



BetaShares

Exchange Traded Funds

26 September 2018

Market Announcements Office
ASX Limited

To be released for each of the ASX codes listed below

ANNUAL FINANCIAL REPORT 2018

BetaShares Capital Ltd, the issuer of each of the following Funds, is pleased to provide the Annual Financial Report in respect of the Funds for the period ending 30 June 2018.

ASX Code	Fund
GEAR	BetaShares Geared Australian Equity Fund (hedge fund)
BBUS	BetaShares U.S. Equities Strong Bear Hedge Fund-Currency Hedged
GGUS	BetaShares Geared U.S. Equity Fund-Currency Hedged (hedge fund)

Further information about the Funds can be obtained at www.betashares.com.au or by contacting BetaShares Client Services on 1300 487 577.

IMPORTANT INFORMATION: This information has been prepared by BetaShares Capital Ltd (ACN 139 566 868 AFS Licence 341181) ("BetaShares") the issuer of the Funds. It is general information only and does not take into account any person's objectives, financial situation or needs. The information does not constitute an offer of, or an invitation to purchase or subscribe for securities. You should read the relevant PDS and ASX announcements and seek professional legal, financial, taxation, and/or other professional advice before making an investment decision regarding any BetaShares Funds. For a copy of the PDS and more information about BetaShares Funds go to www.betashares.com.au or call 1300 487 577.

Units in BetaShares Funds trade on the ASX at market prices, not at NAV. An investment in any BetaShares Fund is subject to investment risk including possible delays in repayment and loss of income and principal invested. Neither BetaShares Capital Ltd nor BetaShares Holdings Pty Ltd guarantees the performance of any Fund or the repayment of capital or any particular rate of return. Past performance is not an indication of future performance. BetaShares® and Back Your View® are registered trademarks of BetaShares Holdings Pty Ltd.

Booklet 6

BetaShares Geared Australian Equity Fund (hedge fund)

ASX Code: GEAR

ARSN 150 081 691

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

ASX Code: BBUS

ARSN 602 663 918

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

ASX Code: GGUS

ARSN 602 666 615

Annual Financial Report - 30 June 2018

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 2018

Contents

	Page
Directors' report	2
Auditor's independence declaration	5
Statements of comprehensive income	6
Statements of financial position	7
Statements of changes in equity	8
Statements of cash flows	9
Contents of the notes to the financial statements	10
Notes to the financial statements	11
Directors' declaration	33
Independent auditor's report to the unitholders	34

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 2018 and the auditor's report thereon.

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 2017 to 30 June 2018	150 081 691
BetaShares U.S. Equities Strong Bear Hedge Fund - Currency Hedged	U.S. Equities Strong Bear Hedge Fund	1 July 2017 to 30 June 2018	602 663 918
BetaShares Geared U.S. Equity Fund - Currency Hedged (hedge fund)	Geared U.S. Equity Fund	1 July 2017 to 30 June 2018	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 year.

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

Directors

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

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

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.

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 5 to the financial statements.

Directors' report (continued)

Matters subsequent to the end of the financial year

The Responsible Entity has elected into the Attribution Managed Investment Trust ('AMIT') regime for the Funds for the year ending 30 June 2019 and subsequent years. Under the AMIT regime the units in the Funds will be reclassified from financial liability to equity from 1 July 2018.

Since the end of reporting period Geared U.S. Equity Fund's net asset value has changed by more than 10% due to changes in the fair value of investments held. The movement is a result from implementation of the investment strategy as set out in the relevant Fund's product disclosure statement. More specifically the net asset value changed by an increase of 16.15%.

Since the end of reporting period U.S. Equities Strong Bear Hedge Fund's net asset value has changed by more than 10% due to changes in the fair value of investments held. The movement is a result from implementation of the investment strategy as set out in the relevant Fund's product disclosure statement. More specifically the net asset value changed by a decrease of 13.56%.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect:

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

Likely developments, risk management and expected results of operations

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

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

Indemnification and insurance of officers and auditors

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

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

Fees paid to the Responsible Entity and its associates out of Funds' property during the year are disclosed in Note 14 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 14 of the financial statements.

