



UBS IQ Research Preferred Australian Share Fund

ARSN 159 571 534

Interim Financial Report
For the half-year ended 31 December 2015



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The Responsible Entity of the UBS IQ Research Preferred Australian Share Fund is UBS Asset Management (Australia) Ltd (ABN 31 003 146 290) (AFSL 222 605). The Responsible Entity's registered office is located at Level 16 Chifley Tower, 2 Chifley Square, Sydney, NSW 2000.

Directors' Report

The directors of UBS Asset Management (Australia) Ltd (formerly "UBS Global Asset Management (Australia) Ltd") (ABN 31 003 146 290), the Responsible Entity of the UBS IQ Research Preferred Australian Share Fund ("the Fund"), present their report together with the financial statements of the Fund for the half-year ended 31 December 2015.

Fund information

The Fund is an Australian Registered Scheme. UBS Asset Management (Australia) Ltd, the Responsible Entity of the Fund, is incorporated and domiciled in Australia.

Effective 30 October 2015, the Responsible Entity changed its name to UBS Asset Management (Australia) Ltd. The registered office of the Responsible Entity is located at Level 16 Chifley Tower, 2 Chifley Square, Sydney, NSW 2000.

Directors

The following persons held office as directors of UBS Asset Management (Australia) Ltd during the half-year and up to the date of this report:

B J Doherty, Chairman
A L Anderson
J D Males
A L Flockart
R Buehlmann

Principal activities

The Fund aims to replicate the performance of the UBS Research Preferred Index ("the Index"), before fees and expenses. The Index provides exposure to a portfolio of approximately 40 publicly listed, liquid Australian securities that, ordinarily have each been given a "buy" rating by the UBS Equity Research Team.

The Index is sponsored by UBS Securities Australia Limited ("UBS" or the "Index Sponsor"). The Fund is an exchange traded fund (ETF) and is a registered managed investment scheme.

There is only one class of units in the Fund as at 31 December 2015. This class is quoted and traded on the AQUA market of the Australian Securities Exchange (ASX).

During the half-year, the Fund continued to invest in Australian listed equities securities in accordance with the governing documents of the Fund and the provisions of the Fund's Constitution.

The Fund did not have any employees during the half-year.

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

Review and results of operations

The Fund has invested funds in accordance with target asset allocations as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

Directors' Report (continued)

The performance of the Fund, as represented by the results of its operations, was as follows:

	Half-year ended	
	31 December 2015	31 December 2014
	\$'000	\$'000
Profit/(loss) before finance costs attributable to unitholders	<u>(144)</u>	<u>(3,521)</u>
<i>Distributions - unquoted class</i>		
Total distributions paid and payable	<u>-</u>	<u>2,490</u>
Total distribution (cents per unit)	<u>-</u>	<u>37.49</u>
<i>Distributions - quoted class</i>		
Total distributions paid and payable	<u>1,072</u>	<u>984</u>
Total distribution (cents per unit)	<u>38.94</u>	<u>37.49</u>

Significant changes in the state of affairs

In the opinion of the directors, there were no significant changes in the state of affairs of the Fund that occurred during the reporting period other than those changes identified in the financial statements for the half year ended 31 December 2015.

Likely developments and expected results of operations

The Fund will continue to be managed in accordance with the investment objectives and guidelines as set out in the governing documents of the Fund and in accordance with the provisions of the Fund's Constitution.

Further information on likely developments in the operations of the Fund 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 Fund.

Events occurring after the reporting period

The Fund has received redemption notifications on 28 January 2016 and 25 February 2016 which in total represented approximately 88% of the Fund's units on issue as at 31 December 2015.

The Fund's underlying index changed on 1 February 2016 from UBS Research Preferred Index to the Morningstar® Australia Moat Focus Index™. As a result of this change and also effective 1 February 2016 the name of the Fund changed to UBS IQ Morningstar Australia Quality ETF. The management fee for the Fund has been reduced from 0.70% p.a. to 0.30% p.a. The ASX ticker remains the same.

The new Product Disclosure Statement is effective 1 February 2016 and is available on www.ubs.com/ETF-australia or on the ASX announcements platform.

Other than the matters disclosed above, no other matter or circumstance has arisen since 31 December 2015 that has significantly affected, or may significantly affect:

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

Directors' Report (continued)

Indemnification and insurance premiums of officers and auditors

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of UBS Asset Management (Australia) Ltd or the auditors of the Fund. So long as the officers of UBS Asset Management (Australia) Ltd act in accordance with the Fund's Constitutions and the *Corporations Act 2001*, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

The auditors of the Fund are in no way indemnified out of the assets of the Fund.

