30 September 2019

Market Announcements Office
ASX Limited

**To be released for each of the ASX codes listed below**

**ANNUAL FINANCIAL REPORT 2019**

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 2019.

| ASX Code | Fund |
|---|---|
| EINC | BetaShares Legg Mason Equity Income Fund (managed fund) |
| RINC | BetaShares Legg Mason Real Income Fund (managed fund) |
| BNDS | BetaShares Legg Mason Australian Bond Fund (managed fund) |
| EMMG | BetaShares Legg Mason Emerging Markets Fund (managed fund) |

Further information about the Funds can be obtained at 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 or 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 Australian Bond Fund (managed fund) - ASX Code: BNDS** (ARSN 608 058 493)

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

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

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

**Annual Financial Report**

**30 June 2019**

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# Booklet 7
# Annual Financial Report
# 30 June 2019

**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 |
| Notes to the financial statements | 10 |
| Directors' declaration | 37 |
| Independent auditor's report to the unitholders | 38 |

## 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 2019 and the auditor's report thereon.

| Fund name | Referred to in this document as | Financial reporting period | ARSN |
|---|---|---|---|
| BetaShares Legg Mason Australian Bond Fund (managed fund) | Australian Bond Fund | 1 July 2018 to 30 June 2019 | 608 058 493 |
| BetaShares Legg Mason Emerging Markets Fund (managed fund) | Emerging Markets Fund | 18 October 2018 to 30 June 2019 | 629 322 247 |
| BetaShares Legg Mason Equity Income Fund (managed fund) | Equity Income Fund | 1 July 2018 to 30 June 2019<br>(comparatives: 6 October 2017 to 30 June 2018) | 621 856 406 |
| BetaShares Legg Mason Real Income Fund (managed fund) | Real Income Fund | 1 July 2018 to 30 June 2019<br>(comparatives: 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.

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

**Principal activities**

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

The Funds did not have any employees during the 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

On 5 May 2016, a new tax regime applying to Managed Investment Trusts was established under the *Tax Law Amendment (New Tax System for Managed Investment Trusts) Act 2016.* The Attribution Managed Investment Trust ("AMIT") regime allows Funds that meet certain requirements to make an irrevocable choice to be an AMIT. The Funds' Constitutions allow them to operate as AMITs, and the conditions to adopt the AMIT tax regime have been met effective 1 July 2018. Consequently, the units in the Funds that had a prior financial reporting period have been reclassified from a financial liability to equity on 1 July 2018. Emerging Markets Fund commenced operations on 29 May 2019 and therefore all units in the Fund are initially classified as equity with no reclassification required (see Note 3 for further information).

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

No matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect:

(i) the operations of the Funds in future financial periods; or
(ii) the results of those operations in future financial periods; or
(iii) the state of affairs of the Funds in future financial periods.

### 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 12 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 12 to the financial statements.

## Directors' report (continued)

### Interests in the Funds

The movement in units on issue 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

Alex Vynokur
Director

Sydney
20 September 2019

# 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

BetaShares Legg Mason Real Income Fund

BetaShares Legg Mason Australian Bond Fund

BetaShares Legg Mason Emerging Markets 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 2019 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

KPMG

Nicholas Buchanan

Partner

Sydney

20 September 2019



KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

| **Statements of comprehensive income** | | **Australian Bond Fund** | | **Emerging Markets Fund[1]** | **Equity Income Fund[1]** | | **Real Income Fund[1]** | |
|---|---|---|---|---|---|---|---|---|
| | | **30 June 2019** | 30 June 2018 | **30 June 2019** | **30 June 2019** | 30 June 2018 | **30 June 2019** | 30 June 2018 |
| | Notes | **$'000** | $'000 | **$[2]** | **$'000** | $'000 | **$'000** | $'000 |
| **Investment income** | | | | | | | | |
| Interest income | | **1,032** | - | **-** | **-** | - | **-** | - |
| Dividend/distribution income | | **-** | - | **41,019** | **1,066** | 189 | **1,154** | 229 |
| Net gains/(losses) on financial instruments at fair value through profit or loss | | **3,037** | - | **332,317** | **543** | 141 | **2,844** | 452 |
| Net foreign exchange gains/(losses) | | **-** | - | **(3,027)** | **-** | - | **-** | - |
| Other operating income | | **51** | - | **20,000** | **-** | 13 | **-** | 16 |
| **Total net investment income/(loss)** | | **4,120** | - | **390,309** | **1,609** | 343 | **3,998** | 697 |
| **Expenses** | | | | | | | | |
| Management fees | 12 | **122** | - | **4,516** | **152** | 28 | **162** | 26 |
| Transaction costs | | **1** | - | **2,035** | **7** | 3 | **12** | 3 |
| Other operating expenses | | **1** | - | **905** | **33** | 5 | **33** | 3 |
| **Total operating expenses** | | **124** | - | **7,456** | **192** | 36 | **207** | 32 |
| **Operating profit/(loss)** | | **3,996** | - | **382,853** | **1,417** | 307 | **3,791** | 665 |
| **Finance costs attributable to unitholders** | | | | | | | | |
| Distributions to unitholders* | 4 | **-** | - | **-** | **-** | (121) | **-** | (217) |
| (Increase)/decrease in net assets attributable to unitholders - liability* | 3 | **-** | - | **-** | **-** | (186) | **-** | (448) |
| **Profit/(loss) for the period** | | **3,996** | - | **382,853** | **1,417** | - | **3,791** | - |
| Other comprehensive income | | **-** | - | **-** | **-** | - | **-** | - |
| **Total comprehensive income for the period** | | **3,996** | - | **382,853** | **1,417** | - | **3,791** | - |

* Net assets attributable to unitholders for Funds that had a prior financial reporting period reclassified from liabilities to equity from 1 July 2018. As a result, these Funds' distributions are no longer classified as finance costs in the statements of comprehensive income but rather as distributions to unitholders in the statements of changes in equity. Refer to Note 1 for further detail.