Interests in the Funds

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

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

Environmental regulation

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

Directors' report (continued)

Rounding of amounts to the nearest thousand dollars

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

Auditor's independence declaration


A copy of the Auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 5.

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



David Nathanson
Director

Sydney
17 September 2018



Alex Vynokur
Director



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

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

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

I declare that, to the best of my knowledge and belief, in relation to the audit of the Schemes for the financial year ended 30 June 2018 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

Michael O Connell
Partner
Sydney

17 September 2018

Statements of comprehensive income	Notes	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
		30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000
Investment income							
Dividend/distribution income		6,352	5,210	-	-	596	278
Interest income		-	-	791	681	181	83
Net gains/(losses) on financial instruments held at fair value through profit or loss	4	12,310	14,091	(19,568)	(20,712)	5,141	2,103
Net foreign exchange gains/(losses)		-	-	(240)	152	(2,601)	210
Other operating income		10	5	8	-	2	-
Total net investment income/(losses)		18,672	19,306	(19,009)	(19,879)	3,319	2,674
Expenses							
Management fees	14	1,052	917	732	626	246	101
Expense recoveries	14	86	74	117	100	21	9
Transaction costs		8	7	27	29	2	1
Other operating expenses		7	17	3	17	1	3
Total operating expenses		1,153	1,015	879	772	270	114
Operating profit/(loss) before finance costs for the year		17,519	18,291	(19,888)	(20,651)	3,049	2,560
Finance costs attributable to unitholders		(1,913)	(1,683)	(221)	(175)	(811)	(208)
Finance costs - interest expense		(4,420)	(3,923)	-	-	(132)	(69)
Distributions to unitholders	5						
Change in net assets attributable to unitholders (total comprehensive income/(loss))	3	11,186	12,685	(20,109)	(20,826)	2,106	2,283

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

Statements of financial position

	Notes	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
		30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000	30 June 2018 \$'000	30 June 2017 \$'000
Assets							
Cash and cash equivalents		-	-	66,198	66,890	17,115	8,696
Financial assets held at fair value through profit or loss	7	151,896	138,967	3,041	321	45,860	21,162
Receivables		1,275	911	71	77	208	11
Total assets		153,171	139,878	69,310	67,288	63,183	29,869
Liabilities							
Borrowings	8	77,875	76,385	9,730	8,572	45,478	20,804
Due to brokers		27	76	-	-	-	-
Distributions payable	5	1,681	1,182	-	-	132	69
Interest payable	8	175	138	28	19	114	29
Other payables		205	84	132	65	65	13
Total liabilities (excluding net assets attributable to unitholders)		79,963	77,865	9,890	8,656	45,789	20,915
Net assets attributable to unitholders - liability	3	73,208	62,013	59,420	58,632	17,394	8,954

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

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 equity and no items of changes in equities have been presented for the current or comparative year.

Statements of cash flows	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Cash flows from operating activities						
Proceeds from maturity/sales of financial instruments held at fair value through profit or loss	71,747	117,384	-	3	16,264	12,174
Payments for maturity/purchase of financial instruments held at fair value through profit or loss	(72,415)	(101,282)	(22,288)	(21,094)	(35,821)	(17,487)
Dividends/distributions received	5,986	5,647	-	-	413	278
Interest received	-	-	795	673	170	82
Other operating income received	12	72	10	-	2	4
Realised foreign exchange gains/(losses)	-	-	(167)	239	186	(117)
Management fees paid	(940)	(1,020)	(674)	(619)	(198)	(98)
Expense recoveries paid	(77)	(83)	(108)	(99)	(17)	(9)
Transactions cost paid	(8)	(7)	(27)	(29)	(2)	(1)
Other expenses paid	(7)	(55)	(3)	(19)	(4)	(3)
Net cash inflow/(outflow) from operating activities	4,298	20,676	(22,462)	(20,945)	(19,007)	(5,177)
Cash flows from financing activities						
Net proceeds/(payments) from/to borrowings	1,490	2,356	1,158	(5,520)	24,674	7,627
Proceeds from applications by unitholders	31,343	33,673	39,804	33,492	12,715	6,454
Payments for redemptions by unitholders	(31,726)	(51,337)	(18,907)	(3,566)	(6,381)	(5,437)
Distributions paid	(3,529)	(3,663)	-	-	(69)	(59)
Interest paid on borrowings	(1,876)	(1,705)	(212)	(156)	(726)	(195)
Net cash inflow/(outflow) from financing activities	(4,298)	(20,676)	21,843	24,248	30,213	8,390
Net increase/(decrease) in cash and cash equivalents	-	-	(619)	3,303	11,206	3,213
Cash and cash equivalents at the beginning of the year	-	-	66,890	63,674	8,696	5,156
Effects of foreign currency exchange rate changes on cash and cash equivalents	-	-	(73)	(87)	(2,787)	327
Cash and cash equivalents at the end of the year	-	-	66,198	66,890	17,115	8,696
Non-cash financing activities	392	343	-	-	-	-

