable	-	-	55	-	8,196	-
GST receivable	84	8	12	-	5,630	-
Total receivables	1,415	400	67	-	13,826	-

11 Borrowings

The Funds each have 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. U.S. Equities Strong Bear Hedge Fund will not borrow for the purposes of leverage, it will use leverage as a central part of its investment strategy. It will do this through the use of S&P 500 futures to obtain a magnified (or "geared") short exposure to the returns of the U.S. share market (as measured by the S&P 500 index).

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.

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	\$'000	\$'000	\$'000	\$'000	\$¹	\$ ¹
Drawn borrowing	74,029	40,507	14,092	-	13,177,353	-
Interest payable	160	81	-	-	15,679	-
Average interest rate	2.83%	3.41%	0.93%	0.00%	1.00%	0.00%

The maximum gearing ratio that the Responsible Entity has adopted is 65%.

Amounts borrowed in Geared Australian Equity Fund are in Australian Dollars.

Amounts borrowed in U.S. Equities Strong Bear Hedge Fund and Geared U.S. Equity Fund are in US Dollars.

¹Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in Instrument 2016/191 to round to the nearest thousand dollar

12 Other payables

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	\$'000	\$'000	\$'000	\$'000	\$¹	\$ ¹
Management fees payable	181	39	49	-	8,995	-
Expense recoveries payable	15	3	8	-	806	-
Withholding tax payable	38	-	-	-	-	-
Total other payables	234	42	57	-	9,801	-

13 Financial risk management

(a) Objectives, strategies, policies and processes

The Funds are 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 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.

(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 maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

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

The amount is borrowed at a variable interest rate plus a margin.

¹Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in Instrument 2016/191 to round to the nearest thousand dollar

13 Financial risk management (continued)

(b) Market risk (continued)

(i) Price risk (continued)

Net assets attributable to unitholders include investments in equity securities and derivatives.

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.

Change in equity price	Effect on net profit attributable to unitholders					
	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
%	\$'000	\$'000	\$'000	\$'000	\$ ¹	\$ ¹
+10%	14,099	7,091	(13,068)	-	1,374,700	-
-10%	(14,099)	(7,091)	13,068	-	(1,374,700)	-

(ii) Foreign currency risk

The Funds hold monetary assets denominated in currencies other than the Australian dollar. Foreign exchange risk arises as the value of these financial assets 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.

The U.S Equity Strong Bear Hedge Fund holds S&P 500 futures contracts that are denominated in U.S. dollars, as such the Australian dollar value of the gains or losses on these positions is affected by exchange rate fluctuations. The Responsible Entity hedges such currency exposure with the objective of substantially offsetting the Fund's exposure to movements in the U.S. dollar. The Geared U.S. Equity Fund has exposure to the U.S. share market, but which is hedged to Australian dollars. 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 rise 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.

¹Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in Instrument 2016/191 to round to the nearest thousand dollar

13 Financial risk management (continued)

(b) Market risk (continued)

(iii) Interest rate risk (continued)

The Responsible Entity monitors the level of gearing on a daily basis and makes adjustments to ensure that the maximum gearing ratio is not intentionally exceeded. This means that the Fund should not be exposed to investment losses that exceed its value, except where the value of the Fund's share portfolio were to fall by more than 35% in one day (assuming the Fund was geared to its maximum anticipated level of gearing, being 65%, on such a day). In any event, investors are not exposed to the risk of paying "margin calls" in market downturns, as all gearing obligations are met within the Fund.

In connection with the Fund's loan arrangement, the Responsible Entity has granted security over the Fund's assets to the Prime Broker in the form of a charge. This means that the Prime Broker, as the loan provider, has certain rights, including the right to take possession of, and sell, the assets if the Fund defaults on the loan repayments or another event of default occurs.

Certain 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.

