



UBS IQ Morningstar Australia Quality ETF

(formerly "UBS IQ Research Preferred Australian Share Fund")

ARSN 159 571 534

Financial Report

For the year ended 30 June 2016



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These financial statements cover the UBS IQ Morningstar Australia Quality ETF (formerly “UBS IQ Research Preferred Australian Share Fund”) as an individual entity.

The Responsible Entity of the UBS IQ Morningstar Australia Quality ETF (formerly “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 Morningstar Australia Quality ETF (formerly "UBS IQ Research Preferred Australian Share Fund") ("the Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2016.

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.

Effective 1 February 2016, the name of the fund changed to UBS IQ Morningstar Australia Quality ETF following the change of the underlying index of the Fund.

Directors

The following persons held office as directors of UBS Asset Management (Australia) Ltd during the 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

Up to 1 February 2016, the Fund aimed to replicate the performance of the UBS Research Preferred Index before fees and expenses. The UBS Research Preferred Index provided exposure to a portfolio of approximately 40 publicly listed, liquid Australian securities that, ordinarily had been given a "buy" rating by the UBS Equity Research Team.

The Fund's underlying index changed on 1 February 2016 from the UBS Research Preferred Index to the Morningstar® Australia Moat Focus Index™ (the "Index"). The Fund aims to replicate the performance of the Index before fees and expenses. The Index provides exposure to a diversified portfolio of listed Australian securities constructed by reference to, amongst other things Morningstar equity research.

Two classes of units in the Fund may be offered. One class that is quoted and traded on the AQUA market of the ASX. This is reflected in the current Product Disclosure Statement. The other class is an unquoted class that is available to wholesale investors only. As at 30 June 2016 the unquoted class of investors was nil. The Fund is an exchange traded fund (ETF) and is a registered managed investment scheme.

During the year, the Fund continued to invest in Australian listed equities securities and unit trusts 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 year (2015: nil).

There were no significant changes in the nature of the Fund's activities during the year or since the end of the year and up to the date of this report.

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:

	Year ended	
	30 June 2016	30 June 2015
	\$	\$
Profit/(loss) before finance costs attributable to unitholders	<u>(2,481,175)</u>	<u>17,189,506</u>
<i>Distributions - unquoted class</i>		
Total distribution paid	-	23,772,703
Total distribution payable	-	-
Total distribution (cents per unit)	-	<u>352.15</u>
<i>Distributions - quoted class</i>		
Total distribution paid	1,072,066	3,589,274
Total distribution payable	<u>244,940</u>	<u>434,077</u>
Total distribution (cents per unit)	<u>109.40</u>	<u>152.38</u>
Total return (including both capital and distribution return) for the year assuming reinvestment of all distributions back into the Fund (%)	<u>3.86</u>	<u>3.49</u>

Significant changes in the state of affairs

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 the time of the event.

The Fund's underlying index changed on 1 February 2016 from the 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. of the Fund's net asset value.

The new Product Disclosure Statement is effective 1 February 2016 and is available on www.ubs.com/ETF-australia or on the ASX announcement platform. The ASX ticker for the Fund remains the same.

In the opinion of the directors, except as disclosed above, there were no other significant changes in the state of affairs of the Fund that occurred during the year.

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 date

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect:

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

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 Constitution 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.

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

Fees paid to the Responsible Entity and its associates out of Fund's assets during the year are disclosed in Note 16 to the financial statements.

No fees were paid out of the Fund's assets to the directors of the Responsible Entity during the year.

The number of interests in the Fund held by the Responsible Entity or its associates as at the end of the financial year are disclosed in Note 16 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in Note 5 to the financial statements.

The value of the Fund's assets and liabilities is disclosed in the Statement of Financial Position and derived using the basis set out in Note 2 to the financial statements.

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 dollar

The Fund is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (formerly 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. Amounts in the Directors' report have been rounded to the nearest dollar in accordance with that ASIC Instrument, 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



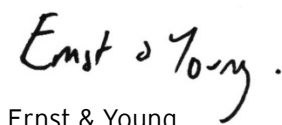
A L Anderson
Director

Sydney
21 September 2016

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

As lead auditor for the audit of UBS IQ Morningstar Australia Quality ETF (formerly "UBS IQ Research Preferred Australian Share Fund") for the financial year ended 30 June 2016, 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 audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.