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

	Page
Contents of the notes to the financial statements	
1 General information	11
2 Summary of significant accounting policies	11
3 Net assets attributable to unitholders	17
4 Net gains/(losses) on financial instruments held at fair value through profit or loss	18
5 Distributions to unitholders	18
6 Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities	19
7 Financial instruments held at fair value through profit or loss	19
8 Borrowings	20
9 Financial risk management	20
10 Fair value measurements	26
11 Offsetting financial assets and liabilities	28
12 Derivative financial instruments	30
13 Auditor's remuneration	30
14 Related party transactions	31
15 Events occurring after the reporting year	32
16 Contingent assets and liabilities and commitments	32

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 2017 to 30 June 2018
U.S. Equities Strong Bear Hedge Fund	10 November 2014	24 August 2015	1 July 2017 to 30 June 2018
Geared U.S. Equity Fund	10 November 2014	17 August 2015	1 July 2017 to 30 June 2018

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

The financial statements were authorised for issue by the directors of the Responsible Entity on 17 September 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 financial statements are set out below. These policies have been consistently applied to all years presented.

(a) Basis of preparation

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

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

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

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

Compliance with International Financial Reporting Standards (IFRS)

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

Use of estimates and judgement

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 and judgement (continued)

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

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

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

Investment entity exception

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

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

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

In making the above assessments, the Funds have multiple investments and multiple investors. Their investors are generally unrelated parties of the Funds. 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 year.

2 Summary of significant accounting policies (continued)

(c) New accounting standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2018 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) (applicable from 1 July 2018)

AASB 9 *Financial Instruments* 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 Funds' 30 June 2019 financial statements. Retrospective application of the standard is required.

The directors of the Responsible Entity have made an assessment and determined that the standard will not have a significant impact on the recognition and measurement of the Funds' 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 Funds do not apply hedge accounting.

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

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 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 dividends and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a consequence, management has assessed the impact and determined that adoption of the new revenue recognition rules will not 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 date.

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

(iii) Measurement

- *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 bid 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 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 2007* 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

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.

(l) 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 fair value.

2 Summary of significant accounting policies (continued)

(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 in accordance with that Instrument, unless otherwise indicated.

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

Net gains/(losses) 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 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
	-	-	-	-	-	-
	12,310	14,091	(19,568)	(20,712)	5,141	2,103
Total net gains/(losses) on financial instruments held at fair value through profit or loss	12,310	14,091	(19,568)	(20,712)	5,141	2,103

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

5 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 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Distributions						
Distribution paid - December	2,742	2,741	-	-	-	-
Distribution payable - June	1,678	1,182	-	-	132	69
Total distributions	4,420	3,923	-	-	132	69

Distributions
Distribution paid - December
Distribution payable - June
Total distributions

	Geared Australian		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	Cents per unit	Cents per unit	Cents per unit	Cents per unit	Cents per unit	Cents per unit
	109.61	96.84	-	-	-	-
	55.26	39.79	-	-	12.01	9.92
Total distributions	164.87	136.63	-	-	12.01	9.92