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

[1] *Refer to Note 1 for the financial reporting period.*

[2] *Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in ASIC Instrument 2016/191 to round to the nearest thousand dollars.*

| **Statements of financial position** | Notes | **Australian Bond Fund** | | **Emerging Markets Fund[1]** | **Equity Income Fund[1]** | | **Real Income Fund[1]** | |
|---|---|---|---|---|---|---|---|---|
| | | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 $[2]** | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 $'000** | 30 June 2018 $'000 |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | | **1,211** | - | **213,973** | **354** | 453 | **820** | 366 |
| Financial assets at fair value through profit or loss | 5 | **74,873** | - | **6,197,810** | **20,556** | 12,357 | **31,942** | 9,853 |
| Due from brokers - receivable for securities sold | | **-** | - | **5,853** | **10** | - | **62** | - |
| Other receivables | | **640** | - | **91,095** | **123** | 716 | **557** | 233 |
| **Total assets** | | **76,724** | - | **6,508,731** | **21,043** | 13,526 | **33,381** | 10,452 |
| **Liabilities** | | | | | | | | |
| Financial liabilities at fair value through profit or loss | | **-** | - | **58** | **-** | - | **-** | - |
| Distributions payable | 4 | **230** | - | **11,998** | **323** | 121 | **861** | 217 |
| Due to brokers - payable for securities purchased | | **259** | - | **25,859** | **7** | 669 | **160** | - |
| Other payables | | **29** | - | **4,894** | **15** | 17 | **24** | 14 |
| **Total liabilities (excluding net assets attributable to unitholders)** | | **518** | - | **42,809** | **345** | 807 | **1,045** | 231 |
| **Net assets attributable to unitholders - liability*** | 3 | **-** | - | **-** | **-** | 12,719 | **-** | 10,221 |
| **Net assets attributable to unitholders - equity*** | | **76,206** | - | **6,465,922** | **20,698** | - | **32,336** | - |

* Net assets attributable to unitholders are classified as equity at 30 June 2019 and as financial liability at 30 June 2018. Refer to Note 1 for further detail.

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

[1] *Refer to Note 1 for the financial reporting period.*

[2] *Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in ASIC Instrument 2016/191 to round to the nearest thousand dollars.*

| Statements of changes in equity | Notes | Australian Bond Fund | | Emerging Markets Fund[1] | Equity Income Fund[1] | | Real Income Fund[1] | |
|---|---|---|---|---|---|---|---|---|
| | | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 $[2]** | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 $'000** | 30 June 2018 $'000 |
| **Total equity at the beginning of the period** | | **-** | - | **-** | **-** | - | **-** | - |
| Reclassification as equity due to AMIT tax regime implementation* | 3 | **-** | - | **-** | **12,719** | - | **10,221** | - |
| **Comprehensive income for the period** | | | | | | | | |
| Profit/(loss) for the period | | **3,996** | - | **382,853** | **1,417** | - | **3,791** | - |
| Other comprehensive income | | **-** | - | **-** | **-** | - | **-** | - |
| **Total comprehensive income for the period** | | **3,996** | - | **382,853** | **1,417** | - | **3,791** | - |
| **Transactions with unitholders** | | **-** | - | **-** | **-** | - | **-** | - |
| Applications | 3 | **73,053** | - | **6,095,067** | **11,027** | - | **20,116** | - |
| Redemptions | 3 | **-** | - | **-** | **(3,605)** | - | **(561)** | - |
| Units issued upon reinvestment of distributions | 3 | **6** | - | **-** | **4** | - | **9** | - |
| Distributions to unitholders | 3,4 | **(849)** | - | **(11,998)** | **(864)** | - | **(1,240)** | - |
| **Total transactions with unitholders** | | **72,210** | - | **6,083,069** | **6,562** | - | **18,324** | - |
| **Total equity at the end of the period*** | 3 | **76,206** | - | **6,465,922** | **20,698** | - | **32,336** | - |

* Effective from 1 July 2018, Funds that had a prior financial reporting period had their units reclassified from financial liability to equity. Refer Note 1 for further detail. As a result, equity transactions including distributions have been disclosed in the above statements for the period ended 30 June 2019. There were no equity transactions for the comparative period.

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

[1] *Refer to Note 1 for the financial reporting period.*

[2] *Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in ASIC Instrument 2016/191 to round to the nearest thousand dollars.*

| Statements of cash flows | Notes | Australian Bond Fund | | Emerging Markets Fund[1] | Equity Income Fund[1] | | Real Income Fund[1] | |
|---|---|---|---|---|---|---|---|---|
| | | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 $[2]** | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 $'000** | 30 June 2018 $'000 |
| **Cash flows from operating activities** | | | | | | | | |
| Proceeds from sale of financial instruments at fair value through profit or loss | | **697** | - | **72,908** | **7,360** | 212 | **3,277** | 605 |
| Payments for purchase of financial instruments at fair value through profit or loss | | **(72,274)** | - | **(5,921,270)** | **(15,688)** | (11,759) | **(22,424)** | (10,006) |
| Dividends/distributions received | | **-** | - | **9,447** | **1,036** | 113 | **858** | 68 |
| Interest income received | | **398** | - | **-** | **-** | - | **-** | - |
| Other operating income received | | **55** | - | **20,000** | **-** | 13 | **-** | 16 |
| Management fees paid | | **(103)** | - | **-** | **(156)** | (12) | **(157)** | (12) |
| Transaction costs paid | | **(1)** | - | **(2,035)** | **(7)** | (3) | **(12)** | (3) |
| Other operating expenses paid | | **(1)** | - | **(948)** | **(33)** | (6) | **(33)** | (5) |
| **Net cash inflow/(outflow) from operating activities** | 6 | **(71,229)** | - | **(5,821,898)** | **(7,488)** | (11,442) | **(18,491)** | (9,337) |
| **Cash flows from financing activities** | | | | | | | | |
| Proceeds from applications by unitholders | | **73,053** | - | **6,035,965** | **11,652** | 12,106 | **20,092** | 9,745 |
| Payments for redemptions by unitholders | | **-** | - | **-** | **(3,605)** | (211) | **(560)** | (42) |
| Distributions paid | | **(613)** | - | **-** | **(658)** | - | **(587)** | - |
| **Net cash inflow/(outflow) from financing activities** | | **72,440** | - | **6,035,965** | **7,389** | 11,895 | **18,945** | 9,703 |
| **Net increase/(decrease) in cash and cash equivalents** | | **1,211** | - | **214,067** | **(99)** | 453 | **454** | 366 |
| Cash and cash equivalents at the beginning of the financial period | | **-** | - | **-** | **453** | - | **366** | - |
| Effects of foreign currency exchange rate changes on cash and cash equivalents | | **-** | - | **(94)** | **-** | - | **-** | - |
| **Cash and cash equivalents at the end of the financial period** | | **1,211** | - | **213,973** | **354** | 453 | **820** | 366 |
| **Non-cash financing activities** | | | | | | | | |
| Units issued upon reinvestment of distributions | | **6** | - | **-** | **4** | - | **9** | - |

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

[1] *Refer to Note 1 for the financial reporting period.*

[2] *Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in ASIC Instrument 2016/191 to round to the nearest thousand dollars.*