Ernst & Young



Graeme McKenzie
Partner
21 September 2016

Statement of Comprehensive Income

		Year ended	
		30 June 2016	30 June 2015
	Notes	\$	\$
Investment income			
Interest income		857	4,160
Dividend/Trust distribution income		1,473,531	7,132,403
Net gains/(losses) on financial instruments held at fair value through profit or loss	4	(3,693,204)	11,366,555
Foreign exchange gains/(losses)		836	(604)
Other income		1	2,080
Total Investment income/(loss)		<u>(2,217,979)</u>	<u>18,504,594</u>
Expenses			
Responsible Entity's fees	16	235,553	1,171,530
Transaction costs		22,328	102,883
Other expenses		5,315	40,675
Total Expenses		<u>263,196</u>	<u>1,315,088</u>
Profit/(loss) before finance costs attributable to unitholders		<u>(2,481,175)</u>	<u>17,189,506</u>
Finance costs attributable to unitholders			
Distributions to unitholders	6	1,317,006	27,796,054
Increase/(decrease) in net assets attributable to unitholders	5	(3,798,181)	(10,606,548)
Profit/(loss) for the year attributable to unitholders		<u>-</u>	<u>-</u>
Other comprehensive income for the year attributable to unitholders		-	-
Total comprehensive income for the 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	
		30 June	30 June
		2016	2015
	Notes	\$	\$
Assets			
Cash and cash equivalents	7	616	149,837
Margin accounts		6	190,561
Receivables	10	247,744	195,231
Financial assets held at fair value through profit or loss	8	<u>6,951,270</u>	<u>55,342,515</u>
Total assets		<u>7,199,636</u>	<u>55,878,144</u>
Liabilities			
Distributions payable	6	244,940	434,077
Payables	11	25,494	39,654
Financial liabilities held at fair value through profit or loss	9	<u>-</u>	<u>7,050</u>
Total liabilities (excluding net assets attributable to unitholders)		<u>270,434</u>	<u>480,781</u>
Net assets attributable to unitholders	5	<u>6,929,202</u>	<u>55,397,363</u>

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

Statement of Changes in Equity

	Year ended	
	30 June 2016	30 June 2015
	\$	\$
Total equity at the beginning of the year	-	-
Profit/(loss) for the year attributable to unitholders	-	-
Other comprehensive income for the year attributable to unitholders	-	-
Total comprehensive income for the year attributable to unitholders	-	-
Transactions with owners in their capacity as owners	-	-
Total equity at the end of the 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 year.

Changes in net assets attributable to unitholders are disclosed in Note 5.

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

Statement of Cash Flows

		Year ended	
		30 June	30 June
		2016	2015
	Notes	\$	\$
Cash flows from operating activities			
Proceeds from sale of financial instruments held at fair value through profit or loss		84,708,551	313,084,343
Purchase of financial instruments held at fair value through profit or loss		(39,967,807)	(170,594,464)
Net foreign exchange gains/(losses)		836	(604)
Dividends/Trust distributions received		1,560,403	7,714,771
Interest received		894	4,230
Other income received		18,025	8,944
Responsible Entity's fees paid		(267,185)	(1,246,831)
Other expenses		(26,815)	(137,313)
Net cash inflows/(outflows) from operating activities	18(a)	<u>46,026,902</u>	<u>148,833,076</u>
Cash flows from financing activities			
Proceeds from applications by unitholders		-	7,340,164
Payments for redemptions by unitholders		(45,945,135)	(133,548,987)
Distributions paid		(230,988)	(22,938,494)
Net cash inflows/(outflows) from financing activities		<u>(46,176,123)</u>	<u>(149,147,317)</u>
Net increase/(decrease) in cash and cash equivalents		(149,221)	(314,241)
Cash and cash equivalents at the beginning of the year		<u>149,837</u>	<u>464,078</u>
Cash and cash equivalents at the end of the year	18(b)	<u>616</u>	<u>149,837</u>

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

1 General information

These financial statements cover the UBS IQ Morningstar Australia Quality ETF (formerly "UBS IQ Research Preferred Australian Share Fund") ("the Fund") as an individual entity. The Fund was constituted on 19 July 2012, registered by Australian Securities and Investments Commission (ASIC) as a managed investment scheme on 2 August 2012 and commenced operations on 18 October 2012.

Up to 1 February 2016, the Fund aimed to replicate the performance of the UBS Research Preferred Index, before fees and expenses. The UBS Research Preferred Index provided exposure to a portfolio of approximately 40 publicly listed, liquid Australian securities that, ordinarily had been given a "buy" rating by the UBS Equity Research Team.

The Fund's underlying index changed on 1 February 2016 from the UBS Research Preferred Index to the Morningstar® Australia Moat Focus Index™ (the "Index"). The Fund aims to replicate the performance of the Index before fees and expenses. The Index provides exposure to a diversified portfolio of listed Australian securities constructed by reference to, amongst other things Morningstar equity research.

Following the change of the underlying index of the Fund and also effective 1 February 2016, the name of the Fund changed to UBS IQ Morningstar Australia Quality ETF as disclosed above. The ASX ticker for the Fund remains the same.

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.

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

The financial statements of the Fund for the year ended 30 June 2016 were authorised for issue in accordance with a resolution of the directors on 21 September 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 Summary of significant accounting policies

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

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001* in Australia.

The Fund is a for-profit fund for the purpose of preparing the financial statements.

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

The Statement of Financial Position is 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, financial liabilities held at fair value through profit or loss and net assets attributable to unitholders. The amount expected to be recovered or settled within twelve months after the end of the reporting period cannot be reliably determined.

(i) Compliance with Australian Accounting Standards and International Financial Reporting Standards (IFRS)

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

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) *New and amended standards adopted by the Fund*

The Fund applied the following accounting standard amendment which became effective for the first time for the financial year:

AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality:
AASB 2015-3 completed the withdrawal of references to AASB 1031 *Materiality* in all Australian Accounting Standards and Interpretations, allowing AASB 1031 to be effectively withdrawn. The adoption of AASB 2015-3 did not have any impact on the Fund for the current period or any prior periods and will not impact any future periods.

There are no other standards, interpretations or amendments to existing standards that are effective for the first time for the financial year beginning 1 July 2015 that have a material impact on the Fund.