Distributions
Distribution paid - December
Distribution payable - June
Total distributions

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

	Geared Australian Equity Fund		U.S. Equities Strong Bear Hedge Fund		Geared U.S. Equity Fund	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
(a) Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities						
Operating profit/(loss) for the year	17,519	18,291	(19,888)	(20,651)	3,049	2,560
Net (gains)/losses on financial instruments held at fair value through profit or loss	(12,310)	(14,091)	19,568	20,712	(5,141)	(2,103)
Payments for maturity/purchase of financial instruments held at fair value through profit or loss	(72,415)	(101,262)	(22,288)	(21,094)	(85,821)	(17,487)
Proceeds from maturity/sales of financial instruments held at fair value through profit or loss	71,747	117,384	-	3	16,264	12,174
Net gains/(losses) on foreign exchange	-	-	73	87	2,787	(327)
Net change in receivables and other assets	(364)	504	6	(10)	(197)	3
Net change in payables and other liabilities	121	(150)	67	8	52	3
Net cash inflow/(outflow) from operating activities	4,298	20,676	(22,462)	(20,945)	(19,007)	(5,177)
(b) 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	392	343	-	-	-	-
	392	343	-	-	-	-

7 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	
	30 June 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial Assets						
Held for trading	-	-	-	-	-	-
Derivatives - futures	-	-	3,041	321	-	-
Total held for trading	-	-	3,041	321	-	-
Designated at fair value through profit or loss						
Listed securities	151,896	138,967	-	-	45,860	21,162
Total financial assets held at fair value through profit or loss	151,896	138,967	3,041	321	45,860	21,162

An overview of the risk exposures relating to financial assets and liabilities is included in Note 9.

8 Borrowings

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

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

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

(b) Market risk

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

(i) Price risk

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

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

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

9 Financial risk management (continued)

(b) Market risk (continued)

Sensitivity analysis

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

	Effect on net profit attributable to unitholders	
	30 June 2018	30 June 2017
	<u>Geared Australian Equity Fund</u>	
	\$'000	\$'000
+10% Price movement - Impact on the Fund's operating profit/(loss) and net assets attributable to unitholders	14,840	13,897
-10% Price movement - Impact on the Fund's operating profit/(loss) and net assets attributable to unitholders	(14,840)	(13,897)
	<u>U.S. Equities Strong Bear Hedge Fund</u>	
	30 June 2018	30 June 2017
	\$'000	\$'000
+10% Price movement - Impact on the Fund's operating profit/(loss) and net assets attributable to unitholders	(12,835)	(14,140)
-10% Price movement - Impact on the Fund's operating profit/(loss) and net assets attributable to unitholders	12,836	14,140
	<u>Geared U.S. Equity Fund</u>	
	30 June 2018	30 June 2017
	\$'000	\$'000
+10% Price movement - Impact on the Fund's operating profit/(loss) and net assets attributable to unitholders	4,551	2,116
-10% Price movement - Impact on the Fund's operating profit/(loss) and net assets attributable to unitholders	(4,551)	(2,116)

(f) *Foreign currency risk*

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

BetaShares Geared Australian Equity Fund (hedge fund) is not exposed to significant risks from movements in foreign exchange rates as the Fund has no financial assets or liabilities denominated in foreign currencies. U.S. Equities Strong Bear Hedge Fund and Geared U.S. Equity Fund have exposure to assets/securities denominated in U.S. dollars. However, the Responsible Entity hedges such currency exposure with the objective of substantially offsetting the Fund's exposure to movements in the U.S. dollar. Therefore these Funds are expected to have a minimal exposure to foreign currency risk.

