



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.

<b>ASX Code</b>	<b>Fund</b>
EINC	BetaShares Legg Mason Equity Income Fund (managed fund)
RINC	BetaShares Legg Mason Real Income Fund (managed fund)

Further information about the Funds can be obtained at [www.betashares.com.au](http://www.betashares.com.au) or by contacting BetaShares Client Services on 1300 487 577.

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BetaShares Capital Ltd (ABN 78 139 566 868 AFSL 341181) (BetaShares) is the issuer and responsible entity of the Fund. BetaShares has appointed Legg Mason Asset Management Australia Ltd (ABN 76 004 835 849 AFSL 240827) (Legg Mason Australia) as investment manager for each Fund. Legg Mason Australia is part of the global Legg Mason Inc. group. Martin Currie Australia, a division within Legg Mason Australia, provides the investment management services for each Fund. Before making an investment decision you should read the Product Disclosure Statement (PDS) for the relevant Fund carefully and consider, with or without the assistance of a financial advisor, whether such an investment is appropriate in light of your particular investment needs, objectives and financial circumstances. The PDS is available and can be obtained by contacting BetaShares on 1300 487 577 or Legg Mason Australia on 1800 679 541 or at [www.betashares.com.au](http://www.betashares.com.au) or [www.leggmason.com.au](http://www.leggmason.com.au). Neither BetaShares, Legg Mason Australia, nor any of their related parties guarantees any performance or the return of capital invested. Past performance is not necessarily indicative of future performance. Investments are subject to risks, including, but not limited to, possible delays in payments and loss of income or capital invested.

**Booklet 7**

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

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

**Annual Financial Report**

**30 June 2018**

**Booklet 7**  
**Annual Financial Report**  
**30 June 2018**

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## Directors' report

The directors of BetaShares Capital Ltd, the Responsible Entity of the following managed investment funds (the "Funds"), present their report together with the annual financial report of the Funds for the period ended 30 June 2018 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 Legg Mason Equity Income Fund (managed fund)	Equity Income Fund	6 October 2017 to 30 June 2018	621 856 406
BetaShares Legg Mason Real Income Fund (managed fund)	Real Income Fund	6 October 2017 to 30 June 2018	621 862 619

## Responsible Entity

The Responsible Entity of the Funds is BetaShares Capital Ltd (ABN 78 139 566 868). The Responsible Entity's registered office and principal place of business is Level 11, 50 Margaret Street, Sydney, NSW 2000.

## Principal activities

The principal activity of each Fund is to invest in accordance with the investment objective and guidelines as set out in the Fund's current Product Disclosure Statement and its Constitution.

The Funds did not have any employees during the period.

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

## Directors

The following persons held office as directors of BetaShares Capital Ltd during the period or since the end of the period 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)  
 Jungho Rhee (appointed 1 September 2018)

## Review and results of operations

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

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

## **Directors' report (continued)**

### **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 period.

### **Matters subsequent to the end of the financial period**

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.

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 and expected results of operations**

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

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

### **Indemnification and insurance of officers and auditors**

No insurance premiums are paid for out of the assets of the Funds in regard to insurance cover provided to either the officers of BetaShares Capital Ltd or the auditor of the Funds. So long as the officers of BetaShares Capital Ltd act in accordance with the Funds' Constitutions and the law, the officers remain indemnified out of the assets of the Funds against losses incurred while acting on behalf of the Funds. The auditor of the Funds is in no way indemnified out of the assets of the Funds.

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

Fees paid to the Responsible Entity and its associates out of the Funds' property during the period are disclosed in Note 11 to the financial statements.

No fees were paid out of the Funds' property to the directors of the Responsible Entity during the period.

The number of interests in the Funds held by the Responsible Entity or its associates as at the end of the financial period are disclosed in Note 11 to the financial statements.

**Directors' report (continued)**

**Interests in the Funds**

The movement in units in the Funds during the period is disclosed in Note 3 to the financial statements.