(b) Investment entities

Funds that meet the definition of an investment entity within AASB 10 are required to measure their subsidiaries at fair value through profit or loss rather than consolidate them. The criteria which define an investment entity are, as follows:

- An entity that obtains funds from one or more investors for the purpose of providing those investors with investment services;
- An entity that commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income or both; and
- An entity that measures and evaluates the performance of substantially all of its investments on a fair value basis.

The Board has concluded that the Fund meets the additional characteristics of an investment entity, in that it has more than one investment; the investments are predominantly in the form of equities and similar securities; it has more than one investor and its investors are not related parties.

The Board has also concluded that the Fund meets the definition of an investment entity. These conclusions will be reassessed on an annual basis, if any of these criteria or characteristics changes.

(c) Financial instruments

(i) *Classification*

The Fund's investments are classified as at fair value through profit or loss. They comprise:

- *Financial instruments held for trading*

Derivative financial instruments are categorised as held for trading within the financial asset or financial liability at fair value through profit or loss category.

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

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold. These are investments in Australian listed equities securities and unit trusts.

Financial assets and liabilities designated at fair value through profit or loss at inception are those that are managed and their performance evaluated on a fair value basis in accordance with the Fund's documented investment strategy. The Fund's policy is for the Responsible Entity to evaluate the information about these financial instruments on a fair value basis together with other related financial information.

2 Summary of significant accounting policies (continued)

(c) Financial instruments (continued)

(ii) Recognition/derecognition

The Fund recognises financial assets and financial liabilities on the date it becomes party to the contractual agreement (trade date) and recognises changes in fair value of the financial assets or financial liabilities from this date.

A financial asset (or, where applicable a part of a financial asset or part of a group of similar assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Fund retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' agreement; or
- the Fund has transferred its rights to receive cash flows from the asset and either:
 - (a) has transferred substantially all the risks and rewards of the asset; or
 - (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Any gains or losses arising on derecognition of the asset (calculated as the difference between the disposal proceeds and the carrying amount of the asset) are included in the Statement of Comprehensive Income in the year the asset is derecognised as realised gains or losses on financial instruments.

(iii) Measurement

Financial assets and liabilities held at fair value through profit or loss

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

The fair value of financial assets and liabilities traded in active markets is based on their quoted market prices at the end of the year without any deduction for estimated future selling costs. Financial assets are priced at current bid prices, while financial liabilities are priced at current asking price.

The fair value of financial assets and liabilities are based on approximately 25-50 publicly listed, liquid Australian securities. Accordingly, there may be a difference between the fair value at initial recognition and amounts determined by market conditions. If such a difference exists, the Fund recognises the difference in the Statement of Comprehensive Income to reflect a change in factors, including time, that market participants would consider in setting a price.

Further details on how the fair values of financial instruments are determined are disclosed in Note 15.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement 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. Refer to Note 14 to the financial statements for further information.

2 Summary of significant accounting policies (continued)

(d) Net assets attributable to unitholders

Units are redeemable at the unitholders' option and are therefore classified as financial liabilities as the Fund is required to distribute its distributable income. The units can be put back to the Fund at any time for cash based on the redemption price. The fair value of redeemable units is measured at the redemption amount that is payable (in cash and securities representing each investor's equal undivided, vested and indefeasible interest in the assets as a whole, subject to liabilities as defined by the Fund's Constitution) at the end of the year if unitholders exercised their right to put the units back to the Fund.

(e) Cash and cash equivalents

Cash and cash equivalents include cash on hand and deposits held at call with banks or other financial institutions.

(f) Margin accounts

Margin accounts comprise cash held as collateral for derivative transactions. The cash is held by the broker and is only available to meet margin calls.

(g) Investment income

Interest income and expense is recognised in the Statement of Comprehensive Income using the effective interest method.

Dividend income is recognised on the ex-dividend date when the Fund's right to receive the payment is established and dividend revenue is presented gross of withholding tax in the Statement of Comprehensive Income.

Trust distributions are recognised on a present entitlement basis.

(h) Expenses

All expenses, including Responsible Entity's fees and other expenses, which include dividend withholding tax, are recognised in the Statement of Comprehensive Income on an accruals basis.

(i) Income tax

Under current legislation, the Fund is not subject to income tax as unitholders are presently entitled to the income of the Fund and the Fund fully distributes its net taxable income.

(j) Distributions

In accordance with the Fund's Constitution, the Fund fully distributes its income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are recognised in the Statement of Comprehensive Income as finance costs attributable to unitholders.

(k) Increase/decrease in net assets attributable to unitholders

Non-distributable income is transferred directly to net assets attributable to unitholders and may consist of unrealised changes in the net fair value of financial instruments, accrued income not yet assessable, expenses provided or accrued for which are not yet deductible, net capital losses and tax free or tax deferred income. Net capital gains on the realisation of any investments (including any adjustments for tax deferred income previously taken directly to net assets attributable to unitholders) and accrued income not yet assessable will generally be included in the determination of distributable income in the same year in which it becomes assessable for tax.

2 Summary of significant accounting policies (continued)

(l) Foreign currency translation

(i) Functional and presentation currency

Items included in the Fund's financial statements are measured using the currency of the primary economic environment in which it operates ("the functional currency"). This is the Australian dollar, which reflects the currency of the economy in which the Fund competes for funds and is regulated. The Australian dollar is also the Fund's presentation currency.

