

**Booklet 6**

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

**ASX Code: GEAR**

ARSN 150 081 691

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

**ASX Code: BBUS**

ARSN 602 663 918

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

**ASX Code: GGUS**

ARSN 602 666 615

## **Condensed Interim Financial Report for the half-year ended 31 December 2017**

## Booklet 6

### Condensed Interim Financial Report For the half-year ended 31 December 2017

Contents	Page
Directors' report	2
Auditor's independence declaration	4
Condensed interim statements of comprehensive income	5
Condensed interim statements of financial position	6
Condensed interim statements of changes in equity	7
Condensed interim statements of cash flows	8
Notes to the condensed interim financial statements	9
Directors' declaration	17
Independent auditor's review report to the unitholders	18

#### **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 condensed interim financial report of the Funds for the half-year ended 31 December 2017 and the auditor's report thereon.

<b>Fund name</b>	<b>Referred to in this document as</b>	<b>Financial reporting period</b>	<b>ARSN</b>
BetaShares Geared Australian Equity Fund (hedge fund)	Geared Australian Equity Fund	1 July 2017 to 31 December 2017	150 081 691
BetaShares U.S. Equities Strong Bear Hedge Fund - Currency Hedged	U.S. Equities Strong Bear Hedge Fund	1 July 2017 to 31 December 2017	602 663 918
BetaShares Geared U.S. Equity Fund - Currency Hedged (hedge fund)	Geared U.S. Equity Fund	1 July 2017 to 31 December 2017	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 Funds are registered managed investment funds domiciled in Australia. They are exchange traded managed funds that are traded on the Australian Securities Exchange (ASX).

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 half-year.

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

#### **Directors**

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

David Nathanson (appointed 21 September 2009)  
Alex Vynokur (appointed 21 September 2009)  
Taeyong Lee (appointed 12 August 2015)  
Thomas Park (appointed 12 August 2015)

#### **Review and results of operations**

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

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

**Directors' report (continued)**

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

No matter or circumstance has arisen since 31 December 2017 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.

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

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

**Auditor's independence declaration**

A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 4.

This report is made in accordance with a resolution of the directors.



David Nathanson  
Director



Alex Vynokur  
Director

Sydney  
7 March 2018



# 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:

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

I declare that, to the best of my knowledge and belief, in relation to the review of the Schemes for the half-year ended 31 December 2017 there have been:

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

KPMG

KPMG

Tim Aman  
Partner  
Sydney  
7 March 2018

Condensed interim statements of comprehensive income

Notes	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	31 December 2017 \$'000	31 December 2016 \$'000	31 December 2017 \$'000	31 December 2016 \$'000	31 December 2017 \$'000	31 December 2016 \$'000
<b>Investment income</b>						
Dividend and distribution income	3,053	2,732	-	-	216	139
Interest income	-	-	413	342	62	37
Net gains/(losses) on financial instruments held at fair value through profit or loss	7,717	11,973	(16,482)	(10,392)	1,681	1,905
Net foreign exchange gains/(losses)	-	-	(89)	39	599	(771)
Other operating income	1	3	2	-	-	-
<b>Total net investment income/(losses)</b>	<b>10,771</b>	<b>14,708</b>	<b>(16,156)</b>	<b>(10,011)</b>	<b>2,558</b>	<b>1,310</b>
<b>Expenses</b>						
Management fees	501	484	371	313	79	45
Expense recoveries	41	39	59	50	7	4
Transaction costs	1	6	14	16	-	1
Other operating expenses	5	9	4	9	2	2
<b>Total operating expenses</b>	<b>548</b>	<b>538</b>	<b>448</b>	<b>388</b>	<b>88</b>	<b>52</b>
<b>Operating profit/(loss) before finance costs for the half-year</b>	<b>10,223</b>	<b>14,170</b>	<b>(16,604)</b>	<b>(10,399)</b>	<b>2,470</b>	<b>1,258</b>
<b>Finance costs attributable to unitholders</b>						
Finance costs - interest expense	(885)	(912)	(98)	(81)	(224)	(81)
Distributions to unitholders	(2,742)	(2,741)	-	-	-	-
<b>Change in net assets attributable to unitholders (total comprehensive income/(loss))</b>	<b>6,596</b>	<b>10,517</b>	<b>(16,702)</b>	<b>(10,480)</b>	<b>2,246</b>	<b>1,177</b>