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

**Environmental regulation**

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

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

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

**Auditor's independence declaration**

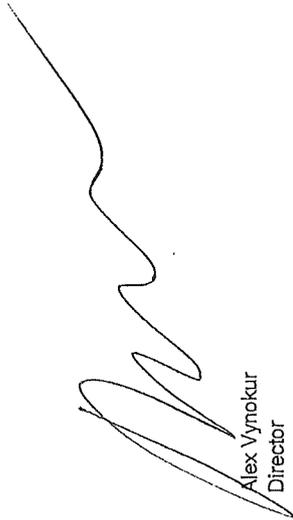
A copy of the Auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

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



David Nathanson  
Director

Sydney  
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 Legg Mason Equity Income Fund (managed fund)

BetaShares Legg Mason Real Income Fund (managed fund)

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

	Equity		Real Income Fund <sup>1</sup> 30 June 2018 \$'000
	Income Fund <sup>1</sup> 30 June 2018 \$'000	Income Fund <sup>1</sup> 30 June 2018 \$'000	
<b>Statements of comprehensive income</b>			
<b>Investment income</b>			
Dividend/distribution income		189	229
Net gains/(losses) on financial instruments held at fair value through profit or loss		141	452
Other operating income		13	16
<b>Total net investment income/(loss)</b>		<b>343</b>	<b>697</b>
<b>Expenses</b>			
Management fees	11	28	26
Transaction costs		3	3
Other operating expenses		5	3
<b>Total operating expenses</b>		<b>36</b>	<b>32</b>
<b>Operating profit/(loss)</b>		<b>307</b>	<b>665</b>
<b>Finance costs attributable to unitholders</b>			
Distributions to unitholders	4	(121)	(217)
<b>Change in net assets attributable to unitholders (total comprehensive income)</b>	3	<b>186</b>	<b>448</b>

Notes

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

<sup>1</sup> Refer to Note 1 for the financial reporting period.

Booklet 7  
Statements of financial position  
As at 30 June 2018

	Notes	Equity		Real	
		Income Fund <sup>1</sup>	Income Fund <sup>1</sup>	Income Fund <sup>1</sup>	Income Fund <sup>1</sup>
		30 June 2018	30 June 2018	30 June 2018	30 June 2018
		\$'000	\$'000	\$'000	\$'000
<b>Assets</b>					
Cash and cash equivalents		453	366		
Financial assets held at fair value through profit or loss	6	12,357	9,853		
Receivables		716	233		
<b>Total assets</b>		<b>13,526</b>	<b>10,452</b>		
<b>Liabilities</b>					
Distributions payable	4	121	217		
Due to brokers - payable for securities purchased		669	-		
Other payables		17	14		
<b>Total liabilities (excluding net assets attributable to unitholders)</b>		<b>807</b>	<b>231</b>		
<b>Net assets attributable to unitholders - liability</b>	3	<b>12,719</b>	<b>10,221</b>		

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

<sup>1</sup> Refer to Note 1 for the financial reporting period.

**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 equity have been presented for the current or comparative period.

Booklet 7  
Statements of cash flows  
For the period ended 30 June 2018

	Equity		Real	
	Income Fund <sup>1</sup>	30 June 2018	Income Fund <sup>1</sup>	30 June 2018
		\$'000		\$'000
<b>Statements of cash flows</b>				
<b>Cash flows from operating activities</b>				
Proceeds from sale/maturity of financial instruments held at fair value through profit or loss		212		605
Payments for purchases of financial instruments held at fair value through profit or loss		(11,759)		(10,006)
Dividends/distributions received		113		68
Other operating income received		13		16
Management fees paid		(12)		(12)
Transaction costs paid		(3)		(3)
Other operating expenses		(6)		(5)
<b>Net cash inflow/(outflow) from operating activities</b>		(11,442)		(9,337)
	Notes			
	7			
<b>Cash flows from financing activities</b>				
Proceeds from applications by unitholders		12,106		9,745
Payments for redemptions by unitholders		(211)		(42)
<b>Net cash inflow/(outflow) from financing activities</b>		11,895		9,703
<b>Net increase/(decrease) in cash and cash equivalents</b>		453		366
<b>Cash and cash equivalents at the end of the financial period</b>		453		366
<b>Non-cash financing activities</b>				
Units issued upon reinvestment of distributions		-		-

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

<sup>1</sup> Refer to Note 1 for the financial reporting period.