(m) Receivables

Receivables may include income receivable and amounts are generally received within 30 days of being recorded as receivables.

Trades are recorded on trade date and normally settled within three business days. Sales of securities and investments that are unsettled at the end of the financial year, are included in receivables.

Accrued income may include amounts for dividends, trust distributions and interest.

Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of the year from the time of last payment.

(n) Payables

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

Trades are recorded on trade date and normally settled within three business days. Purchases of securities and investments that are unsettled at the end of the financial year are included in payables.

The distribution amount payable to unitholders as at the end of the year is recognised separately on the Statement of Financial Position as unitholders are presently entitled to the distributable income under the Fund's Constitution.

(o) Applications and redemptions

Application amounts may be in the form of a parcel of quoted securities transferred through Clearing House Electronic Subregister System (CHESS) or can be paid in cash. The parcel of securities related to in-specie applications generally reflect the characteristics of the Morningstar® Australia Moat Focus Index™. Investors may purchase units by trading on the Australian Securities Exchange (ASX).

Applications for Units in a Fund may only be made by Authorised Participants, acting as principal. Unitholders may only redeem Units if they are an Authorised Participant acting as principal and are a Qualifying Australian Resident as defined in the Product Disclosure Statement. Investors may sell units by trading on the ASX.

Unit redemption price is determined by reference to the net assets of the Fund divided by the number of units on issue. For unit pricing purposes, net assets are determined using the last reported trade price for securities. These prices may differ from the market price quoted on the ASX.

(p) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as Custodial and Administration services, Responsible Entity fees and Investment Management fees have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of 55% to 75%. Hence Responsible Entity fees, Investment Management fees, Custody and Administrator fees and other expenses have been recognised in the Statement 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 Statement of Financial Position.

2 Summary of significant accounting policies (continued)

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

Cash flows relating to GST are included in the Statement of Cash Flow on a gross basis.

(q) Use of estimates

The Fund makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(r) Segment reporting

A business segment is identified for a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is identified when products or services are provided within a particular economic environment subject to risks and returns that are different from those of segments operating in other economic environments.

The Board of the Responsible Entity reviews performance of the segments against the performance of the Fund's benchmark.

(s) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the year ended 30 June 2016 and have not been applied in the Financial Statements. The directors' assessment of the impact of these new standards (to the extent relevant to the Fund) and interpretations is set out below.

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

AASB 9 *Financial Instruments* addresses the classification, measurement and derecognition of financial assets and financial liabilities. It has now also introduced revised rules around hedge accounting and impairment. The standard is not applicable until 1 January 2018 but is available for early adoption.

The Fund does not expect this to have a significant impact on the recognition and measurement of the Fund's financial instruments as they are carried at fair value through profit or loss.

The derecognition rules have not been changed from the previous requirements, and the Fund does not apply hedge accounting. AASB 9 introduces a new impairment model. However, as the Fund's investments are all held at fair value through profit or loss, the change in impairment rules will not impact the Fund.

The Fund does not intend to early adopt AASB 9.

(ii) AASB 15 *Revenue from Contracts with Customers*, (effective from 1 January 2018)

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The Fund's main source of income are interest, dividends, distributions and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As consequence, the directors do not expect the adoption of the new revenue recognition rules to have a significant impact on the Fund's accounting policies or the amounts recognised in the financial statements.

The Fund does not intend to early adopt AASB 15.

2 Summary of significant accounting policies (continued)

(t) 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.

(u) Rounding of amounts

The Fund is an entity of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (formerly Class Order 98/100 (as amended)) issued by the Australian Securities and Investments Commission (ASIC) relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded to the nearest dollar in accordance with that ASIC Instrument, unless otherwise indicated.

3 Auditor's remuneration

During the year the following professional fees were paid or payable by the Responsible Entity for services provided by the auditor of the Fund.

	Year ended	
	30 June 2016	30 June 2015
	\$	\$
Assurance services		
<i>Ernst & Young</i>		
Audit and review of financial statements	13,500	13,500
Audit of compliance plan	1,559	1,514
Total remuneration for assurance services	15,059	15,014

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

	Year ended	
	30 June 2016	30 June 2015
	\$	\$
Net gains/(losses) on financial instruments held for trading	(8,112)	17,383
Net gains/(losses) on financial instruments designated as at fair value through profit or loss	(3,685,092)	11,349,172
Total net gains/(losses) on financial instruments held at fair value through profit or loss	(3,693,204)	11,366,555

5 Net assets attributable to unitholders

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

	Year ended			
	30 June 2016 No.	30 June 2015 No.	30 June 2016 \$	30 June 2015 \$
Net assets attributable to unitholders - unquoted class				
Opening balance	-	6,017,111	-	126,403,822
Redemptions	-	(6,763,712)	-	(133,548,987)
Units issued upon reinvestment of distributions	-	746,601	-	15,617,804
Increase/(decrease) in net assets attributable to unitholders	-	-	-	(8,472,639)
Closing balance	-	-	-	-
Net assets attributable to unitholders - quoted class				
Opening balance	2,734,403	2,080,609	55,397,363	43,717,944
Applications	-	350,000	-	7,340,164
Redemptions	(2,450,000)	-	(45,945,135)	-
Units issued upon reinvestment of distributions	63,210	303,794	1,275,155	6,473,164
Increase/(decrease) in net assets attributable to unitholders	-	-	(3,798,181)	(2,133,909)
Closing balance	347,613	2,734,403	6,929,202	55,397,363
Total net assets attributable to unitholders			6,929,202	55,397,363

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*.