The Funds' exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates are as follows:

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	\$'000	\$'000	\$'000	\$'000	\$¹	\$¹
Cash balances which earn interest based on a floating interest rate	-	-	63,674	-	5,156,416	-
Loan balances that pay interest based on floating interest rate	(74,029)	(40,507)	(14,092)	-	(13,177,353)	-
<i>Sensitivity analysis</i>						
Interest rates 10% higher	(252)	(66)	24	-	(3,638)	-
Interest rates 10% lower	252	(66)	(24)	-	3,638	-

(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.

(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 2016 had a credit rating of BBB+.

(iii) Other

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

¹Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in Instrument 2016/191 to round to the nearest thousand dollar

13 Financial risk management (continued)

(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 Funds may, from time to time, 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 its liquidity requirements or to respond to specific events such as deterioration in the creditworthiness of any particular issuer to counterparty.

The tables below 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 table are the contractual undiscounted cash flows.

Geared Australian Equity Fund

At 30 June 2016

	On Demand \$'000	Less than 6 months \$'000	Greater than 6 months \$'000	Total \$'000
Distributions payable	-	1,265	-	1,265
Borrowings	74,029	-	-	74,029
Due to brokers	-	69	-	69
Interest payable	-	160	-	160
Other Payables	-	234	-	234
Net assets attributable to unitholders	66,649	-	-	66,649
Total financial liabilities	140,678	1,728	-	142,406

At 30 June 2015

	On Demand \$'000	Less than 6 months \$'000	Greater than 6 months \$'000	Total \$'000
Distributions payable	-	509	-	509
Borrowings	40,507	-	-	40,507
Interest payable	-	81	-	81
Other payables	-	42	-	42
Net assets attributable to unitholders	30,174	-	-	30,174
Total financial liabilities	70,681	632	-	71,312

13 Financial risk management (continued)

(d) Liquidity risk (continued)

U.S. Equities Strong Bear Hedge Fund

At 30 June 2016

Distributions payable	-	-	-	-
Borrowings	14,092	-	-	14,092
Interest payable	-	-	-	-
Other payables	-	57	-	57
Financial liabilities held at fair value through profit or loss	-	58	-	58
Net assets attributable to unitholders	49,534	-	-	49,534
Total financial liabilities	63,626	115	-	63,741

	On Demand	Less than 6 months	Greater than 6 months	Total
	\$'000	\$'000	\$'000	\$'000
Distributions payable	-	-	-	-
Borrowings	14,092	-	-	14,092
Interest payable	-	-	-	-
Other payables	-	57	-	57
Financial liabilities held at fair value through profit or loss	-	58	-	58
Net assets attributable to unitholders	49,534	-	-	49,534
Total financial liabilities	63,626	115	-	63,741

At 30 June 2015

Distributions payable	-	-	-	-
Borrowings	-	-	-	-
Interest payable	-	-	-	-
Other payables	-	-	-	-
Net assets attributable to unitholders	-	-	-	-
Total financial liabilities	-	-	-	-

	On Demand	Less than 6 months	Greater than 6 months	Total
	\$'000	\$'000	\$'000	\$'000
Distributions payable	-	-	-	-
Borrowings	-	-	-	-
Interest payable	-	-	-	-
Other payables	-	-	-	-
Net assets attributable to unitholders	-	-	-	-
Total financial liabilities	-	-	-	-

Geared U.S. Equity Fund

At 30 June 2016

Distributions payable	-	59,089	-	59,089
Borrowings	13,177,353	-	-	13,177,353
Interest payable	-	15,679	-	15,679
Other payables	-	9,801	-	9,801
Net assets attributable to unitholders	5,654,016	-	-	5,654,016
Total financial liabilities	18,831,369	84,569	-	18,915,938