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## 1 General information

These financial statements cover the following managed investment funds ("the Funds"). The Funds are registered managed investment schemes under the *Corporations Act 2001*. The Responsible Entity cannot issue or redeem any units from the 80th anniversary of the day before the day the Funds commenced if that issue or redemption would cause a contravention of the rule against perpetuities or any other rule of law or equity. The Funds may be terminated in accordance with the provisions of their Constitutions. The Funds are domiciled in Australia.

Abbreviated Fund name	Registered date	Commenced date	Financial reporting period
Equity Income Fund	6 October 2017	13 February 2018	6 October 2017 to 30 June 2018
Real Income Fund	6 October 2017	13 February 2018	6 October 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 is the Funds' functional currency.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all periods presented.

### (a) Basis of preparation

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

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

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

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

### Compliance with *International Financial Reporting Standards*

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

## 2 Summary of significant accounting policies (continued)

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

#### *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.

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

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

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

#### *Investment entity exception*

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

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

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

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

## 2 Summary of significant accounting policies (continued)

### (b) Changes in accounting policy and transition

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

### (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 Fund's 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 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 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' financial instruments are classified as financial assets or financial liabilities, and are recognised at fair value through profit or loss. They comprise:

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

## 2 Summary of significant accounting policies (continued)

### (d) Financial instruments (continued)

#### (i) Classification (continued)

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

Financial assets 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 instruments 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 recognise changes in fair value of the financial assets or financial liabilities from this date.

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

#### (iii) Measurement

- 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.

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

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.

## 2 Summary of significant accounting policies (continued)

### (d) Financial instruments (continued)

#### (iii) Measurement (continued)

- Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Funds use a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used 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.

### (e) Net assets attributable to unitholders

Units in the Funds are classified as financial liabilities. Subject to market conditions, unitholders may withdraw their units from the Funds at their election by trading on the Australian Securities Exchange at the prevailing market price for sale of the units at the time of the transaction. The Responsible Entity on behalf of each Fund intends to provide liquidity to unitholders by acting as a buyer and seller of units on the exchange. At the end of each trading day, the Responsible Entity will issue or cancel units according to its net position in units bought or sold on the exchange on that day. The price at which the Responsible Entity may buy or sell units will reflect the Responsible Entity's view of the Funds' net asset value per unit. The fair value of units is measured at the net asset value per unit, which approximates fair value at the end of the reporting year if unitholders elected to withdraw units from the Funds.

### (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 or 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 recorded gross of withholding tax in the statement of comprehensive income.

Trust distributions are recognised on an entitlements basis.

### (h) Expenses

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

## 2 Summary of significant accounting policies (continued)

### (i) Income tax

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

### (j) Distributions

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

The distributions are recognised in the statements of comprehensive income as finance costs attributable to unitholders.

### (k) Change in net assets attributable to unitholders

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

### (l) Due from/to brokers

Amounts due from/to brokers (if applicable) represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the period. Trades are recorded on trade date, and for equities normally settled within two business days. A provision for impairment of amounts due from brokers is established when there is objective evidence that the Funds will not be able to collect all amounts due from the relevant broker. Indicators that the amount due from brokers is impaired include significant financial difficulties of the broker, probability that the broker will enter bankruptcy or financial reorganisation and default in payments.

### (m) 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.

### (n) Payables

Payables include liabilities 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 end of each reporting period is recognised separately in the statements of financial position when unitholders are presently entitled to the distributable income.

### (o) 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.

## 2 Summary of significant accounting policies (continued)

### (p) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Funds by third parties such as custodial services and investment management fees have been passed onto the Funds. The Funds qualify for Reduced Input Tax Credits (RITC) at a rate of 55% to 85%; hence investment management fees, custodial fees and other expenses have been recognised in the statements of comprehensive income net of the amount of GST recoverable from the Australian Taxation Office (ATO). Accounts payable are inclusive of GST. The net amount of GST recoverable from the ATO is included in receivables in the statements of financial position. Cash flows relating to GST are included in the statements of cash flows on a gross basis.