Capital risk management

The Fund manages its net assets attributable to unitholders as capital, notwithstanding net assets attributable to unitholders can change significantly on a daily basis as the Fund is subject to daily applications and redemptions at the discretion of unitholders. The Fund monitors the level of daily applications and redemptions relative to the liquid assets in the Fund.

Two classes of units in the Fund may be offered. One class that is quoted and traded on the AQUA market of the ASX. This is reflected in the current Product Disclosure Statement. The other class is an unquoted class that is available to wholesale investors only. As at 30 June 2016 the unquoted class of investors was nil.

6 Distributions to unitholders

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

	Year ended			
	30 June 2016	30 June 2016	30 June 2015	30 June 2015
	\$	CPU	\$	CPU
Distributions - unquoted class				
31 December	-	-	2,489,762	37.49
14 April	-	-	21,282,941	314.66
	-	-	<u>23,772,703</u>	<u>352.15</u>
Distributions - quoted class				
31 December	1,072,066	38.94	984,201	37.49
14 April	-	-	2,605,073	99.02
30 June (payable)	<u>244,940</u>	<u>70.46</u>	<u>434,077</u>	<u>15.87</u>
	<u>1,317,006</u>	<u>109.40</u>	<u>4,023,351</u>	<u>152.38</u>
Total distributions	<u>1,317,006</u>		<u>27,796,054</u>	

7 Cash and cash equivalents

	As at	
	30 June 2016	30 June 2015
	\$	\$
Cash at bank	<u>616</u>	<u>149,837</u>
Total cash and cash equivalents	<u>616</u>	<u>149,837</u>

8 Financial assets held at fair value through profit or loss

	As at	
	30 June 2016	30 June 2015
	\$	\$
Designated at fair value through profit or loss		
Listed equities	4,647,580	55,342,515
Listed unit trusts	<u>2,303,690</u>	-
Total designated at fair value through profit or loss	<u>6,951,270</u>	<u>55,342,515</u>
Total financial assets held at fair value through profit or loss	<u>6,951,270</u>	<u>55,342,515</u>

An overview of the risk exposures relating to financial assets held at fair value through profit or loss is included in Note 13.

9 Financial liabilities held at fair value through profit or loss

	As at	
	30 June	30 June
	2016	2015
	\$	\$
Held for trading		
Derivatives (Note 12)	-	7,050
Total held for trading	-	7,050
Total financial liabilities held at fair value through profit or loss	-	7,050

An overview of the risk exposures relating to financial liabilities held at fair value through profit or loss is included in Note 13.

10 Receivables

	As at	
	30 June	30 June
	2016	2015
	\$	\$
Dividends receivable	74,563	176,426
Due from brokers - receivables for securities sold	172,437	-
Other receivables	744	18,805
Total receivables	247,744	195,231

11 Payables

	As at	
	30 June	30 June
	2016	2015
	\$	\$
Responsible Entity's fees payable	1,777	33,409
Due to brokers - payable for securities purchased	21,959	-
Other payables	1,758	6,245
Total payables	25,494	39,654

12 Derivative financial instruments

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

Derivative financial instruments require either 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.

12 Derivative financial instruments (continued)

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

- hedging to protect an asset or liability of the Fund against a fluctuation in market values or to reduce volatility
- a substitution for trading of physical securities
- adjusting asset exposures within the parameters set in the investment strategy.

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 Fund.

The Fund holds the following derivative instruments:

(a) Futures

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

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

	Contract/ Notional \$	Assets \$	Liabilities \$
30 June 2016			
Australian share price index futures	-	-	-
	-	-	-
	Contract/ Notional \$	Assets \$	Liabilities \$
30 June 2015			
Australian share price index futures	404,775	-	7,050
	404,775	-	7,050

Risk exposures and fair value measurements

Information about the Fund's exposure to price risk, credit risk, interest rate risk, liquidity risk and about the methods and assumptions used in determining fair values is provided in Note 13 to the financial statements. The maximum exposure to credit risk at the end of the year is the carrying amount of each class of derivative financial instruments disclosed above.

13 Financial risk management

The Fund's activities expose it to a variety of financial risks: market risk (including price risk and interest rate risk), credit risk and liquidity risk.

The Fund's overall risk management programme focuses on ensuring compliance with the Fund's Product Disclosure Statement and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. The Fund may use derivative financial instruments to manage certain risk exposures. Financial risk management is carried out by the Investment Manager under an Investment Mandate approved by the Board of Directors of the Responsible Entity ("the Board").

Compliance with the Fund's Constitution is monitored on a daily basis and reported to the Board and Compliance Committee on a regular basis.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of market risk.

(a) Market risk

Market risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in market prices. The Fund's equity investments are publicly traded and are included in the Morningstar® Australia Moat Focus Index™ ("the Index").