## Contents of the notes to the financial statements


| | | Page |
|---|---|---|
| 1 | General information | 11 |
| 2 | Summary of significant accounting policies | 11 |
| 3 | Net assets attributable to unitholders | 18 |
| 4 | Distributions to unitholders | 19 |
| 5 | Financial assets and liabilities at fair value through profit or loss | 20 |
| 6 | Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities | 21 |
| 7 | Financial risk management | 21 |
| 8 | Offsetting financial assets and financial liabilities | 29 |
| 9 | Fair value measurements | 30 |
| 10 | Derivative financial instruments | 33 |
| 11 | Auditor's remuneration | 34 |
| 12 | Related party transactions | 34 |
| 13 | Events occurring after the reporting period | 36 |
| 14 | Contingent assets and liabilities and commitments | 36 |

## 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 |
|---|---|---|---|
| Australian Bond Fund | 11 September 2015 | 7 November 2018 | 1 July 2018 to 30 June 2019 |
| Emerging Markets Fund | 18 October 2018 | 29 May 2019 | 18 October 2018 to 30 June 2019 |
| Equity Income Fund | 6 October 2017 | 13 February 2018 | 1 July 2018 to 30 June 2019 (comparatives: 6 October 2017 to 30 June 2018) |
| Real Income Fund | 6 October 2017 | 13 February 2018 | 1 July 2018 to 30 June 2019 (comparatives: 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.

On 5 May 2016, a new tax regime applying to Managed Investment Trusts was established under the *Tax Law Amendment (New Tax System for Managed Investment Trusts) Act 2016.* The Attribution Managed Investment Trust ("AMIT") regime allows funds that meet certain requirements to make an irrevocable choice to be an AMIT. The Funds' Constitutions allow them to operate as AMITs, and the conditions to adopt the AMIT tax regime have been met effective 1 July 2018. Consequently, the units in the Funds that had a prior financial reporting period have been reclassified from a financial liability to equity on 1 July 2018. Emerging Markets Fund commenced operations on 29 May 2019 and therefore all units in the Fund are initially classified as equity with no reclassification required (see Note 3 for further information).

The financial statements were authorised for issue by the directors of the Responsible Entity on 20 September 2019. 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 unless otherwise stated.

### (a) Basis of preparation

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

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

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

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

## 2 Summary of significant accounting policies (continued)

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

*Compliance with International Financial Reporting Standards*

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

*Use of estimates and judgement*

Management make estimates and assumptions that affect the reported amounts in the financial statements. These estimates and assumptions are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

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

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

*Investment entity exception*

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

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

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

In making the above assessments, the Funds have multiple investments and multiple investors. Their investors are generally unrelated parties of the Funds. Unitholders invest for returns from capital appreciation, investment income, or both. Directors of the Responsible Entity have concluded that the Funds meet the definition of investment entity.

## 2 Summary of significant accounting policies (continued)

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

*Assessment of the Funds' investments as structured entities*

The Funds have assessed whether the securities in which they invest are structured entities. The Funds have considered the voting rights and other similar rights afforded to investors in these funds, including the rights to remove the fund manager or redeem holdings. The Funds have assessed whether these rights are the dominant factor in controlling the funds, or whether the contractual agreement with the fund manager is the dominant factor in controlling these funds. The Funds have concluded that the managed investment funds in which they invest are not structured entities.

*Change in accounting estimate*

During the period, the Funds changed their valuation inputs for the fair value of listed financial assets and liabilities recognised in the financial statements from bid prices to last traded prices to be consistent with the inputs used for the calculation of unit prices. Therefore there is no difference between the valuation of Funds' assets for unit pricing and financial reporting purposes from 1 July 2018 onwards. This change does not affect the valuation of investments for unit pricing purposes. The use of last traded price is considered by management to be an appropriate estimate of fair value.

### (b) New accounting standards and interpretations

Except as disclosed below, the accounting policies adopted in these financial statements are consistent with those of the previous financial period. On 1 July 2018 the Funds adopted AASB 9 *Financial instruments* and AASB 15 *Revenue from Contracts with Customers*. The impact of these standards and interpretations is set out below:

(i) AASB 9: *Financial Instruments* (effective 1 July 2018) (AASB 9)

AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities. It replaces the multiple classification and measurement models in AASB 139 with a new model that classifies financial instruments based on the business model within which the financial instruments are managed, and whether the contractual cashflows under the instrument solely represent the payment of principal and interest. It also introduces revised rules around hedge accounting and impairment.

Under AASB 9, financial instruments are classified as:

• Amortised cost if the objective of the business model is to hold the financial instruments to collect contractual cash flows only and the contractual cash flows under the instrument represent solely payments of principal and interest (SPPI);

• Fair value through other comprehensive income if the objective of the business model is to hold the financial instruments both to collect contractual cashflows from SPPI and for the purpose of sale; or

• All other financial instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial instrument as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

## 2 Summary of significant accounting policies (continued)

### (b) New accounting standards and interpretations (continued)

(i) AASB 9: *Financial Instruments* (effective 1 July 2018) (AASB 9) (continued)

Derivative and equity instruments are measured at fair value through profit or loss unless, for equity instruments not held for trading, an irrevocable option is taken to measure at fair value through other comprehensive income. A debt instrument is measured at amortised cost if the objective of the business model is to hold the financial asset for the collection of the contractual cash flows and the contractual cash flows under the instrument represent SPPI.

A debt instrument is measured at fair value through other comprehensive income if the objective of the business model is to hold the financial asset both to collect contractual cash flows from SPPI and to sell.

All other debt instruments must be recognised at fair value through profit or loss. An entity may however, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency.

The adoption of AASB 9 did not result in a change to the classification or measurement of financial instruments in either the current or prior periods. The Funds' investment portfolio continues to be measured at fair value through profit or loss. The derecognition rules have not been changed from previous requirements and the Funds do not apply hedge accounting. As the Funds' investments are all at fair value through profit or loss, the change in impairment rules will not impact the Funds. The Funds' cash and cash equivalents and receivables continue to be measured at amortised cost under AASB 9 and the impact of any expected credit losses (ECL) is not material.

(ii) AASB 15: *Revenue From Contracts With Customers* (effective 1 July 2018) (AASB 15)

AASB 15 establishes a single revenue recognition using a five-step model based on the transfer of goods and services and the consideration expected to be received in return for that transfer.

The Funds' main source of income is investment income, in the form of gains on financial instruments at fair value as well as interest and dividends income. All these income types are outside the scope of the standard. Accordingly, the adoption of new revenue recognition rules did not have a material impact on the Funds' accounting policies or the amounts recognised in the financial statements.

### (c) Financial instruments

*(i) Classification*

The Funds classify their investments based on its business model for managing those financial assets and their contractual cash flow characteristics. The Funds' portfolios of financial assets are managed and their performance is evaluated on a fair value basis in accordance with the Funds' documented investment strategy. The Funds evaluate the information about their investments on a fair value basis together with other related financial information.

Equity securities and derivatives are measured at fair value through profit or loss.