### (q) Rounding of amounts

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

## 3 Net assets attributable to unitholders

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

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

	Equity		Real	
	Income Fund	Income Fund	Income Fund	Income Fund
	30 June	30 June	30 June	30 June
	2018	2018	2018	2018
	Units '000	\$'000	Units '000	\$'000
Opening balance	-	-	-	-
Applications	1,583	12,744	1,210	9,815
Redemptions	(26)	(211)	(5)	(42)
Change in net assets attributable to unitholders	-	186	-	448
<b>Closing balance</b>	<b>1,557</b>	<b>12,719</b>	<b>1,205</b>	<b>10,221</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 Funds are subject to daily applications and redemptions at the discretion of eligible 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 suspend the issue and cancellation of units in specified circumstances.

#### 4 Distributions to unitholders

The distributions for the period were as follows:

	Equity Income Fund		Real Income Fund	
	30 June 2018 \$'000	30 June 2018 CPU	30 June 2018 \$'000	30 June 2018 CPU
Distributions payable - June	121	7.78	217	17.97
<b>Total distributions</b>	<b>121</b>		<b>217</b>	

#### 5 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:

	Equity Income Fund		Real Income Fund	
	30 June 2018 \$'000	30 June 2018 \$'000	30 June 2018 \$'000	30 June 2018 \$'000
		141	141	452
<b>Total</b>		<b>141</b>	<b>141</b>	<b>452</b>

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

#### 6 Financial instruments held at fair value through profit or loss

	Equity Income Fund		Real Income Fund	
	30 June 2018 \$'000	30 June 2018 \$'000	30 June 2018 \$'000	30 June 2018 \$'000
		12,357	12,357	9,853
<b>Total</b>		<b>12,357</b>	<b>12,357</b>	<b>9,853</b>

**Financial assets**  
**Designated at fair value through profit or loss**  
Listed securities  
Total designated at fair value through profit or loss

**Total financial assets held at fair value through profit or loss**

An overview of the risk exposures relating to financial assets and liabilities at fair value through profit or loss is included in Note 8.

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

	Equity Income Fund	Real Income Fund
	30 June	30 June
	2018	2018
	\$'000	\$'000
	307	665
	212	605
	(11,759)	(10,006)
	(141)	(452)
	(78)	(161)
	-	(2)
	17	14
	<u>(11,442)</u>	<u>(9,337)</u>

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

Operating profit/(loss) for the period  
 Proceeds from sale of financial instruments held at fair value through profit or loss  
 Payments for the purchase of financial instruments held at fair value through profit or loss  
 Net (gains)/losses on financial instruments held at fair value through profit or loss  
 Net change in distributions/dividends receivable  
 Net change in receivables and other assets  
 Net change in payables and other liabilities  
**Net cash inflow/(outflow) from operating activities**

## 8 Financial risk management

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

The Funds' activities expose them to a variety of financial risks which may include: market risk (including price risk, foreign exchange risk and interest rate risk), counterparty/credit risk and liquidity risk. The Funds use different methods to measure different types of risk to which they are exposed. Methods include sensitivity analysis in the case of price risk.

The Funds' overall risk management programs focus on ensuring compliance with the Funds' Product Disclosure Statements (PDSs) and seek to maximise the returns derived for the level of risk to which the Funds are exposed. Financial risk management is carried out by an investment manager under policies approved by the Board of Directors of the Responsible Entity (the Board).

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

Compliance with the Funds' PDSs, Constitutions and investment guidelines are reported to the Board on a regular basis.

## 8 Financial risk management (continued)

### (a) Market risk

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

#### (i) Price risk

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

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

#### *Sensitivity analysis - price risk*

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

	Equity Income Fund	Real Income Fund
	30 June 2018 \$'000	30 June 2018 \$'000
+10% Price movement - impact on the Fund's operating profit/(loss) and net assets attributable to unitholders	1,236	985
-10% Price movement - impact on the Fund's operating profit/(loss) and net assets attributable to unitholders	(1,236)	(985)

#### (ii) Foreign exchange risk

The Funds are not directly subject to significant foreign exchange risk as securities held are predominately domiciled in Australia.

## 8 Financial risk management (continued)

### (a) Market risk (continued)

#### (iii) Interest rate risk

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 rate risk is not considered to be significant to the Funds other than their cash holdings.

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

### (b) Credit risk

Credit risk is the risk that a counterparty to a financial instrument will fail to discharge an obligation or commitment that it has entered into with the Funds.

#### (i) Cash and cash equivalents

The exposure to credit risk for cash and cash equivalents is low as all counterparties have a rating of AA- or higher (as determined by Standard & Poor's or equivalent rating agency).