9 Financial risk management (continued)

(b) Market risk (continued)

(iii) Interest rate risk

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

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

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

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

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

BetaShares Gearred Australian Equity Fund	30 June 2018		30 June 2018		30 June 2018		30 June 2017		30 June 2017	
	Floating interest rate \$'000	Non interest bearing \$'000	Fixed interest rate \$'000	Total \$'000	Floating interest rate \$'000	Non interest bearing \$'000	Fixed interest rate \$'000	Total \$'000	Floating interest rate \$'000	Non interest bearing \$'000
Assets										
Cash and cash equivalents	-	-	-	-	-	-	-	-	-	-
Financial assets held at fair value through profit or loss	-	151,896	-	151,896	-	151,896	-	151,896	-	138,967
Receivables	-	1,275	-	1,275	-	1,275	-	911	-	911
Liabilities										
Borrowings	(77,875)	-	-	(77,875)	(76,385)	-	-	(76,385)	-	-
Due to brokers	-	(27)	-	(27)	-	(76)	-	(76)	-	(76)
Distributions payable	-	(1,681)	-	(1,681)	-	(1,182)	-	(1,182)	-	(1,182)
Interest payable	-	(175)	-	(175)	-	(138)	-	(138)	-	(138)
Other payables	-	(205)	-	(205)	-	(84)	-	(84)	-	(84)
	(77,875)	151,083	-	73,208	(76,385)	138,398	-	62,013	-	138,398
BetaShares U.S. Equities Strong Bear Hedge Fund										
Assets										
Cash and cash equivalents	66,198	-	-	66,198	66,890	-	-	66,890	-	-
Financial assets held at fair value through profit or loss	-	3,041	-	3,041	-	-	-	-	-	321
Receivables	-	71	-	71	-	-	-	-	-	77
Liabilities										
Borrowings	(9,730)	-	-	(9,730)	(8,572)	-	-	(8,572)	-	-
Interest payable	-	(28)	-	(28)	-	(19)	-	(19)	-	(19)
Other payables	-	(132)	-	(132)	-	(65)	-	(65)	-	(65)
	56,468	2,952	-	59,420	58,318	314	-	58,632	-	58,632

9 Financial risk management (continued)

(b) Market risk (continued)

(iii) Interest rate risk (continued)

BetaShares Geared U.S. Equity Fund	Floating interest rate 30 June 2018 \$'000	Fixed interest rate 30 June 2018 \$'000	Non interest bearing 30 June 2018 \$'000	Total 30 June 2018 \$'000	Floating interest rate 30 June 2017 \$'000	Fixed interest rate 30 June 2017 \$'000	Non interest bearing 30 June 2017 \$'000	Total 30 June 2017 \$'000
Assets								
Cash and cash equivalents	17,115	-	-	17,115	8,696	-	-	8,696
Financial assets held at fair value through profit or loss	-	-	45,860	45,860	-	-	21,162	21,162
Receivables	-	-	208	208	-	-	11	11
Liabilities								
Borrowings	(45,478)	-	-	(45,478)	(20,804)	-	-	(20,804)
Distributions payable	-	-	(132)	(132)	-	-	(69)	(69)
Interest payable	-	-	(114)	(114)	-	-	(29)	(29)
Other payables	-	-	(65)	(65)	-	-	(13)	(13)
Sensitivity analysis - Interest rate risk	(28,363)	-	45,757	17,394	(12,108)	-	21,062	8,954

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

Currency	Sensitivity rate (basis points)	Impact on net assets attributable to unitholders			
		Strengthened 30 June 2018 \$'000	Weakened 30 June 2018 \$'000	Strengthened 30 June 2017 \$'000	Weakened 30 June 2017 \$'000
AUD	100	(779)	779	(764)	764
AUD	100	565	(565)	583	(583)
AUD	100	(284)	284	(121)	121

(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 2018 had a credit rating of A- (S&P).

(iii) Other

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

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

Geared Australian Equity Fund

At 30 June 2018

	On Demand \$'000	Less than 6 months \$'000	Greater than 6 months \$'000	Total \$'000
Distributions payable	-	1,681	-	1,681
Borrowings	77,875	-	-	77,875
Due to brokers	-	27	-	27
Interest payable	-	175	-	175
Other payables	-	205	-	205
Net assets attributable to unitholders	73,208	-	-	73,208
Total financial liabilities	151,083	2,088	-	153,171