For debt securities, the contractual cash flows are solely payments of principal and interest, however, they are neither held for collecting contractual cash flows nor held for collecting contractual cash flows and for sale. The collection of contractual cash flows is only incidental to achieving the Funds' business model objective. Consequently, the debt securities are measured at fair value through profit or loss.

## 2 Summary of significant accounting policies (continued)

### (c) Financial instruments (continued)

*(i) Classification (continued)*

The Funds may hold financial assets and financial liabilities comprising debt securities which had previously been designated at fair value through profit or loss under AASB 139 prior to 1 July 2018. On adoption of AASB 9 from 1 July 2018, these securities continued to be measured at fair value but are now mandatorily classified at fair value through profit or loss.

*(ii) Recognition/derecognition*

The Funds recognise financial assets and financial liabilities on the date they become party to the contractual agreement (trade date) and recognise changes in fair value of the financial assets or financial liabilities from this date.

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

*(iii) Measurement*

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

Subsequent to initial recognition, all financial assets and financial liabilities are measured at fair value. Gains and losses arising from changes in the fair value measurement are presented in the statements of comprehensive income within net gains/(losses) on financial instruments at fair value through profit or loss during the financial 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 last traded price.

- Fair value in an inactive or unquoted market

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. The Funds use a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Valuation techniques used may include the use of comparable recent arms-length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models or any other valuation techniques commonly used by market participants making the maximum use of market inputs and relying as little as possible on entity-specific inputs.

## 2 Summary of significant accounting policies (continued)

### (d) Net assets attributable to unitholders

Australian Bond Fund

Units are normally redeemable only by unitholders being Authorised Participants at the unitholders' option (other unitholders only have a right to redeem units in special circumstances). The units can be put back to the Funds at any time (subject to the *Corporations Act 2001* and the Funds' Constitutions) for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to redeem units in the Funds. Prior to 1 July 2018 the Funds that had a prior reporting period have classified their net assets attributable to unitholders as liabilities in accordance with AASB 132. Effective 1 July 2018, the Funds have elected into the AMIT tax regime. The net assets attributable to unitholders of the Funds met the criteria set out under AASB 132 and are classified as equity from 1 July 2018 onwards.

Emerging Markets Fund, Equity Income Fund and Real Income Fund

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 willl 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's 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 period if unitholders elected to withdraw units from the Funds.

### (e) Cash and cash equivalents

For the purpose of presentation in the statements of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. The carrying amount of cash approximates fair value.

### (f) Investment income

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

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

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

### (g) Expenses

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

### (h) Income tax

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

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

## 2 Summary of significant accounting policies (continued)

### (i) Distributions

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

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

### (j) Due from/to brokers

Amounts due from/to brokers (if applicable) represent receivables for securities sold and payables for securities purchased that have been contracted for but not yet delivered by the end of the 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.

### (k) Receivables

Receivables may include amounts for dividends, interest and trust distributions. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of each reporting period from the time of last payment in accordance with the policy set out in Note 2(f) above. Amounts are generally received within 30 days of being recorded as receivables. The carrying amount of receivables approximates fair value.

### (l) Payables

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

### (m) Applications and redemptions

Applications received for units in the Funds are recorded net of any entry fees payable (if applicable) prior to the issue of units in the Funds. Redemptions from the Funds are recorded gross of any exit fees payable (if applicable) after the cancellation of units redeemed.

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

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

### (o) Rounding of amounts

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

## 3 Net assets attributable to unitholders

Under AASB 132 Financial Instrument: Presentation, puttable financial instruments meet the definition of a financial liability to be classified as equity where certain strict criteria are met. The Funds shall classify a financial instrument as an equity instrument from the date when the instrument has all the features and meets the conditions.

Prior to 1 July 2018 the Funds that had a prior financial reporting period have classified their net assets attributable to unitholders as liabilities in accordance with AASB 132. Effective 1 July 2018, the Funds have elected into the AMIT tax regime. The net assets attributable to unitholders of the Funds meet the criteria set out under AASB 132 and are classified as equity from 1 July 2018 onwards.

As a result of the reclassification of net assets attributable to unitholders from liabilities to equity, the Funds' distributions are no longer classified as finance cost in the statements of comprehensive income, but rather as distributions to unitholders in the statements of changes in equity.

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

| | **Australian Bond Fund** | | | | **Emerging Markets Fund** | |
|---|---|---|---|---|---|---|
| | **30 June 2019 Units '000** | 30 June 2018 Units '000 | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 Units[2]** | **30 June 2019 $[2]** |
| **Net assets attributable to unitholders** | | | | | | |
| Opening balance* | **-** | - | **-** | - | **-** | **-** |
| Applications | **2,850** | - | **73,053** | - | **1,203,170** | **6,095,067** |
| Redemptions | **-** | - | **-** | - | **-** | **-** |
| Units issued upon reinvestment of distributions | **-** | - | **6** | - | **-** | **-** |
| Change in net assets attributable to unitholders* | **-** | - | **-** | - | **-** | **-** |
| Distribution to unitholders | **-** | - | **(849)** | - | **-** | **(11,998)** |
| Profit/(loss) for the period | **-** | - | **3,996** | - | **-** | **382,853** |
| **Closing balance** | **2,850** | - | **76,206** | - | **1,203,170** | **6,465,922** |

| | **Equity Income Fund** | | | | **Real Income Fund** | | | |
|---|---|---|---|---|---|---|---|---|
| | **30 June 2019 Units '000** | 30 June 2018 Units '000 | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 Units '000** | 30 June 2018 Units '000 | **30 June 2019 $'000** | 30 June 2018 $'000 |
| **Net assets attributable to unitholders** | | | | | | | | |
| Opening balance* | **1,557** | - | **12,719** | - | **1,205** | - | **10,221** | - |
| Applications | **1,369** | 1,583 | **11,027** | 12,744 | **2,254** | 1,210 | **20,116** | 9,815 |
| Redemptions | **(454)** | (26) | **(3,605)** | (211) | **(63)** | (5) | **(561)** | (42) |
| Units issued upon reinvestment of distributions | **-** | - | **4** | - | **1** | - | **9** | - |
| Change in net assets attributable to unitholders* | **-** | - | **-** | 186 | **-** | - | **-** | 448 |
| Distribution to unitholders | **-** | - | **(864)** | - | **-** | - | **(1,240)** | - |
| Profit/(loss) for the period | **-** | - | **1,417** | - | **-** | - | **3,791** | - |
| **Closing balance** | **2,472** | 1,557 | **20,698** | 12,719 | **3,397** | 1,205 | **32,336** | 10,221 |

* Net assets attributable to unitholders are classified as equity at 30 June 2019 and as a financial liability at 30 June 2018. Refer to Note 1 for further detail.