The custody of the Funds' assets is mainly concentrated with one counterparty, namely RBC Investor Services Trust. RBC Investor Services Trust is a wholly-owned subsidiary of the Royal Bank of Canada which is a member of a major securities exchange and at 30 June 2018 had a credit rating of AA- (S&P) and A1 (Moody's) (2017: AA- (S&P) and A1 (Moody's)). At 30 June 2018, substantially all cash and cash equivalents, balances due from brokers and investments are held in custody by RBC Investor Services Trust.

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

#### (ii) Settlement of securities transactions

All transactions in listed securities are settled/paid for upon delivery using approved brokers. The risk of default is considered low, as delivery of securities sold is only made once the broker has received payment. Payment is made once purchase on the securities have been received by the broker. The trade will fail if either party fails to meet its obligations.

#### (iii) Other

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

### (c) Liquidity risk

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

The Funds are exposed to daily cash redemptions of redeemable units. They primarily hold investments that are traded in an active market and can be readily realisable as they are traded on the Australian Securities Exchange.

**8 Financial risk management (continued)**

**(c) Liquidity risk (continued)**

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

	Equity Income Fund			Total 30 June 2018 \$'000
	On demand 30 June 2018 \$'000	Less than 6 months 30 June 2018 \$'000	Greater than 6 months 30 June 2018 \$'000	
Distributions payable	-	121	-	121
Due to brokers - payable for securities purchased	-	669	-	669
Other payables	-	17	-	17
Net assets attributable to unitholders	12,719	-	-	12,719
<b>Contractual cash flows (excluding net settled derivatives)</b>	<b>12,719</b>	<b>807</b>	<b>-</b>	<b>13,526</b>

	Real Income Fund			Total 30 June 2018 \$'000
	On demand 30 June 2018 \$'000	Less than 6 months 30 June 2018 \$'000	Greater than 6 months 30 June 2018 \$'000	
Distributions payable	-	217	-	217
Other payables	-	14	-	14
Net assets attributable to unitholders	10,221	-	-	10,221
<b>Contractual cash flows (excluding net settled derivatives)</b>	<b>10,221</b>	<b>231</b>	<b>-</b>	<b>10,452</b>

## 9 Fair value measurements

AASB 13 requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1); and
- 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 financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments 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 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 market 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 open 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 recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

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

## 9 Fair value measurements (continued)

### Fair value estimation (continued)

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

For other pricing models, inputs are based on market data at the end of the reporting period. Fair values for unquoted equity investments are estimated, if possible, using applicable price/earnings ratios for similar listed companies adjusted to reflect the specific circumstances of the issuer.

The carrying value less impairment provision of other receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Funds for similar financial instruments.

(iii) *Recognised fair value measurements*

The tables below set out the Funds' financial assets and liabilities (by class) measured at fair value according to the fair value hierarchy:

	Equity Income Fund			Total
	Level 1 30 June 2018 \$'000	Level 2 30 June 2018 \$'000	Level 3 30 June 2018 \$'000	
	12,357	-	-	12,357
<b>Total</b>	<b>12,357</b>	<b>-</b>	<b>-</b>	<b>12,357</b>

### Financial assets

Financial assets designated at fair value through profit or loss:

Listed securities

**Total**

	Real Income Fund			Total
	Level 1 30 June 2018 \$'000	Level 2 30 June 2018 \$'000	Level 3 30 June 2018 \$'000	
	9,853	-	-	9,853
<b>Total</b>	<b>9,853</b>	<b>-</b>	<b>-</b>	<b>9,853</b>

### Financial assets

Financial assets designated at fair value through profit or loss:

Listed securities

**Total**

**9 Fair value measurements (continued)**

**Fair value estimation (continued)**

(iv) *Transfers between levels*

There were no transfers between levels during the period 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 approximate their fair values.

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

**10 Auditor's remuneration**

During the period the following fees were paid or payable for services provided by the auditor of the Funds. Audit fees were borne by the Responsible Entity:

<b>KPMG</b>			
<i>Audit and other assurance service</i>			
Audit and review of financial reports	3,660	3,660	
Audit of compliance plan	1,200	1,200	
Total remuneration of audit and other assurance services	4,860	4,860	
	Equity	Real	
	Income Fund	Income Fund	
	30 June	30 June	
	2018	2018	
	\$	\$	

## 11 Related party transactions

### Responsible Entity

The Responsible Entity of the Funds is BetaShares Capital Ltd.