At 30 June 2017

	On Demand \$'000	Less than 6 months \$'000	Greater than 6 months \$'000	Total \$'000
Distributions payable	-	1,182	-	1,182
Borrowings	76,385	-	-	76,385
Due to brokers	-	76	-	76
Interest payable	-	138	-	138
Other payables	-	84	-	84
Net assets attributable to unitholders	62,013	-	-	62,013
Total financial liabilities	138,398	1,480	-	139,878

9 Financial risk management (continued)

(d) Liquidity risk (continued)

U.S. Equities Strong Bear Hedge Fund

	On Demand \$'000	Less than 6 months \$'000	Greater than 6 months \$'000	Total \$'000
At 30 June 2018				
Distributions payable	-	-	-	-
Borrowings	9,730	-	-	9,730
Interest payable	28	-	-	28
Other payables	-	132	-	132
Net assets attributable to unitholders	59,420	-	-	59,420
Total financial liabilities	69,178	132	-	69,310

	On Demand \$'000	Less than 6 months \$'000	Greater than 6 months \$'000	Total \$'000
At 30 June 2017				
Distributions payable	-	-	-	-
Borrowings	8,572	-	-	8,572
Interest payable	19	-	-	19
Other payables	-	65	-	65
Financial liabilities held at fair value through profit or loss	-	-	-	-
Net assets attributable to unitholders	58,632	-	-	58,632
Total financial liabilities	67,223	65	-	67,288

Geared U.S. Equity Fund

	On Demand \$'000	Less than 6 months \$'000	Greater than 6 months \$'000	Total \$'000
At 30 June 2018				
Distributions payable	-	132	-	132
Borrowings	45,478	-	-	45,478
Interest payable	-	114	-	114
Other payables	-	65	-	65
Net assets attributable to unitholders	17,394	-	-	17,394
Total financial liabilities	62,872	311	-	63,183

	On Demand \$'000	Less than 6 months \$'000	Greater than 6 months \$'000	Total \$'000
At 30 June 2017				
Distributions payable	-	69	-	69
Borrowings	20,804	-	-	20,804
Interest payable	-	29	-	29
Other payables	-	13	-	13
Net assets attributable to unitholders	8,954	-	-	8,954
Total financial liabilities	29,758	111	-	29,869

10 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.

10 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 2018 and 30 June 2017.

Geared Australian Equity Fund

At 30 June 2018

Financial assets

Financial assets designated at fair value through profit or loss

Listed securities

Total assets

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
	151,896	-	-	151,896
	151,896	-	-	151,896

At 30 June 2017

Financial assets

Financial assets designated at fair value through profit or loss

Listed securities

Total assets

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
	138,967	-	-	138,967
	138,967	-	-	138,967

U.S. Equities Strong Bear Hedge Fund

At 30 June 2018

Financial assets

Financial assets held for trading

Derivatives - futures

Total assets

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
	3,041	-	-	3,041
	3,041	-	-	3,041

At 30 June 2017

Financial assets

Financial assets held for trading

Derivatives - futures

Total assets

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
	321	-	-	321
	321	-	-	321

Geared U.S. Equity Fund

At 30 June 2018

Financial assets

Financial assets designated at fair value through profit or loss

Listed securities

Total assets

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
	45,860	-	-	45,860
	45,860	-	-	45,860

At 30 June 2017

Financial assets

Financial assets designated at fair value through profit or loss

Listed securities

Total assets

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
	21,162	-	-	21,162
	21,162	-	-	21,162

10 Fair value measurements (continued)

Fair value estimation (continued)

(iv) Transfers between levels

There were no transfers between levels during the year ended 30 June 2018.

(v) Movement in level 3 instruments

There were no investments classified as level 3 within the Funds as at 30 June 2018.

(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.

11 Offsetting financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The gross and net positions of financial assets and liabilities that have been offset in the statements of financial position are disclosed in the first three columns of the following tables.