	On Demand	Less than 6 months	Greater than 6 months	Total
	\$ ¹	\$ ¹	\$ ¹	\$ ¹
Distributions payable	-	59,089	-	59,089
Borrowings	13,177,353	-	-	13,177,353
Interest payable	-	15,679	-	15,679
Other payables	-	9,801	-	9,801
Net assets attributable to unitholders	5,654,016	-	-	5,654,016
Total financial liabilities	18,831,369	84,569	-	18,915,938

At 30 June 2015

Distributions payable	-	-	-	-
Borrowings	-	-	-	-
Interest payable	-	-	-	-
Other payables	-	-	-	-
Net assets attributable to unitholders	-	-	-	-
Total financial liabilities	-	-	-	-

	On Demand	Less than 6 months	Greater than 6 months	Total
	\$ ¹	\$ ¹	\$ ¹	\$ ¹
Distributions payable	-	-	-	-
Borrowings	-	-	-	-
Interest payable	-	-	-	-
Other payables	-	-	-	-
Net assets attributable to unitholders	-	-	-	-
Total financial liabilities	-	-	-	-

¹Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in Instrument 2016/191 to round to the nearest thousand dollar

14 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 held 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 current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Funds hold derivatives with offsetting risks, they use mid-market prices as a basis for establishing fair values for the offsetting risk positions and apply this bid or asking price to the net position, as appropriate.

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

(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.

14 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 2016 and 30 June 2015.

Geared Australian Equity Fund

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
At 30 June 2016				
Financial assets				
Financial assets designated at fair value through profit or loss				
Listed equities	140,991	-	-	140,991
Total assets	140,991	-	-	140,991
At 30 June 2015				
Financial assets				
Financial assets designated at fair value through profit or loss				
Listed equities	70,913	-	-	70,913
Total assets	70,913	-	-	70,913

U.S. Equities Strong Bear Hedge Fund

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
At 30 June 2016				
Financial assets				
Financial assets held for trading				
Derivatives - futures	(58)	-	-	(58)
Total assets	(58)	-	-	(58)
At 30 June 2015				
Financial assets				
Financial assets held for trading				
Derivatives - futures	-	-	-	-
Total assets	-	-	-	-

Geared U.S. Equity Fund

	Level 1	Level 2	Level 3	Total
	\$ ¹	\$ ¹	\$ ¹	\$ ¹
At 30 June 2016				
Financial assets				
Financial assets designated at fair value through profit or loss				
Listed equities	13,745,696	-	-	13,745,696
Total assets	13,745,696	-	-	13,745,696
At 30 June 2015				
Financial assets				
Financial assets designated at fair value through profit or loss				
Listed equities	-	-	-	-
Total assets	-	-	-	-

¹Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in Instrument 2016/191 to round to the nearest thousand dollar

14 Fair value measurements (continued)

Fair value estimation (continued)

(iv) *Transfers between levels*

There were no transfers between levels during the period ended 30 June 2016.

(v) *Movement in level 3 instruments*

There were no investments classified as level 3 within the Funds as at 30 June 2016.

(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 unit holders' 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.

15 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 table:

	Effects of offsetting on the statement of financial position			Related amounts not offset in the statement of financial position		
	Gross amounts of financial instrument	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
Geared Australian Equity Fund						
As at 30 June 2016						
Financial assets - listed equities	140,991	-	140,991	-	-	140,991
Financial liabilities - borrowings	(74,029)	-	(74,029)	-	-	(74,029)
Total	66,962	-	66,962	-	-	66,962
As at 30 June 2015						
Financial assets - listed equities	70,913	-	70,913	-	-	70,913
Financial liabilities - borrowings	(40,507)	-	(40,507)	-	-	(40,507)
Total	30,406	-	30,406	-	-	30,406

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. The relevant Funds does not presently have a legally enforceable right of set off, these amounts have not been offset in the balance sheet, but have been presented separately in the table above.