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

Condensed interim statements of financial position

	Notes	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
		31 December 2017 \$'000	30 June 2017 \$'000	31 December 2017 \$'000	30 June 2017 \$'000	31 December 2017 \$'000	30 June 2017 \$'000
<b>Assets</b>							
Cash and cash equivalents		-	-	56,970	58,318	13,700	8,696
Financial assets held at fair value through profit or loss	5	123,561	138,967	-	321	29,472	21,162
Receivables		262	911	95	77	20	11
<b>Total assets</b>		<b>123,823</b>	<b>139,878</b>	<b>57,065</b>	<b>58,716</b>	<b>43,192</b>	<b>29,869</b>
<b>Liabilities</b>							
Borrowings	7	62,841	76,385	-	-	28,877	20,804
Due to brokers		197	76	-	-	-	-
Financial liabilities held at fair value through profit or loss	5	-	-	413	-	-	-
Distributions payable	4	2,742	1,182	-	-	-	69
Interest payable	7	129	138	18	19	51	29
Other payables		81	84	67	65	18	13
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>65,990</b>	<b>77,865</b>	<b>498</b>	<b>84</b>	<b>28,946</b>	<b>20,915</b>
<b>Net assets attributable to unitholders - liability</b>	3	<b>57,833</b>	<b>62,013</b>	<b>56,567</b>	<b>58,632</b>	<b>14,246</b>	<b>8,954</b>

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

**Condensed interim 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 half-year or comparative period.



Condensed interim statements of cash flows

	<b>Geared Australian Equity Fund</b>		<b>U.S. Equities Strong Bear Hedge Fund</b>		<b>Geared U.S. Equity Fund</b>	
	<b>31 December 2017</b>	31 December 2016	<b>31 December 2017</b>	31 December 2016	<b>31 December 2017</b>	31 December 2016
	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000	<b>\$'000</b>	\$'000
<b>Cash flows from operating activities</b>						
Proceeds from maturity/sales of financial instruments held at fair value through profit or loss	49,165	63,678	-	-	-	4,647
Payments for maturity/purchase of financial instruments held at fair value through profit or loss	(25,921)	(43,689)	(15,748)	(11,368)	(6,629)	(9,114)
Dividend and distributions received	3,703	3,778	-	-	216	139
Interest received	-	-	413	352	57	36
Other operating income received	1	72	2	-	-	4
Realised Foreign exchange gains/(losses)	-	-	(148)	101	48	-
Management fees paid	(504)	(502)	(369)	(373)	(74)	(42)
Expense recoveries paid	(41)	(50)	(59)	-	(7)	(6)
Transactions cost paid	(1)	(6)	(14)	(16)	-	(1)
Other operating expenses paid	(6)	(38)	(22)	(2)	(6)	-
<b>Net cash inflow/(outflow) from operating activities</b>	<b>26,396</b>	23,243	<b>(15,945)</b>	(11,306)	<b>(6,395)</b>	(4,337)
<b>Cash flows from financing activities</b>						
Net proceeds/(payments) from/to borrowings	(13,544)	(1,339)	-	-	8,073	7,218
Proceeds from applications by unitholders	11,369	7,605	19,687	12,464	3,046	3,981
Payments for redemptions by unitholders	(22,231)	(27,403)	(5,050)	(3,568)	-	(2,028)
Distributions paid	(1,096)	(1,184)	-	-	(69)	(59)
Interest paid	(894)	(922)	(99)	(77)	(202)	(74)
<b>Net cash inflow/(outflow) from financing activities</b>	<b>(26,396)</b>	(23,243)	<b>14,538</b>	8,819	<b>10,848</b>	9,038
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>-</b>	-	<b>(1,407)</b>	(2,487)	<b>4,453</b>	4,701
Cash and cash equivalents at the beginning of the half-year	-	-	58,318	49,582	8,696	5,156
Effects of foreign currency exchange rate changes on cash and cash equivalents	-	-	59	(62)	551	(771)
<b>Cash and cash equivalents at the end of the half-year</b>	<b>-</b>	-	<b>56,970</b>	47,033	<b>13,700</b>	9,086
Non-cash financing activities	86	81	-	-	-	-