Environmental regulation

The operations of the Fund 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 Fund is an entity of the kind referred to in Class Order 98/100 (as amended) issued by the Australian Securities and Investments Commission (ASIC) relating to the 'rounding off' of amounts in the Directors' Report and financial statements. Amounts in the Directors' Report and financial statements have been rounded to the nearest thousand dollars in accordance with that Class Order, unless otherwise indicated.

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.



B J Doherty
Chairman



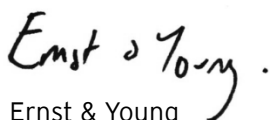
A L Anderson
Director

Sydney
8 March 2016

Auditor's Independence Declaration to the Directors of UBS Asset Management (Australia) Limited, as Responsible Entity for UBS IQ Research Preferred Australian Share Fund ("the Fund")

As lead auditor for the review of the Fund for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.



Ernst & Young



Graeme McKenzie
Partner
8 March 2016

Statement of Comprehensive Income

		Half-year ended	
	Notes	31 December 2015 \$'000	31 December 2014 \$'000
Investment income			
Interest income		1	2
Dividend/Trust distribution income		1,257	3,746
Net gains/(losses) on financial instruments held at fair value through profit or loss		(1,190)	(6,517)
Other income		1	1
Total Investment income/(loss)		<u>69</u>	<u>(2,768)</u>
Expenses			
Responsible Entity's fees		194	678
Transaction costs		13	52
Other expenses		6	23
Total Expenses		<u>213</u>	<u>753</u>
Profit/(loss) before finance costs attributable to unitholders		<u>(144)</u>	<u>(3,521)</u>
Finance costs attributable to unitholders			
Distributions to unitholders	4	1,072	3,474
Increase/(decrease) in net assets attributable to unitholders	3	<u>(1,216)</u>	<u>(6,995)</u>
Profit/(loss) for the reporting period attributable to unitholders		<u>-</u>	<u>-</u>
Other comprehensive income for the half-year attributable to unitholders		-	-
Total comprehensive income for the half-year attributable to unitholders		<u>-</u>	<u>-</u>

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Statement of Financial Position

		As at	
		31 December 2015	30 June 2015
	Notes	\$'000	\$'000
Assets			
Cash and cash equivalents		538	341
Receivables		64	195
Financial assets held at fair value through profit or loss	5	<u>55,069</u>	<u>55,342</u>
Total assets		<u>55,671</u>	<u>55,878</u>
Liabilities			
Distributions payable	4	1,072	434
Payables		38	40
Financial liabilities held at fair value through profit or loss	6	<u>-</u>	<u>7</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>1,110</u>	<u>481</u>
Net assets attributable to unitholders	3	<u>54,561</u>	<u>55,397</u>

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

	Half-year ended	
	31 December 2015 \$'000	31 December 2014 \$'000
Total equity at the beginning of the half-year	-	-
Profit/(loss) for the half-year attributable to unitholders	-	-
Other comprehensive income for the half-year attributable to unitholders	-	-
Total Comprehensive income for the half-year attributable to unitholders	-	-
Transactions with owners in their capacity as owners	-	-
Total equity at the end of the half-year	-	-

In accordance with AASB 132 *Financial Instruments: Presentation*, net assets attributable to unitholders are classified as a liability rather than equity. As a result, there was no equity at the beginning and the end of the half-year.

Changes in net assets attributable to unitholders are disclosed in Note 3.

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

	Half-year ended	
	31 December 2015	31 December 2014
	\$'000	\$'000
Cash flows from operating activities		
Proceeds from sale of financial instruments held at fair value through profit or loss	21,482	85,357
Purchase of financial instruments held at fair value through profit or loss	(22,397)	(95,319)
Dividends/Trust distributions received	1,367	4,387
Interest received	1	2
Other income received	13	2
Responsible Entity's fees paid	(195)	(676)
Transaction costs on financial instruments held at fair value through profit and loss	(13)	(52)
Other expenses	(7)	(18)
Net cash inflows/(outflows) from operating activities	251	(6,317)
Cash flows from financing activities		
Proceeds from applications by unitholders	-	7,341
Distributions paid	(54)	(444)
Net cash inflows/(outflows) from financing activities	(54)	6,897
Net increase/(decrease) in cash and cash equivalents	197	580
Cash and cash equivalents at the beginning of the half-year	341	464
Cash and cash equivalents at the end of the half-year	538	1,044

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

1 General information

These interim financial statements cover the UBS IQ Research Preferred Australian Share Fund ("the Fund") as an individual entity.