15 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 instruments	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
U.S. Equities Strong Bear Hedge Fund						
As at 30 June 2016						
Financial assets - futures	(58)	-	(58)	58	-	-
Financial liabilities - borrowings	(14,092)	-	(14,092)	-	63,674	49,582
Total	(14,150)	-	(14,150)	58	63,674	49,582
As at 30 June 2015						
Financial assets - futures	-	-	-	-	-	-
Total	-	-	-	-	-	-

	Effects of offsetting on the statement of financial position			Related amounts not offset in the statement of financial position		
	Gross amounts of financial instrument	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
	\$ ¹	\$ ¹	\$ ¹	\$ ¹	\$ ¹	\$ ¹
Geared U.S. Equity Fund						
As at 30 June 2016						
Financial assets - listed equities	13,745,696	-	13,745,696	-	-	13,745,696
Financial liabilities - borrowings	(13,177,353)	-	(13,177,353)	-	5,156,416	(8,020,937)
Total	568,343	-	568,343	-	5,156,416	5,724,759
As at 30 June 2015						
Financial assets - listed equities	-	-	-	-	-	-
Total	-	-	-	-	-	-

¹Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in Instrument 2016/191 to round to the nearest thousand dollar

16 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.

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	\$	\$	\$	\$	\$	\$
KPMG						
Audit and review assurance services						
Audit and review of financial reports	5,020	4,995	7,625	1,000	5,420	1,000
Audit of Compliance Plan	1,200	1,800	1,200	500	1,200	500
Total remuneration for audit and other assurance services	6,220	6,795	8,825	1,500	6,620	1,500

17 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:

Howard Atkinson (Appointed 2 March 2010, resigned 12 August 2015)
 Taeyong Lee (appointed 12 August 2015)
 Thomas Park (appointed 12 August 2015)

(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.

(c) Related party Funds' unitholdings

Parties related to the Funds (including BetaShares Capital Ltd and other schemes managed by BetaShares Capital Ltd), did not hold any units in the Funds for the year ended 30 June 2016 and 30 June 2015.

17 Related party transactions (continued)

(d) Key management personnel holdings

At 30 June 2016 no key management personnel of the Responsible Entity held units in the Funds (2015: nil).

(e) 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.

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

All related party transactions are conducted on normal commercial terms and conditions. The transactions during the year and amounts payable at year end between the Funds and the Responsible Entity were as follows:

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2016	30 June 2015	30 June 2016	30 June 2015	30 June 2016	30 June 2015
	\$	\$	\$	\$	\$	\$
Management fees expensed to the Responsible Entity	1,161,216	279,936	216,758	-	79,189	-
Management fees payable to the Responsible Entity as at the reporting date	180,915	39,129	48,786	-	8,995	-
Expense recoveries expensed to the Responsible Entity	116,261	25,335	37,368	-	8,243	-
Expense recoveries payable to the Responsible Entity as at the reporting date	14,669	3,173	7,789	-	806	-

18 Events occurring after the reporting year

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 2016 or on the results and cash flows of the Funds for the year ended on that date.

19 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2016 (2015: nil).

Directors' declaration

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

Geared Australian Equity Fund
U.S. Equities Strong Bear Hedge Fund
Geared U.S. Equity 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 31 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Funds' financial position as at 30 June 2016 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.

The directors draw attention to Note 2(a) of the financial report which contains a statement of compliance with International Reporting Standards.

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



David Nathanson
Director



Alex Vynokur
Director

Sydney
27 September 2016



Independent auditor's report to the unitholders of the following Schemes ("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)

Report on the financial report

We have audited the accompanying financial report of the Schemes, which comprises the statements of financial position as at 30 June 2016, the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year ended on that date, notes 1 to 19 comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of BetaShares Capital Limited ("the Responsible Entity") are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001*, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In note 2(a), the directors of the Responsible Entity also

state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

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

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



We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Scheme's financial position, and of their performance.

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of the Schemes is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Schemes' financial position as at 30 June 2016 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

- (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2(a).

KPMG

Tanya Gilerman

Partner

Sydney

27 September 2016