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

**1 General information**

These condensed interim 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 2017 to 31 December 2017
U.S. Equities Strong Bear Hedge Fund	10 November 2014	24 August 2015	1 July 2017 to 31 December 2017
Geared U.S. Equity Fund	10 November 2014	17 August 2015	1 July 2017 to 31 December 2017

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 condensed interim financial statements were authorised for issue by the directors of the Responsible Entity on 7 March 2018. 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 condensed interim financial statements are set out below. These policies have been consistently applied to all periods presented.

**(a) Basis of preparation**

These general purpose condensed interim financial statements for the half-year ended 31 December 2017 have been prepared in accordance with accounting standard AASB 134 *Interim Financial Reporting*, other authoritative pronouncements of the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001* in Australia.

These condensed interim financial statements do not include all the information of the type normally included in annual financial statements. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2017 and any continuous disclosure requirements of the *Corporations Act 2001*.

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

The condensed interim financial statements are prepared based on an accruals concept, which requires income and expenses to be recorded as earned or incurred and not as received or paid through out the half-year. It is prepared on the basis of fair value measurement of assets and liabilities except otherwise stated. The condensed interim financial statements are presented in Australian dollars, which is the Fund's functional currency rounded to the nearest thousand.

## 2 Summary of significant accounting policies (continued)

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

#### *Use of estimates and judgements*

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.

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.

### (b) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 31 December 2017 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:

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

AASB9: Financial instruments and applicable amendments (effective from 1 January 2018) was available for early adoption but has not been applied in these financial statements. AASB 9 replaces existing guidance on classification and measurements of financial assets and introduces additions relating to the classification and measurement of financial liabilities as part of the project to replace AASB 139: Financial instruments. It has also introduced new hedge accounting requirements and revised certain requirements of financial assets. AASB 9 becomes mandatory for the Fund's 30 June 2019 financial statements. Retrospective application of the standard is required.

The Responsible entity does not expect the standard to have a significant impact on the recognition and measurement of the Fund's financial instruments as they are held at fair value through profit and loss. The de-recognition rules have not been changed from previous requirements and the Fund does not apply hedge accounting.

#### (ii) 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, distributions and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a 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.

### 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:

Net assets attributable to unitholders	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	31 December 2017 \$'000	31 December 2016 \$'000	31 December 2017 \$'000	31 December 2016 \$'000	31 December 2017 \$'000	31 December 2016 \$'000
Opening balance	62,013	66,649	58,632	49,534	8,954	6,274
Applications	11,369	7,605	19,687	12,464	3,046	7,349
Redemptions	(22,231)	(27,403)	(5,050)	(3,568)	-	(6,706)
Units issued upon reinvestment of distributions	86	81	-	-	-	-
Change in net assets attributable to unitholders	6,596	10,517	(16,702)	(10,480)	2,246	1,177
<b>Closing balance</b>	<b>57,833</b>	<b>57,449</b>	<b>56,567</b>	<b>47,950</b>	<b>14,246</b>	<b>8,094</b>

  

Number of units:	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	31 December 2017 '000	31 December 2016 '000	31 December 2017 '000	31 December 2016 '000	31 December 2017 '000	31 December 2016 '000
Opening balance	2,970	3,795	8,325	4,650	700	700
Applications	527	431	2,925	1,275	200	800
Redemptions	(1,000)	(1,400)	(900)	(375)	-	(700)
Units issued upon reinvestment of distributions	4	5	-	-	-	-
<b>Closing balance</b>	<b>2,501</b>	<b>2,831</b>	<b>10,350</b>	<b>5,550</b>	<b>900</b>	<b>800</b>