### Key management

The Funds do not employ personnel in their own right. However, the Funds are required to have an incorporated Responsible Entity to manage the activities and this is considered to be key management personnel. The directors of the Responsible Entity, which are key management personnel of the Responsible Entity, during or since the end of the financial period are:

#### (a) Directors

Executive Directors:

David Nathanson (appointed 21 September 2009)  
Alex Vynokur (appointed 21 September 2009)

Non-Executive Directors:

Taeyong Lee (appointed 12 August 2015, resigned 31 August 2018)  
Thomas Park (appointed 12 August 2015)  
Jungho Rhee (appointed 1 September 2018)

#### (b) Other key management personnel

There were no other persons with responsibility for planning, directing and controlling the activities of the Funds, directly or indirectly during the financial period.

### Responsible Entity's management fees and other transactions

The Responsible Entity's fees are calculated in accordance with the Funds' constitutions. The Responsible Entity's fees comprise of a management fee (after taking account of GST and reduced input tax credits), which are calculated as a percentage of the net asset value of the Funds and are disclosed in the statements of comprehensive income. The following table discloses the Responsible Entity's fees for the period ended 30 June 2018 as there has been no change in the fees during the period:

Funds	Management fee %
Equity Income Fund	0.85
Real Income Fund	0.85

## 11 Related party transactions (continued)

### Responsible Entity's management fees and other transactions (continued)

The transactions during the period and amounts payable at period end between the Funds and the Responsible Entity were as follows:

	Equity Income Fund	Real Income Fund
	30 June 2018	30 June 2018
	\$	\$
Management fees expensed to the Responsible Entity	28,336	25,607
Management fees payable to the Responsible Entity at reporting date	16,212	13,731

### Related party unitholdings

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

## 12 Events occurring after the reporting period

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.

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 period ended on that date.

## 13 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2018.

**Directors' declaration**

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

BetaShares Legg Mason Equity Income Fund (managed fund)  
BetaShares Legg Mason Real Income Fund (managed fund)

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

(a) the financial statements and notes set out on pages 6 to 27 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards, the *Corporations Regulations 2001*; and

(ii) giving a true and fair view of the Funds' financial positions as at 30 June 2018 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.

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

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



David Nathanson  
Director



Alex Vynokur  
Director

Sydney  
17 September 2018



## Independent Auditor's Report

To the respective unitholders of the following Schemes:

BetaShares Legg Mason Equity Income Fund (managed fund)  
BetaShares Legg Mason Real Income Fund (managed fund)

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

### Opinions

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

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

- giving a true and fair view of that Scheme's financial position as at 30 June 2018 and of its financial performance for the period 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 period then ended;
- Notes including a summary of significant accounting policies; and
- 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.

The **Key Audit Matter** we identified for each of the Schemes is:

- Valuation and existence of financial instruments.

**Valuation and existence of financial instruments (BetaShares Legg Mason Equity Income Fund (managed fund) \$12,357,000, BetaShares Legg Mason Real Income Fund (managed fund) \$9,853,000).**

Refer to Note 6 to the Financial Reports.

<b>The Key Audit Matter</b>	<b>How the matter was addressed in our audits</b>
<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"> <li>• Read the Responsible Entity's fund administrator's and custodian's ASAE 3402 Assurance Reports on Controls at a Service Organisation (ASAE 3402) reports to assess the control environment at the custodian and the impact on our procedures.</li> <li>• Assessed the scope, competency and objectivity of the auditors of the ASAE 3402 reports.</li> <li>• Checked the valuation of financial instruments in the general ledger, to externally quoted market prices.</li> <li>• Checked the Responsible Entity's external custody reports to assess the ownership of the financial instruments.</li> </ul>

**Other Information**

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

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

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

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

**Responsibilities of the Directors for the Financial Reports**

The Directors of the Responsible Entity are responsible for:

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



## Auditor's responsibilities for the audits of the Financial Reports

Our objective is:

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

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

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

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

Michael O Connell

Partner

Sydney

17 September 2018