[2] *Rounded to the nearest whole dollar/unit as the Fund does not meet the criteria set out in ASIC Instrument 2016/191 to round to the nearest thousand dollars/units.*

## 3 Net assets attributable to unitholders (continued)

**Capital risk management**

The Funds consider their net assets attributable to unitholders as equity. The amount of net assets attributable to unitholders can change significantly on a daily basis as the Funds are subject to daily applications and redemptions at the discretion of eligible unitholders.

The daily issues and withdrawals of units are reviewed relative to the liquidity of the Funds' underlying assets on a daily basis by the Responsible Entity. Under the terms of the Funds' governing rules, the Responsible Entity may suspend the issue or withdrawal of units in certain circumstances.

## 4 Distributions to unitholders

The distributions for the period were as follows:

| | Australian Bond Fund | | | | Emerging Markets Fund | |
|---|---|---|---|---|---|---|
| | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 CPU** | 30 June 2018 CPU | **30 June 2019 $[2]** | **30 June 2019 CPU** |
| Distributions paid - November | **36** | - | **3.62** | - | **-** | **-** |
| Distributions paid - December | **79** | - | **6.84** | - | **-** | **-** |
| Distributions paid - January | **70** | - | **5.16** | - | **-** | **-** |
| Distributions paid - February | **77** | - | **4.67** | - | **-** | **-** |
| Distributions paid - March | **125** | - | **6.61** | - | **-** | **-** |
| Distributions paid - April | **91** | - | **3.88** | - | **-** | **-** |
| Distributions paid - May | **141** | - | **5.41** | - | **-** | **-** |
| Distributions payable - June | **230** | - | **8.08** | - | **11,998** | **1.00** |
| **Total distributions** | **849** | - | | | **11,998** | |

| | Equity Income Fund | | | | Real Income Fund | | | |
|---|---|---|---|---|---|---|---|---|
| | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 CPU** | 30 June 2018 CPU | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 CPU** | 30 June 2018 CPU |
| Distributions paid - September | **197** | - | **8.96** | - | **54** | - | **3.08** | - |
| Distributions paid - December | **168** | - | **7.26** | - | **278** | - | **12.93** | - |
| Distributions paid - March | **176** | - | **7.06** | - | **47** | - | **1.85** | - |
| Distributions payable - June | **323** | 121 | **13.06** | 7.78 | **861** | 217 | **25.34** | 17.97 |
| **Total distributions** | **864** | 121 | | | **1,240** | 217 | | |

[2] *Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in ASIC Instrument 2016/191 to round to the nearest thousand dollars.*

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

| | Australian Bond Fund | | Emerging Markets Fund | Equity Income Fund | | Real Income Fund | |
|---|---|---|---|---|---|---|---|
| | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 $[2]** | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 $'000** | 30 June 2018 $'000 |
| **Financial assets at fair value through profit or loss** | | | | | | | |
| Bond futures | **25** | - | **-** | **-** | - | **-** | - |
| Fixed interest securities | **72,635** | - | **-** | **-** | - | **-** | - |
| Floating rate notes | **2,213** | - | **-** | **-** | - | **-** | - |
| Listed securities | **-** | - | **6,197,810** | **20,556** | 12,357 | **31,777** | 9,853 |
| Unlisted securities | **-** | - | **-** | **-** | - | **165** | - |
| **Total financial assets at fair value through profit or loss** | **74,873** | - | **6,197,810** | **20,556** | 12,357 | **31,942** | 9,853 |
| **Financial liabilities at fair value through profit or loss** | | | | | | | |
| Foreign currency contracts | **-** | - | **58** | **-** | - | **-** | - |
| **Total financial liabilities at fair value through profit or loss** | **-** | - | **58** | **-** | - | **-** | - |

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

[2] *Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in ASIC Instrument 2016/191 to round to the nearest thousand dollars.*

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

| | Australian Bond Fund | | Emerging Markets Fund | Equity Income Fund | | Real Income Fund | |
|---|---|---|---|---|---|---|---|
| | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 $[2]** | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 $'000** | 30 June 2018 $'000 |
| **Reconciliation of operating profit/(loss) to net cash inflow/(outflow) from operating activities** | | | | | | | |
| Operating profit/(loss) | **3,996** | - | **382,853** | **1,417** | 307 | **3,791** | 665 |
| Proceeds from sale of financial instruments at fair value through profit or loss | **697** | - | **72,908** | **7,360** | 212 | **3,277** | 605 |
| Payments for the purchase of financial instruments at fair value through profit or loss | **(72,274)** | - | **(5,921,270)** | **(15,688)** | (11,759) | **(22,424)** | (10,006) |
| Net (gains)/losses on financial instruments at fair value through profit or loss | **(3,037)** | - | **(332,317)** | **(543)** | (141) | **(2,844)** | (452) |
| Net foreign exchange (gains)/losses | **-** | - | **3,027** | **-** | - | **-** | - |
| Net change in dividends/distributions receivable | **-** | - | **(31,572)** | **(30)** | (78) | **(296)** | (161) |
| Net change in receivables and other assets | **(640)** | - | **(421)** | **(2)** | - | **(5)** | (2) |
| Net change in payables and other liabilities | **29** | - | **4,894** | **(2)** | 17 | **10** | 14 |
| **Net cash inflow/(outflow) from operating activities** | **(71,229)** | - | **(5,821,898)** | **(7,488)** | (11,442) | **(18,491)** | (9,337) |

*[2] Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in ASIC Instrument 2016/191 to round to the nearest thousand dollars.*

## 7 Financial risk management

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

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

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

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

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

## 7 Financial risk management (continued)

### (a) Market risk

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

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

*(i) Price risk*

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

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

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

*Sensitivity analysis*

A 10% movement at the report date of the market prices attributable to financial assets or financial liabilities by the relevant Funds would have the following impact on the Funds' 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.

| | **Emerging Markets Fund** | **Equity Income Fund** | | **Real Income Fund** | |
|---|---|---|---|---|---|
| | **30 June 2019 $[2]** | **30 June 2019 $'000** | 30 June 2018 $'000 | **30 June 2019 $'000** | 30 June 2018 $'000 |
| +10% Price movement - impact on the Fund's operating profit/(loss) and net assets attributable to unitholders | **619,781** | **2,056** | 1,236 | **3,194** | 985 |
| -10% Price movement - impact on the Fund's operating profit/(loss) and net assets attributable to unitholders | **(619,781)** | **(2,056)** | (1,236) | **(3,194)** | (985) |

*[2] Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in ASIC Instrument 2016/191 to round to the nearest thousand dollars.*