#### 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 Distributions to unitholders**

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

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	31 December 2017 \$'000	31 December 2016 \$'000	31 December 2017 \$'000	31 December 2016 \$'000	31 December 2017 \$'000	31 December 2016 \$'000
<b>Distributions</b>						
Distribution payable - December	2,742	2,741	-	-	-	-
<b>Total distributions</b>	<b>2,742</b>	<b>2,741</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**Distributions**  
Distribution payable - December  
**Total distributions**

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	31 December 2017 Cents per unit	31 December 2016 Cents per unit	31 December 2017 Cents per unit	31 December 2016 Cents per unit	31 December 2017 Cents per unit	31 December 2016 Cents per unit
<b>Distributions</b>						
Distribution payable - December	109.61	96.84	-	-	-	-
<b>Total distributions</b>	<b>109.61</b>	<b>96.84</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

**5 Financial instruments held at fair value through profit or loss**

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	31 December 2017 \$'000	30 June 2017 \$'000	31 December 2017 \$'000	30 June 2017 \$'000	31 December 2017 \$'000	30 June 2017 \$'000
<b>Financial assets</b>						
<b>Designated at fair value through profit or loss</b>						
Listed securities	123,561	138,967	-	-	29,472	21,162
<b>Held for trading</b>						
Derivatives - futures	-	-	-	321	-	-
<b>Total financial assets held at fair value through profit or loss</b>	<b>123,561</b>	<b>138,967</b>	<b>-</b>	<b>321</b>	<b>29,472</b>	<b>21,162</b>
<b>Financial liabilities</b>						
<b>Held for trading</b>						
Derivatives - futures	-	-	413	-	-	-
<b>Total financial liabilities held at fair value through profit or loss</b>	<b>-</b>	<b>-</b>	<b>413</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 6 Fair value measurements

AASB 13 *Fair Value Measurement* 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 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 the 30 June 2017 financial statements. 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.

**6 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 31 December 2017 and 30 June 2017.

**Geared Australian Equity Fund**

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
<b>At 31 December 2017</b>				
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss				
Listed securities	123,561	-	-	123,561
<b>Total assets</b>	<b>123,561</b>	<b>-</b>	<b>-</b>	<b>123,561</b>
<b>At 30 June 2017</b>				
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss				
Listed securities	138,967	-	-	138,967
<b>Total assets</b>	<b>138,967</b>	<b>-</b>	<b>-</b>	<b>138,967</b>

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

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
<b>At 31 December 2017</b>				
<b>Financial liabilities held for trading</b>				
Financial liabilities held for trading				
Derivatives - futures	413	-	-	413
<b>Total liabilities</b>	<b>413</b>	<b>-</b>	<b>-</b>	<b>413</b>
<b>At 30 June 2017</b>				
<b>Financial assets</b>				
Financial assets held for trading				
Derivatives - futures	321	-	-	321
<b>Total assets</b>	<b>321</b>	<b>-</b>	<b>-</b>	<b>321</b>

**Geared U.S. Equity Fund**

	Level 1	Level 2	Level 3	Total
	\$'000	\$'000	\$'000	\$'000
<b>At 31 December 2017</b>				
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss				
Listed securities	29,472	-	-	29,472
<b>Total assets</b>	<b>29,472</b>	<b>-</b>	<b>-</b>	<b>29,472</b>
<b>At 30 June 2017</b>				
<b>Financial assets</b>				
Financial assets designated at fair value through profit or loss				
Listed securities	21,162	-	-	21,162
<b>Total assets</b>	<b>21,162</b>	<b>-</b>	<b>-</b>	<b>21,162</b>

**6 Fair value measurements (continued)**

**Fair value estimation (continued)**

(iv) *Transfers between levels*

There were no transfers between levels during the half-year ended 31 December 2017 and the year ended 30 June 2017.