(i) Price risk

The Fund is exposed to equity securities and derivative securities price risk. This arises from investments held by the Fund for which prices in the future are uncertain. Where non-monetary financial instruments are denominated in currencies other than the Australian dollar, the price in the future will also fluctuate because of changes in foreign exchange rates. Investments are classified in the Statement of Financial Position as at fair value through profit or loss. All securities investments present a risk of loss of capital.

The Index is designed to target exposure to approximately 25-50 wide and narrow 'moat' stock in the Morningstar Australia Index™ with the lowest ratios of current market price to fair value price determined under an independent research process by the Morningstar Equity Research team. The fair value estimate is based primarily on Morningstar's proprietary three-stage discounted cash flow model. Morningstar checks its fair value estimates against other valuation measure, such as sum-of-the-parts, multiple and yields, among others.

The following table summarises the sensitivity of the Fund's operating profit and net assets attributable to unitholders to equity price risk. The reasonably possible movements in the risk variables have been determined based on management's best estimate, having regard to a number of factors, including historical correlation of the Fund's investments with the relevant benchmark and market volatility. However, actual movements in the risk variables may be greater or less than anticipated due to a number of factors, including unusually large market shocks resulting from changes in the performance of the economies, markets and securities in which the Fund invests. As a result, historic variations in risk variables are not a definitive indicator of future variations in the risk variables.

	As at 30 June 2016		As at 30 June 2015	
	Increased by 10%	Decreased by 10%	Increased by 10%	Decreased by 10%
	\$	\$	\$	\$
Increase/(decrease) in net assets attributable to unitholders (and profit/(loss) before finance costs attributable to unitholders)	<u>695,127</u>	<u>(695,127)</u>	<u>5,534,252</u>	<u>(5,534,252)</u>

13 Financial risk management (continued)

(a) Market risk (continued)

(ii) Foreign exchange risk

Foreign exchange risk arises as the value of monetary assets and liabilities denominated in other currencies will fluctuate due to changes in exchange rates.

After the Fund's underlying index changed on 1 February 2016, the Fund has no direct foreign exchange risk exposure as the Fund operates solely in Australia and the majority of the Fund's assets and liabilities are denominated in the Australian currency.

(iii) Interest rate risk

Interest rate risk is the risk that rate movements will have a negative impact on investment value or returns. Interest rate risk is managed in accordance with the underlying investment strategy of the Fund.

Compliance with the value of cash investments held is monitored daily and reported to the Board and Compliance Committee on a regular basis.

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

	Floating interest rate \$	Fixed interest rate \$	Non - interest bearing \$	Total \$
30 June 2016				
Financial assets				
Cash and cash equivalents	616	-	-	616
Margin accounts	6	-	-	6
Receivables	-	-	247,744	247,744
Financial assets held at fair value through profit and loss	-	-	6,951,270	6,951,270
Total assets	622	-	7,199,014	7,199,636
Financial liabilities				
Payables	-	-	(25,494)	(25,494)
Distributions payable	-	-	(244,940)	(244,940)
Total liabilities (excluding net assets attributable to unitholders)	-	-	(270,434)	(270,434)
Net assets attributable to unitholders	622	-	6,928,580	6,929,202

13 Financial risk management (continued)

(a) Market risk (continued)

(iii) Interest rate risk (continued)

	Floating interest rate \$	Fixed interest rate \$	Non - interest bearing \$	Total \$
30 June 2015				
Financial assets				
Cash and cash equivalents	149,837	-	-	149,837
Margin accounts	190,561	-	-	190,561
Receivables	-	-	195,231	195,231
Financial assets held at fair value through profit and loss	-	-	55,342,515	55,342,515
Total assets	<u>340,398</u>	<u>-</u>	<u>55,537,746</u>	<u>55,878,144</u>
Financial liabilities				
Payables	-	-	(39,654)	(39,654)
Financial liabilities held at fair value through profit and loss	-	-	(7,050)	(7,050)
Distributions payable	-	-	(434,077)	(434,077)
Total liabilities (excluding net assets attributable to unitholders)	<u>-</u>	<u>-</u>	<u>(480,781)</u>	<u>(480,781)</u>
Net assets attributable to unitholders	<u>340,398</u>	<u>-</u>	<u>55,056,965</u>	<u>55,397,363</u>

The sensitivity to interest rate risk on Cash and cash equivalents is not considered to be material.

An analysis of financial liabilities by maturities is provided in Note 13 (c).

(b) Credit risk

Credit risk is the risk that a counterparty will be unable to pay its contractual obligations in full when they fall due, causing a financial loss to the Fund.

The Fund does not have a significant concentration of credit risk that arises from an exposure to a single counterparty or group of counterparties having similar characteristics. The main concentration of credit risk, to which the Fund is exposed, arises from cash and cash equivalents, deposits with banks and other financial institutions and amounts due from brokers. None of these assets are impaired nor past their due date. The maximum exposure to credit risk at the reporting date is the carrying amount disclosed in the Statement of financial position.

The Fund does not consider counterparty risk to be significant, as the Fund only trades with recognised and creditworthy third parties.

(c) Liquidity risk

The Fund's listed securities are considered readily convertible to cash, as they are listed on the Australian Stock Exchange.

The Fund may, from time to time, invest in derivative contracts traded over the counter, which are not traded in an organised market and may be illiquid. As a result, the Fund may not be able to liquidate quickly its investments in these instruments at an amount close to their fair value to meet its liquidity requirements or to respond to specific events such as a deterioration in the creditworthiness of any particular issuer or counterparty. No such investments were held at the end of the year.