The Responsible Entity of the Fund is UBS Asset Management (Australia) Ltd (formerly "UBS Global Asset Management (Australia) Ltd") ("the Responsible Entity"). The Responsible Entity changed its name to UBS Asset Management (Australia) Ltd effective on 30 October 2015. The Responsible Entity is incorporated and domiciled in Australia. The Responsible Entity's registered office is located at Level 16 Chifley Tower, 2 Chifley Square, Sydney, NSW, 2000.

The financial statements of the Fund for the half-year ended 31 December 2015 were authorised for issue in accordance with a resolution of the directors on 8 March 2016. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

The financial statements are presented in Australian currency.

2 Basis of preparation of interim financial report

This general purpose interim report for the half-year ended 31 December 2015 has been prepared in accordance with the *Corporations Act 2001* and Australian Accounting Standards AASB 134 *Interim Financial Reporting* in Australia.

The interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the most recent annual financial report of the Fund and any continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous annual reporting period and corresponding interim reporting period, unless otherwise stated.

Comparative information

Where appropriate, comparative disclosures have been reclassified/amended to be consistent with the current year's presentation. Such reclassifications/amendments have not affected the Statement of Comprehensive Income or Statement of Financial Position.

3 Net assets attributable to unitholders

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

	Half-year ended			
	31 December 2015 No. '000	31 December 2014 No. '000	31 December 2015 No. '000	31 December 2014 No. '000
Net assets attributable to unitholders - unquoted class				
Opening balance	-	6,017	-	126,404
Applications	-	-	-	-
Redemptions	-	-	-	-
Units issued upon reinvestment of distributions	-	624	-	13,128
Increase/(decrease) in net assets attributable to unitholders	-	-	-	(5,107)
Closing balance	-	6,641	-	134,425

3 Net assets attributable to unitholders (continued)

	31 December 2015 No. '000	Half-year ended 31 December 2014 No. '000	31 December 2015 \$'000	31 December 2014 \$'000
Net assets attributable to unitholders - quoted class				
Opening balance	2,735	2,081	55,397	43,718
Applications	-	350	-	7,341
Redemptions	-	-	-	-
Units issued upon reinvestment of distributions	18	195	380	4,096
Increase/(decrease) in net assets attributable to unitholders	-	-	(1,216)	(1,888)
Closing balance	2,753	2,626	54,561	53,267
Total net assets attributable to unitholders			54,561	187,692

As stipulated within the Fund's Constitution and the Product Disclosure Statement, each unit in the Fund confers an equal undivided interest in the relevant Class Assets and subject to the Liabilities applicable to that Unit or Class.

A unit does not confer an interest in a particular asset. All Units in a Class rank equally and each class is a separate class of interests for the purposes of the *Corporations Act 2001*.

4 Distributions to unitholders

The distributions for the reporting period ended were paid/payable as follows:

	31 December 2015 \$'000	Half-year ended 31 December 2015 CPU	31 December 2014 \$'000	31 December 2014 CPU
Distributions - unquoted class				
31 December (payable)	-	-	2,490	37.49
	-	-	2,490	37.49
Distributions - quoted class				
31 December (payable)	1,072	38.94	984	37.49
	1,072	38.94	984	37.49
Total distributions	1,072		3,474	

5 Financial assets held at fair value through profit or loss

	As at	
	31 December 2015 \$'000	30 June 2015 \$'000
Held for trading		
Derivatives	18	-
Total held for trading	18	-
Designated at fair value through profit or loss		
Listed equities	55,051	55,342
Total designated at fair value through profit or loss	55,051	55,342
Total financial assets held at fair value through profit or loss	55,069	55,342

6 Financial liabilities held at fair value through profit or loss

	As at	
	31 December 2015 \$'000	30 June 2015 \$'000
Held for trading		
Derivatives	-	7
Total held for trading	-	7
Total financial liabilities held at fair value through profit or loss	-	7

7 Fair value measurement

The Fund is required to classify fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

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

The level in the fair value hierarchy within which the fair value measurement is categorised in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a level 3 measurement. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgement, considering factors specific to the asset or liability.

The determination of what constitutes "observable" requires significant judgement by the Responsible Entity. The Responsible Entity considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market.

7 Fair value measurement (continued)

(i) Fair value in an active market (level 1)

The fair value of financial assets and liabilities traded in active markets (such as publicly traded derivatives and equity securities) are based on their quoted market prices at the close of trading at the end of the reporting period without any deduction for estimated future selling costs. For the majority of investments, information provided by independent pricing services are relied upon for the valuation of investments.

Where the Fund does have financial assets and financial liabilities with offsetting positions in market risks or counterparty credit risk, it may elect to use the measurement exception provided in AASB 13 to measure the fair value of its net risk exposure by applying the bid or ask price to the net open position as appropriate.