Agreements with the funding counterparty, Deutsche Bank are based upon the Prime Broker Agreement. Under the terms of this arrangement, only when certain credit events occur (such as default), the net position owing to Deutsche Bank, after taking into consideration the assets held by Deutsche Bank, will be taken as owing and all the relevant arrangements terminated. The relevant Funds do 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 tables below:

	Effects of offsetting on the statement of financial position			Related amounts not offset in the statement of financial position		
	Gross amounts of financial assets/liabilities \$'000	Gross amounts set off in the statement of financial position \$'000	Net amount of financial assets/ (liabilities) presented in the statement of financial position \$'000	Financial instruments (including non-cash collateral) \$'000	Cash collateral pledged \$'000	Net amount \$'000
Geared Australian Equity Fund						
As at 30 June 2018						
Financial assets - listed securities	151,896	-	151,896	-	-	151,896
Financial liabilities - borrowings	(77,875)	-	(77,875)	-	-	(77,875)
Total	74,021	-	74,021	-	-	74,021
As at 30 June 2017						
Financial assets - listed securities	138,967	-	138,967	-	-	138,967
Financial liabilities - borrowings	(76,385)	-	(76,385)	-	-	(76,385)
Total	62,582	-	62,582	-	-	62,582

11 Offsetting financial assets and liabilities (continued)

	Effects of offsetting on the statement of financial position			Related amounts not offset in the statement of financial position		
	Gross amounts of financial assets/liabilities \$'000	Gross amounts set off in the statement of financial position \$'000	Net amount of financial assets/ (liabilities) presented in the statement of financial position \$'000	Financial instruments (including collateral) \$'000	Stock and cash collateral pledged \$'000	Net amount \$'000
U.S. Equities Strong Bear Hedge Fund						
As at 30 June 2018						
Financial assets - futures	3,041	-	3,041	(3,041)	-	-
Financial liabilities - borrowings	(9,730)	-	(9,730)	-	66,198	56,468
Total	(6,689)	-	(6,689)	(3,041)	66,198	56,468
As at 30 June 2017						
Financial assets - futures	321	-	321	(321)	-	-
Financial liabilities - borrowings	(8,572)	-	(8,572)	-	66,890	58,318
Total	(8,251)	-	(8,251)	(321)	66,890	58,318
Geared U.S. Equity Fund						
As at 30 June 2018						
Financial assets - listed securities	45,860	-	45,860	-	-	45,860
Financial liabilities - borrowings	(45,478)	-	(45,478)	-	17,115	(28,363)
Total	382	-	382	-	17,115	17,497
As at 30 June 2017						
Financial assets - listed securities	21,162	-	21,162	-	-	21,162
Financial liabilities - borrowings	(20,804)	-	(20,804)	-	8,696	(12,108)
Total	358	-	358	-	8,696	9,054

12 Derivative financial instruments

U.S. Equities Strong Bear Hedge Fund

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

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

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

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

The Fund holds the following derivatives:

Futures

Futures are contractual obligations to buy or sell financial instruments on a future date at a specified price established in an organised market. The futures contracts are collateralised by cash or marketable securities. Changes in futures contracts' values are usually settled net daily with the exchange. Interest rate futures are contractual obligations to receive or pay a net amount based on changes in interest rates at a specified price, established in an organised financial market.

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

U.S. Equities Strong Bear Hedge Fund

	Contract/ notional \$'000	Assets \$'000	Liabilities \$'000
As at 30 June 2018	(96,683)	3,041	-
Futures	(96,683)	3,041	-
Total			
As at 30 June 2017	(108,707)	321	-
Futures	(108,707)	321	-
Total			

13 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 2018	30 June 2017	30 June 2018	30 June 2017	30 June 2018	30 June 2017
	\$	\$	\$	\$	\$	\$
KPMG						
Audit and other assurance services	4,860	4,860	7,345	7,345	7,345	5,420
Audit and review of financial reports	1,200	1,200	1,200	1,200	1,200	1,200
Audit of compliance plan	6,060	6,060	8,545	8,545	8,545	6,620
Total remuneration for audit and other assurance services						

15 Events occurring after the reporting year

The Responsible Entity has elected into the Attribution Managed Investment Trust ('AMIT') regime for the Funds for the year ending 30 June 2019 and subsequent years. Under the AMIT regime the units in the Funds will be reclassified from financial liability to equity from 1 July 2018.