## 7 Financial risk management (continued)

### (a) Market risk (continued)

*(ii) Interest rate risk*

**Australian Bond Fund**

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

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

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

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

| **Australian Bond Fund** | **Floating interest rate** | **Fixed interest rate** | **Non-interest bearing** | **Total** | Floating interest rate | Fixed interest rate | Non-interest bearing | Total |
|---|---|---|---|---|---|---|---|---|
| | **30 June 2019 $'000** | **30 June 2019 $'000** | **30 June 2019 $'000** | **30 June 2019 $'000** | 30 June 2018 $'000 | 30 June 2018 $'000 | 30 June 2018 $'000 | 30 June 2018 $'000 |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | **1,211** | **-** | **-** | **1,211** | - | - | - | - |
| Financial assets at fair value through profit or loss | **2,213** | **72,635** | **25** | **74,873** | - | - | - | - |
| Other receivables | **-** | **-** | **640** | **640** | - | - | - | - |
| **Liabilities** | | | | | | | | |
| Distributions payable | **-** | **-** | **(230)** | **(230)** | - | - | - | - |
| Due to brokers - payable for securities purchased | **-** | **-** | **(259)** | **(259)** | - | - | - | - |
| Other payables | **-** | **-** | **(29)** | **(29)** | - | - | - | - |
| **Net exposure** | **3,424** | **72,635** | **147** | **76,206** | - | - | - | - |

## 7 Financial risk management (continued)

### (a) Market risk (continued)

*(ii) Interest rate risk (continued)*

*Sensitivity analysis - Interest rate risk*

The table below summarises the sensitivities of the interest rate risk. The analysis is based on the assumption that interest rates increase or decrease by a "predetermined basis points" from the year end rates with all other variables held constant. The impact mainly arises from changes in the fair value of debt securities. The "predetermined basis points" are disclosed in the table below.

| | | | Impact on net assets attributable to unitholders | | | |
|---|---|---|---|---|---|---|
| | **Currencies** | **Sensitivity rate (basis points)** | **Strengthened 30 June 2019 $'000** | **Weakened 30 June 2019 $'000** | Strengthened 30 June 2018 $'000 | Weakened 30 June 2018 $'000 |
| **Australian Bond Fund** | **Australian Dollars** | **100** | **(3,362)** | **3,362** | - | - |

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

*(iii) Foreign exchange risk*

**Emerging Markets Fund**

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

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

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

| | Emerging Markets Fund | |
|---|---|---|
| | **30 June 2019 Currency** | **30 June 2019 $[2]** |
| | **HKD** | **1,456,803** |
| | **USD** | **1,085,744** |
| | **KRW** | **826,228** |
| | **INR** | **699,588** |
| | **GBP** | **617,746** |
| | **Others** | **1,551,280** |
| **Net foreign currency exposure** | | **6,237,389** |

*[2] Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in ASIC Instrument 2016/191 to round to the nearest thousand dollars.*

## 7 Financial risk management (continued)

### (a) Market risk (continued)

*(iii) Foreign exchange risk (continued)*

*Sensitivity analysis - Foreign exchange risk*

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

| | Emerging Markets Fund |
|---|---|
| | 30 June 2019 $[2] |
| Impact on profit/(loss) from operating activities and net assets attributable to unitholders | |
| 10% AUD appreciation against foreign currency | **(4,274)** |

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

[2] *Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in ASIC Instrument 2016/191 to round to the nearest thousand dollars.*

### (b) Credit risk

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

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

*(i) Cash and cash equivalents*

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

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

*(ii) Settlement of securities transactions*

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

## 7 Financial risk management (continued)

### (b) Credit risk (continued)

*(iii) Debt securities*

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

| | Australian Bond Fund | |
|---|---|---|
| | 30 June 2019 $'000 | 30 June 2018 $'000 |
| **Rating** | | |
| AAA | **31,735** | - |
| AA+ to AA- | **15,924** | - |
| A+ to A- | **18,416** | - |
| BBB+ to BBB- | **8,772** | - |
| **Total** | **74,847** | - |

*(iii) Other*

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

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

## 7 Financial risk management (continued)

### (c) Liquidity risk

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

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

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

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

| | **Australian Bond Fund** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **On demand 30 June 2019 $'000** | **Less than 6 months 30 June 2019 $'000** | **Greater than 6 months 30 June 2019 $'000** | **Total 30 June 2019 $'000** | On demand 30 June 2018 $'000 | Less than 6 months 30 June 2018 $'000 | Greater than 6 months 30 June 2018 $'000 | Total 30 June 2018 $'000 |
| Distributions payable | **-** | **230** | **-** | **230** | - | - | - | - |
| Due to brokers - payable for securities purchased | **-** | **259** | **-** | **259** | - | - | - | - |
| Other payables | **-** | **29** | **-** | **29** | - | - | - | - |
| **Contractual cash flows (excluding net settled derivatives)** | **-** | **518** | **-** | **518** | - | - | - | - |

| | **Emerging Markets Fund** | | | |
|---|---|---|---|---|
| | **On demand 30 June 2019 $[2]** | **Less than 6 months 30 June 2019 $[2]** | **Greater than 6 months 30 June 2019 $[2]** | **Total 30 June 2019 $[2]** |
| Distributions payable | **-** | **11,998** | **-** | **11,998** |
| Due to brokers - payable for securities purchased | **-** | **25,859** | **-** | **25,859** |
| Other payables | **-** | **4,894** | **-** | **4,894** |
| **Contractual cash flows (excluding net settled derivatives)** | **-** | **42,751** | **-** | **42,751** |
| Foreign currency contracts | **-** | **58** | **-** | **58** |
| **Net settled derivatives** | **-** | **58** | **-** | **58** |

[2] *Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in ASIC Instrument 2016/191 to round to the nearest thousand dollars.*

## 7 Financial risk management (continued)

### (c) Liquidity risk (continued)

| | Equity Income Fund | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **On demand 30 June 2019 $'000** | **Less than 6 months 30 June 2019 $'000** | **Greater than 6 months 30 June 2019 $'000** | **Total 30 June 2019 $'000** | On demand 30 June 2018 $'000 | Less than 6 months 30 June 2018 $'000 | Greater than 6 months 30 June 2018 $'000 | Total 30 June 2018 $'000 |
| Distributions payable | **-** | **323** | **-** | **323** | - | 121 | - | 121 |
| Due to brokers - payable for securities purchased | **-** | **7** | **-** | **7** | - | 669 | - | 669 |
| Other payables | **-** | **15** | **-** | **15** | - | 17 | - | 17 |
| Net assets attributable to unitholders - liability* | **-** | **-** | **-** | **-** | 12,719 | - | - | 12,719 |
| **Contractual cash flows (excluding net settled derivatives)** | **-** | **345** | **-** | **345** | 12,719 | 807 | - | 13,526 |

| | Real Income Fund | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **On demand 30 June 2019 $'000** | **Less than 6 months 30 June 2019 $'000** | **Greater than 6 months 30 June 2019 $'000** | **Total 30 June 2019 $'000** | On demand 30 June 2018 $'000 | Less than 6 months 30 June 2018 $'000 | Greater than 6 months 30 June 2018 $'000 | Total 30 June 2018 $'000 |
| Distributions payable | **-** | **861** | **-** | **861** | - | 217 | - | 217 |
| Due to brokers - payable for securities purchased | **-** | **160** | **-** | **160** | - | - | - | - |
| Other payables | **-** | **24** | **-** | **24** | - | 14 | - | 14 |
| Net assets attributable to unitholders - liability* | **-** | **-** | **-** | **-** | 10,221 | - | - | 10,221 |
| **Contractual cash flows (excluding net settled derivatives)** | **-** | **1,045** | **-** | **1,045** | 10,221 | 231 | - | 10,452 |

* Net assets attributable to unitholders are classified as equity at 30 June 2019 and as financial liability at 30 June 2018. Refer to Note 1 for further detail.