13 Financial risk management (continued)

(c) Liquidity risk (continued)

(i) Maturities of non-derivative financial liabilities

The table below analyses the Fund's non-derivative financial liabilities into relevant maturity groupings based on the remaining period to the earliest possible contractual maturity date at the year end date. The amounts in the table are contractual undiscounted cash flows.

	Less than 1 month \$	1-6 months \$	7-12 months \$	Over 12 months \$	No stated maturity \$
At 30 June 2016					
Distributions payable	244,940	-	-	-	-
Payables	25,494	-	-	-	-
Net assets attributable to unitholders	<u>6,929,202</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contractual cash flows (excluding gross settled derivatives)	<u>7,199,636</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Less than 1 month \$	1-6 months \$	7-12 months \$	Over 12 months \$	No stated maturity \$
At 30 June 2015					
Distributions payable	434,077	-	-	-	-
Payables	39,654	-	-	-	-
Net assets attributable to unitholders	<u>55,397,363</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Contractual cash flows (excluding gross settled derivatives)	<u>55,871,094</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

(ii) Maturities of net settled derivative financial instruments

The table below analyses the Fund's net settled derivative financial instruments for which the contractual maturities are considered to be essential to an understanding of the timing of cash flows based on the Fund's investment strategy.

	Less than 1 month \$	1-6 months \$	7-12 months \$	Over 12 months \$	No stated maturity \$
At 30 June 2016					
Australian share price index futures - Outflows	-	-	-	-	-
	Less than 1 month \$	1-6 months \$	7-12 months \$	Over 12 months \$	No stated maturity \$
At 30 June 2015					
Australian share price index futures - Outflows	-	(7,050)	-	-	-

14 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the Statement 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 Statement of Financial Position are disclosed in the first three columns of the tables below.

Financial assets	Effects of offsetting on the Statement of Financial Position			Related amount not offset		
	Gross amounts of financial assets	Gross amounts set off in the Statement of Financial Position	Net amount of financial assets presented in the Statement of Financial Position	Amounts subject to master netting arrangements	Collateral Pledged/Received	Net Amount
	\$	\$	\$	\$	\$	\$
2016						
Australian share price index futures	-	-	-	-	-	-
Total	-	-	-	-	-	-
2015						
Australian share price index futures	-	-	-	-	-	-
Total	-	-	-	-	-	-
Financial liabilities	Effects of offsetting on the Statement of Financial Position			Related amount not offset		
	Gross amounts of financial liabilities	Gross amounts set off in the Statement of Financial Position	Net amount of financial liabilities presented in the Statement of Financial Position	Amounts subject to master netting arrangements	Collateral Pledged/Received	Net Amount
	\$	\$	\$	\$	\$	\$
2016						
Australian share price index futures	-	-	-	-	-	-
Total	-	-	-	-	-	-
2015						
Australian share price index futures	7,050	-	7,050	-	(7,050)	-
Total	7,050	-	7,050	-	(7,050)	-

15 Fair value measurement

The Fund measures and recognises the following assets and liabilities at fair value on a recurring basis

- Financial assets / liabilities designated at fair value through profit or loss (FVTPL) (see Note 8 and 9)
- Financial assets / liabilities held for trading (see Note 8 and 9)
- Derivative financial instruments (see Note 12)

The Fund has no assets or liabilities measured at fair value on a non-recurring basis in the current financial year. 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 Fund. The Fund 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.

All fair value measurement disclosed are recurring fair value measurements.

(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 year 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.

15 Fair value measurement (continued)

(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 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 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 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.

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 30 June 2016 and 30 June 2015.

	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
As at 30 June 2016				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Listed equities	4,647,580	-	-	4,647,580
Listed unit trusts	2,303,690	-	-	2,303,690
Total	6,951,270	-	-	6,951,270
	Level 1 \$	Level 2 \$	Level 3 \$	Total \$
As at 30 June 2015				
Financial assets				
Financial assets designated at fair value through profit or loss:				
Listed equities	55,342,515	-	-	55,342,515
Total	55,342,515	-	-	55,342,515
Financial liabilities				
Financial liabilities held for trading:				
Australian share price index futures	7,050	-	-	7,050
Total	7,050	-	-	7,000

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

15 Fair value measurement (continued)

Recognised fair value measurement (continued)

(i) Transfers between levels

There have been no transfers between levels for the years ended 30 June 2016 and 30 June 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 year ended 30 June 2016 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.

16 Related party transactions

Responsible Entity

The Responsible Entity of UBS IQ Morningstar Australia Quality ETF (formerly "UBS IQ Research Preferred Australian Share Fund") is UBS Asset Management (Australia) Ltd, whose immediate and ultimate holding company is UBS AG, a publicly listed company incorporated in Switzerland.

Key management personnel

(a) Directors

Key management personnel includes persons who were directors of UBS Asset Management (Australia) Ltd at any time during the year and up to the date of this report:

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

(b) Other key management personnel

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

Other transactions within the Fund

Apart from those details disclosed in this note, no key management personnel have entered into a material contract with the Fund during the year and there were no material contracts involving key management personnel's interests existing at the end of the year.