If a significant movement in fair value occurs subsequent to the close of trading up to midnight on the reporting date, valuation techniques will be applied to determine the fair value. A significant event is any event that occurs after the last market price for a security, close of market or close of the foreign exchange, but before the Fund's valuation time that materially affects the integrity of the closing prices for any security, instrument, currency or securities affected by that event so that they cannot be considered 'readily available' market quotations. Where the last sale price does not fall within the bid-ask spread, an assessment is performed by the Responsible Entity to determine the appropriate valuation price to use that is most representative of fair value.

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.

An active market is a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing 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 half-year applicable for an instrument with similar terms and conditions.

For other pricing models, inputs are based on market data at the end of the half-year. 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 fair value of derivatives that are not exchange traded is estimated at the amount that the Fund would receive or pay to terminate the contract at the end of the half-year taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Fund holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including liquidity risk and counterparty risk.

7 Fair value measurement (continued)

Recognised fair value measurement

The table below presents the Fund's financial assets and liabilities (by class) measured and recognised at fair value according to the fair value hierarchy at 31 December 2015 and 30 June 2015.

As at 31 December 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets held for trading:				
Australian share price index futures	18	-	-	18
Financial assets designated at fair value through profit or loss:				
Listed equities	55,051	-	-	55,051
Total	55,069	-	-	55,069
Financial liabilities				
Financial liabilities held for trading:				
Australian share price index futures	-	-	-	-
Total	-	-	-	-
As at 30 June 2015	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Financial assets				
Financial assets designated at fair value through profit or loss:				
Listed equities	55,342	-	-	55,342
Total	55,342	-	-	55,342
Financial liabilities				
Financial liabilities held for trading:				
Australian share price index futures	7	-	-	7
Total	7	-	-	7

The Management's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of each reporting period.

(i) Transfers between levels

There have been no transfers between levels for the half-year ended 31 December 2015. There were also no changes made to any of the valuation techniques applied as at 30 June 2015.

(ii) Fair value measurements using significant unobservable inputs (level 3)

The Fund did not hold any financial instruments with fair value measurements using significant unobservable inputs during the half-year ended 31 December 2015 or year ended 30 June 2015.

(iii) Fair values of other financial instruments

The Fund did not hold any financial instruments which were not measured at fair value in the Statement of Financial Position. Due to their short-term nature, the carrying amounts of receivables and payables are assumed to approximate fair value.

8 Events occurring after the reporting period

The Fund has received redemption notifications on 28 January 2016 and 25 February 2016 which in total represented approximately 88% of the Fund's units on issue as at 31 December 2015.

The Fund's underlying index changed on 1 February 2016 from UBS Research Preferred Index to the Morningstar® Australia Moat Focus Index™. As a result of this change and also effective 1 February 2016 the name of the Fund changed to UBS IQ Morningstar Australia Quality ETF. The management fee for the Fund has been reduced from 0.70% p.a. to 0.30% p.a. The ASX ticker remains the same.

The new Product Disclosure Statement is effective 1 February 2016 and is available on www.ubs.com/ETF-australia or on the ASX announcements platform.

There were no other significant events that have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the Statement of Financial Position as at 31 December 2015 or on the results and cash flows of the Fund for the period ended on that date (June 2015: Nil).

9 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 31 December 2015.

Directors' Declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 15 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the Fund's financial position as at 31 December 2015 and of its performance, as represented by the results of its operations and cash flows, for the half-year ended on that date.
- (b) there are reasonable grounds to believe that the Fund will be able to pay its debts as and when they become due and payable.
- (c) the financial statements are in accordance with the Fund's Constitution.
- (d) the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as disclosed in Note 2.

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



B J Doherty
Chairman



A L Anderson
Director

Sydney
8 March 2016

To the unitholders of the UBS IQ Research Preferred Australian Share Fund ("the Fund")

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of the Fund, which comprises the Statement of Financial Position as at 31 December 2015, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of UBS Asset Management (Australia) Ltd (the "Responsible Entity") are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Fund's financial positions as at 31 December 2015 and their performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Fund, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

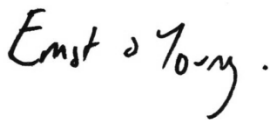
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the Responsible Entity a written Auditor's Independence Declaration, a copy of which is attached to the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Fund is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the Fund's financial positions as at 31 December 2015 and of their performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Graeme McKenzie
Partner
Sydney
8 March 2016



UBS Asset Management (Australia) Ltd is a subsidiary of UBS AG

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