## 8 Offsetting financial assets and financial liabilities

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

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

There were no offsetting assets for the comparative year.

| | Effects of offsetting on the statements of financial position | | | Related amounts not offset in the statements of financial position | | |
|---|---|---|---|---|---|---|
| **Emerging Market Fund** | **Gross amounts of financial assets/(liabilities)** | **Gross amounts set off in the statements of financial position** | **Net amount of financial assets/ (liabilities) presented in the statements of financial position** | **Financial instruments (including non-cash collateral)** | **Stock and cash collateral pledged** | **Net amounts** |
| | **$[2]** | **$[2]** | **$[2]** | **$[2]** | **$[2]** | **$[2]** |
| **As at 30 June 2019** | | | | | | |
| **Financial liabilities** | | | | | | |
| Foreign currency contracts | **(58)** | **-** | **(58)** | **-** | **-** | **(58)** |
| **Total** | **(58)** | **-** | **(58)** | **-** | **-** | **(58)** |

[2] *Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in ASIC Instrument 2016/191 to round to the nearest thousand dollars.*

## 9 Fair value measurements

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (Level 2); and
- Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3).

**Fair value estimation**

The carrying amounts of the Funds' assets and liabilities at the end of each reporting period approximate their fair values.

Financial assets and liabilities at fair value through profit or loss are measured initially at fair value excluding any transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs on financial assets and financial liabilities at fair value through profit or loss are expensed immediately. Subsequent to initial recognition, all instruments at fair value through profit or loss are measured at fair value with changes in their fair value recognised in statements of comprehensive income.

*(i) Fair value in an active market (Level 1)*

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs.

The Funds value their investments in accordance with the accounting policies set out in Note 2. For the majority of their investments, the Funds rely on information provided by independent pricing services for the valuation of their investments.

The quoted market price used for financial assets is the last traded price. Where the last traded price does not fall within the bid-ask spread, an assessment is performed by management to determine the appropriate valuation price to use that is most representative of fair value.

In the prior period, the current bid or asking price was used for the quoted market price. There has been no material impact on the valuation of assets and liabilities from this change in valuation method.

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

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

The fair value of financial assets and liabilities that are not traded in an active market is determined using valuation techniques. These include the use of recent arm's length market transactions, reference to the current fair value of a substantially similar other instrument, discounted cash flow techniques, option pricing models or any other valuation technique that provides a reliable estimate of prices obtained in actual market transactions.

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

## 9 Fair value measurements (continued)

**Fair value estimation (continued)**

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

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

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

*(iii) Recognised fair value measurements*

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

| | **Australian Bond Fund** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | Level 1 | Level 2 | Level 3 | Total |
| | **30 June 2019** | **30 June 2019** | **30 June 2019** | **30 June 2019** | 30 June 2018 | 30 June 2018 | 30 June 2018 | 30 June 2018 |
| **Financial assets** | **$'000** | **$'000** | **$'000** | **$'000** | $'000 | $'000 | $'000 | $'000 |
| Financial assets at fair value through profit or loss: | | | | | | | | |
| Bond futures | **25** | **-** | **-** | **25** | - | - | - | - |
| Fixed interest securities | | **72,635** | **-** | **72,635** | - | - | - | - |
| Floating rate notes | **-** | **2,213** | **-** | **2,213** | - | - | - | - |
| **Total** | **25** | **74,848** | **-** | **74,873** | - | - | - | - |

| | **Emerging Markets Fund** | | | |
|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** |
| | **30 June 2019** | **30 June 2019** | **30 June 2019** | **30 June 2019** |
| **Financial assets** | **$[2]** | **$[2]** | **$[2]** | **$[2]** |
| Financial assets at fair value through profit or loss: | | | | |
| Listed securities | **6,197,810** | **-** | **-** | **6,197,810** |
| **Total** | **6,197,810** | **-** | **-** | **6,197,810** |
| | | | | |
| **Financial liabilities** | | | | |
| Financial liabilities at fair value through profit or loss: | | | | |
| Foreign currency contracts | **-** | **58** | **-** | **58** |
| **Total** | **-** | **58** | **-** | **58** |

*[2] Rounded to the nearest whole dollar as the Fund does not meet the criteria set out in ASIC Instrument 2016/191 to round to the nearest thousand dollars.*

## 9 Fair value measurements (continued)

**Fair value estimation (continued)**

| | Equity Income Fund | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | Level 1 | Level 2 | Level 3 | Total |
| | **30 June 2019** | **30 June 2019** | **30 June 2019** | **30 June 2019** | 30 June 2018 | 30 June 2018 | 30 June 2018 | 30 June 2018 |
| **Financial assets** | **$'000** | **$'000** | **$'000** | **$'000** | $'000 | $'000 | $'000 | $'000 |
| Financial assets at fair value through profit or loss: | | | | | | | | |
| Listed securities | **20,556** | **-** | **-** | **20,556** | 12,357 | - | - | 12,357 |
| **Total** | **20,556** | **-** | **-** | **20,556** | 12,357 | - | - | 12,357 |

| | Real Income Fund | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Level 1** | **Level 2** | **Level 3** | **Total** | Level 1 | Level 2 | Level 3 | Total |
| | **30 June 2019** | **30 June 2019** | **30 June 2019** | **30 June 2019** | 30 June 2018 | 30 June 2018 | 30 June 2018 | 30 June 2018 |
| **Financial assets** | **$'000** | **$'000** | **$'000** | **$'000** | $'000 | $'000 | $'000 | $'000 |
| Financial assets at fair value through profit or loss: | | | | | | | | |
| Listed securities | **31,777** | **-** | **-** | **31,777** | 9,853 | - | - | 9,853 |
| Unlisted securities | **165** | **-** | **-** | **165** | - | - | - | - |
| **Total** | **31,942** | **-** | **-** | **31,942** | 9,853 | - | - | 9,853 |

*(iv) Transfers between levels*

There were no transfers between levels during the period ended 30 June 2019 and 30 June 2018.