(v) *Movement in level 3 instruments*

There were no investments classified as level 3 within the Funds as at 31 December 2017 and 30 June 2017.

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

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

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

**7 Borrowings**

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

As security for the performance of its obligations under the prime brokerage agreement in relation to each Fund, the Responsible Entity has granted a charge to Deutsche Bank AG over the relevant Fund's assets held by Deutsche Bank AG. Deutsche Bank AG, as the loan provider, has certain rights, including the right to take possession of, and in relation to each Fund, sell the relevant Fund's assets if an event of default occurs in relation to the Fund. An event of default includes (i) failure by the Fund to make any repayment under the loan when due (ii) breach of a material term of the prime brokerage agreement that is not remedied within three business days after receiving notice of the breach (iii) insolvency of the Fund (iv) the Responsibility 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		Geared U.S. Equity Fund	
	31 December 2017	30 June 2017	31 December 2017	30 June 2017
	\$'000	\$'000	\$'000	\$'000
Drawn borrowing	62,841	76,385	28,877	20,804
Interest payable	129	138	51	29
Average interest rate	2.56%	2.46%	2.38%	1.32%

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

Amounts borrowed in Geared U.S. Equity Fund are in US Dollars.



**8 Events occurring after the reporting period**

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Funds disclosed in the statements of financial position as at 31 December 2017 or on the results and cash flows of the Funds for the half-year ended on that date.

**9 Related party transactions**

There have been no significant changes to the related party transactions disclosed in the previous annual report.

All transactions with related parties are conducted on normal terms and conditions. From time to time the Responsible Entity or its director-related entities may invest or withdraw from the Funds. These investments or withdrawals are on the same terms and conditions as those entered into by other fund investors and are trivial and domestic in nature.

**10 Contingent assets and liabilities and commitments**

There are no outstanding contingent assets and liabilities or commitments as at 31 December 2017 and 30 June 2017.

**Directors' declaration**

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

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

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

- (a) the financial statements and notes set out on pages 5 to 16 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001*; and
  - (ii) giving a true and fair view of the Funds' financial position as at 31 December 2017 and of their performance for the financial period 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.

This declaration is made in accordance with a resolution of the directors of BetaShares Capital Ltd.



David Nathanson  
Director



Alex Vynokur  
Director

Sydney  
7 March 2018



## Independent Auditor's Review Report

To the respective unitholders of the following Schemes (the "Schemes"):

BetaShares Geared Australian Equity Fund (hedge fund)

BetaShares U.S. Equities Strong Bear Hedge – Currency Hedged

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

### Conclusion

We have reviewed the accompanying **Condensed Interim Financial Reports** of the Schemes.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Condensed Interim Financial Reports of the Schemes are not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Schemes' financial position as at 31 December 2017 and of their performance for the half-year ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The **Condensed Interim Financial Reports** comprise:

- Condensed interim statements of financial position as at 31 December 2017;
- Condensed interim statements of comprehensive income, Condensed interim statements of changes in equity and Condensed interim statements of cash flows for the half-year ended on that date;

- Notes 1 to 10 comprising a summary of significant accounting policies and other explanatory information; and
- The Directors' Declaration.

### Responsibilities of the Directors for the Condensed Interim Financial Reports

The Directors of the Schemes are responsible for:

- the preparation of the Condensed Interim Financial Reports that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- for such internal control as the Directors determine is necessary to enable the preparation of the Condensed Interim Financial Reports that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility for the review of the Condensed Interim Financial Reports

Our responsibility is to express a conclusion on the Condensed Interim Financial Reports based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Condensed Interim Financial Reports are not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Schemes' financial position as at 31 December 2017 and their performance for the half-year period ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of the Schemes, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.



A review of a Condensed Interim Period Financial Reports consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

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

*KPMG*

KPMG

A handwritten signature in blue ink, appearing to read 'Tim Aman', written over a horizontal line.

Tim Aman

Partner

Sydney

7 March 2018