Since the end of reporting period Geared U.S. Equity Fund's net asset value has changed by more than 10% due to changes in the fair value of investments held. The movement is a result from implementation of the investment strategy as set out in the relevant Fund's product disclosure statement. More specifically the net asset value changed by an increase of 16.15%.

Since the end of reporting period U.S. Equities Strong Bear Hedge Fund's net asset value has changed by more than 10% due to changes in the fair value of investments held. The movement is a result from implementation of the investment strategy as set out in the relevant Fund's product disclosure statement. More specifically the net asset value changed by a decrease of 13.56%.

No other 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 2018 or on the results and cash flows of the Funds for the year ended on that date.

16 Contingent assets and liabilities and commitments

There are no outstanding contingent assets and liabilities or commitments as at 30 June 2018 (2017: nil).

Directors' declaration

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

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

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

- (a) the financial statements and notes set out on pages 6 to 32 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
 - (ii) giving a true and fair view of the Funds' financial position as at 30 June 2018 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.

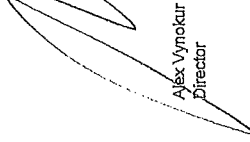
The directors draw attention to Note 2(a) of the financial report which contains a statement of compliance with International Reporting Standards.

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



David Nathanson
Director

Sydney
17 September 2018



Alex Vynokur
Director



Independent Auditor's Report

- Directors' Declaration made by the Directors' of BetaShares Capital Ltd (the Responsible Entity).

Basis for opinions

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

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

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

Key Audit Matters

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

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

To the respective unitholders of the following Schemes:

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

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

Opinions

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

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

- giving a true and fair view of that Scheme's financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

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

- Statements of financial position as at 30 June 2018;
- Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and

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

- Valuation and existence of financial instruments.

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

- Existence of cash and cash equivalents.

Valuation and existence of financial instruments (BetaShares Geared Australian Equity Fund (hedge fund) \$151,896,000, BetaShares U.S. Equities Strong Bear Hedge Fund - Currency Hedged \$3,041,000, BetaShares Geared U.S. Equity Fund - Currency Hedged (hedge fund) \$45,860,000).

Refer to Note 7 to the Financial Reports.

The Key Audit Matter	How the matter was addressed in our audits
<p>Valuation and existence of financial instruments is a Key Audit Matter due to the significance of the balance to the financial statements and as the key driver of operations and performance results.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Read the Responsible Entity's fund administrator's and custodian's ASAE 3402 <i>Assurance Reports on Controls at a Service Organisation</i> (ASAE 3402) reports to assess the control environment at the custodian and the impact on our procedures. • Assessed the scope, competency and objectivity of the auditors of the ASAE 3402 reports.

	<ul style="list-style-type: none"> • Checked the valuation of financial instruments in the general ledger, to externally quoted market prices. • Checked the Responsible Entity's external custody reports to assess the ownership of the financial instruments.
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Existence of cash and cash equivalents (BetaShares U.S. Equities Strong Bear Hedge Fund- Currency Hedged \$66,198,000, BetaShares Geared U.S. Equity Fund - Currency Hedged (hedge fund) \$17,115,000).

The Key Audit Matter	How the matter was addressed in our audits
<p>Existence of cash and cash equivalents is a Key Audit Matter due to the significance of the balance to the financial statements.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Read the Responsible Entity's custodian's ASAE 3402 <i>Assurance Reports on Controls at Service Organisations</i> (ASAE 3402) report to assess the control environment at the custodian and its impact on our procedures. • Assessed the scope, competence and objectivity of the auditors of the ASAE 3402 report. • Obtained third party confirmations of cash balances and checked to the Schemes' cash balances, as recorded in the general ledger.



Other Information

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

Our opinions on the Financial Reports do not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

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

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

Responsibilities of the Directors for the Financial Reports

The Directors of the Responsible Entity are responsible for:

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

alternative but to do so.

Auditor's responsibilities for the audits of the Financial Reports


Our objective is:

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

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

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

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


KPMG



Michael O Connell

Partner

Sydney

17 September 2018