*(v) Movement in level 3 instruments*

There were no investments classified as Level 3 within the Funds as at 30 June 2019 and 30 June 2018.

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

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

## 10 Derivative financial instruments

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

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

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

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

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

The following Funds held derivative instruments:

| | **Australian Bond Fund** | | | | | |
|---|---|---|---|---|---|---|
| | **Contract/ notional 30 June 2019 $'000** | **Assets 30 June 2019 $'000** | **Liabilities 30 June 2019 $'000** | Contract/ notional 30 June 2018 $'000 | Assets 30 June 2018 $'000 | Liabilities 30 June 2018 $'000 |
| Bond futures | **543,235** | **25** | **-** | - | - | - |
| | **543,235** | **25** | **-** | - | - | - |

| | **Emerging Markets Fund** | | |
|---|---|---|---|
| | **Contract/ notional 30 June 2019 $[2]** | **Assets 30 June 2019 $[2]** | **Liabilities 30 June 2019 $[2]** |
| Foreign currency contracts | **(25,501)** | **-** | **(58)** |
| | **(25,501)** | **-** | **(58)** |

[2] *Rounded to the nearest whole dollar/unit as the Fund does not meet the criteria set out in ASIC Instrument 2016/191 to round to the nearest thousand dollars/units.*

## 11 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:

| | Australian Bond Fund | | Emerging Markets Fund | Equity Income Fund | | Real Income Fund | |
|---|---|---|---|---|---|---|---|
| | **30 June 2019 $** | 30 June 2018 $ | **30 June 2019 $** | **30 June 2019 $** | 30 June 2018 $ | **30 June 2019 $** | 30 June 2018 $ |
| **KPMG** | | | | | | | |
| *Audit and other assurance service* | | | | | | | |
| Audit and review of financial reports | **4,982** | 1,000 | **3,752** | **4,982** | 3,660 | **4,982** | 3,660 |
| Audit of compliance plan | **1,230** | 300 | **1,230** | **1,230** | 1,200 | **1,230** | 1,200 |
| Total remuneration of audit and other assurance services | **6,212** | 1,300 | **4,982** | **6,212** | 4,860 | **6,212** | 4,860 |

## 12 Related party transactions

**Responsible Entity**

The Responsible Entity of the Funds is BetaShares Capital Ltd.

**Key management personnel**

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

## 12 Related party transactions (continued)

**Key management personnel (continued)**

**(b) Other key management personnel**

There were no other persons with responsibility for planning, directing and controlling the activities of the Funds, directly or indirectly during the financial 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 a management fee (after taking account of GST and reduced input tax credits), which are calculated as a percentage of the net asset value of the Funds and are disclosed in the statements of comprehensive income. The following table discloses the Responsible Entity's fees ended 30 June 2019 and 30 June 2018:

| **Funds** | **Management fee** | |
|---|---|---|
| | **30 June 2019** | 30 June 2018 |
| | **%** | % |
| Australian Bond Fund | **0.42** | - |
| Emerging Markets Fund | **1.00** | - |
| Equity Income Fund | **0.85** | 0.85 |
| Real Income Fund | **0.85** | 0.85 |

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

| | **Australian Bond Fund** | | **Emerging Markets Fund** | **Equity Income Fund** | | **Real Income Fund** | |
|---|---|---|---|---|---|---|---|
| | **30 June 2019** | 30 June 2018 | **30 June 2019** | **30 June 2019** | 30 June 2018 | **30 June 2019** | 30 June 2018 |
| | **$** | $ | **$** | **$** | $ | **$** | $ |
| Management fees expensed to the Responsible Entity | **121,920** | - | **4,516** | **151,582** | 28,336 | **161,856** | 25,607 |
| Management fees payable to the Responsible Entity at reporting date | **24,584** | - | **4,894** | **14,290** | 16,212 | **21,943** | 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.

## 13 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Funds disclosed in the statements of financial position as at 30 June 2019 or on the results and cash flows of the Funds for the period ended on that date.

## 14 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2019 and 30 June 2018.

## Directors' declaration

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

BetaShares Legg Mason Australian Bond Fund (managed fund)
BetaShares Legg Mason Emerging Markets Fund (managed fund)
BetaShares Legg Mason Equity Income Fund (managed fund)
BetaShares Legg Mason Real Income Fund (managed fund)

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

(a) the financial statements and notes set out on pages 6 to 34 are in accordance with the *Corporations Act 2001,* including:

(i) complying with Australian Accounting Standards, and interpretations issued by the Australian Accounting Standards Board and the *Corporations Regulations 2001;* and

(ii) giving a true and fair view of the Funds' financial positions as at 30 June 2019 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; and

(c) note 2(a) confirms that the financial statements comply with International Financial Reporting Standards and Interpretations issued by the International Accounting Standards Board.

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

David Nathanson
Director

Alex Vynokur
Director

Sydney
20 September 2019

# Independent Auditor's Report

To the respective unitholders of the following Schemes:

BetaShares Legg Mason Australian Bond Fund

BetaShares Legg Mason Emerging Markets Fund

BetaShares Legg Mason Equity Income Fund

BetaShares Legg Mason Real Income 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 2019 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 2019;
- Statements of comprehensive income, Statements of changes in equity, and Statements of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration made by the Directors of BetaShares Capital Limited (the Responsible Entity).

## Basis for opinions

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

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

We are independent of the Schemes and the Responsible Entity in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (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 of financial instruments.



KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

KPMG

| Valuation of financial instruments (BetaShares Legg Mason Australian Bond Fund $74,873,000 BetaShares Legg Mason Emerging Markets Fund $6,197,752 BetaShares Legg Mason Equity Income Fund $20,556,000, BetaShares Legg Mason Real Income Fund $31,942,000) | |
|---|---|
| Refer to Note 5 to the Financial Report. | |
| **The Key Audit Matter** | **How the matter was addressed in our audits** |
| Valuation of financial instruments is a Key Audit Matter due to:<br>The significance of each balance to the financial statements and as the key driver of operations and performance results. | Our procedures included:<br>• Read the Responsible Entity's fund administrator's ASAE 3402 Assurance Reports on Controls at a Service Organisation (ASAE 3402) report to assess the control environment at the custodian and its impact on our procedures<br>• Assessed the scope, competency and objectivity of the auditors of the ASAE 3402 reports.<br>• Checked the valuation of financial instruments, as recorded in the general ledger, to externally quoted market prices.<br>• Checked the Responsible Entity's external custody reports to assess the ownership of the financial instruments. |

## 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. This description forms part of our Auditor's Report.

KPMG

KPMG

Nicholas Buchanan

Partner

Sydney

20 September 2019