Responsible Entity's fees and other transactions

Effective 1 February 2016, the management fee for the Fund has been reduced from 0.70% p.a. to 0.30% p.a. of the Fund's net asset value following the change of the underlying index of the Fund.

16 Related party transactions (continued)

Responsible Entity's fees and other transactions (continued)

The Responsible Entity received a total fee of \$235,553 for the year ended 30 June 2016 (2015: \$1,171,430) for administering and managing the Fund in accordance with the Fund's Product Disclosure Statement.

	Year ended	
	30 June 2016	30 June 2015
	\$	\$
Responsible Entity's fees paid and payable for the year	235,553	1,171,430
Aggregate amounts payable to the Responsible Entity at the end of the year	1,777	33,409

Relationship with UBS AG Australia Branch and UBS Securities Australia Limited

On a non-exclusive basis, the Responsible Entity uses the services of UBS AG Australia Branch, a related company, for futures trading, futures clearing and underwriting services. The Responsible Entity also uses the services of UBS Securities Australia limited, a related company for equity broking services.

On a non-exclusive basis, the Responsible Entity uses UBS Securities Australia Limited, a related company as a Market Maker. The Responsible Entity pays the Market Maker's fees out of its own assets and does not recover these amounts from the Fund.

The Responsible Entity has appointed the related entities on an arm's length commercial basis. Fees paid to the related companies for their services are on normal commercial terms and conditions.

Related party unitholdings

Parties related to the Fund (including UBS Asset Management (Australia) Ltd, its related parties and other funds managed by UBS Asset Management (Australia) Ltd), are recorded below.

30 June 2016

Unitholder	No. of units held opening (Units)	No. of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	No. of units acquired (Units)	No. of units disposed (Units)	Distributions paid/payable by the Fund (\$)
Brispot Nominees Pty Ltd	2,960	-	-	-	-	2,960	-
UBS Balanced Investment Fund	<u>2,054,436</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,151</u>	<u>2,110,587</u>	<u>808,783</u>
Total	<u>2,057,396</u>	<u>-</u>	<u>-</u>		<u>56,151</u>	<u>2,113,547</u>	<u>808,783</u>

Effective on 10 June 2016, UBS Wealth Management Australia Ltd was acquired by Crestone Wealth Management Limited which is classified as a non-related party to UBS Asset Management (Australia) Ltd. All investments held or invested by UBS Wealth Management Australia Ltd were transferred to Crestone's custodian effective on 10 June 2016 and these investors are considered as non related party holdings for the year ended 30 June 2016.

16 Related party transactions (continued)

Related party unitholdings (continued)

30 June 2015

Unitholder	No. of units held opening (Units)	No. of units held closing (Units)	Fair value of investment (\$)	Interest held (%)	No. of units acquired (Units)	No. of units disposed (Units)	Distributions paid/payable by the Fund (\$)
Brispot Nominees Pty Ltd	1,897	2,960	59,968	0.11	21,439	20,376	6,435
UBS Balanced Investment Fund	1,780,742	2,054,436	41,621,640	75.13	273,694	-	3,009,180
UBS Wealth Management	<u>38,165</u>	<u>35,665</u>	<u>722,551</u>	1.30	<u>-</u>	<u>2,500</u>	<u>55,284</u>
Total	<u>1,820,804</u>	<u>2,093,061</u>	<u>42,404,159</u>		<u>295,133</u>	<u>22,876</u>	<u>3,070,899</u>

Investments

The Fund did not hold any investments in UBS Asset Management (Australia) Ltd or its related parties or other funds managed by UBS Asset Management (Australia) Ltd during the year (2015: Nil).

Other transactions within the Fund

From time to time directors of UBS Investment Funds, or their director related entities, may invest in or withdraw from the Fund. These investments or withdrawals are on the same terms and conditions as those entered into by other Funds' investors and are trivial in nature.

17 Segment information

The Fund is organised into one main segment which operates solely in the business of investment management within Australia.

The Fund operates in Australia and holds investments in Australia only.

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

	Year ended	
	30 June 2016	30 June 2015
	\$	\$
(a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities		
Increase/(decrease) in net assets attributable to unitholders	(3,798,181)	(10,606,548)
Distributions to unitholders	1,317,006	27,796,054
Proceeds from sale of financial instruments held at fair value through profit or loss	84,708,551	313,084,343
Purchase of financial instruments held at fair value through profit or loss	(39,967,807)	(170,594,464)
Dividends/Trust distributions reinvested	(9,676)	(96,611)
Net (gains)/losses on financial instruments held at fair value through profit or loss	3,693,204	(11,366,555)
Net change in receivables	119,924	685,913
Net change in payables	(36,119)	(69,056)
Net cash inflow/(outflow) from operating activities	46,026,902	148,833,076
(b) Components of cash and cash equivalents		
Cash at the end of the year as shown in the Statement of Cash Flows is reconciled to the Statement of Financial Position as follows:		
Cash and cash equivalents	616	149,837
(c) Non-cash financing activities		
During the year, the following purchases of investments were satisfied by the participation in dividend and distribution reinvestment plans	9,676	96,611
During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan	1,275,155	22,090,968

19 Events occurring after the reporting date

No significant events have occurred since 30 June 2016 and up to the date of this report that the Fund has not otherwise dealt within the financial report that has significantly affected or may significantly affect the Fund (30 June 2015: Nil).

20 Contingent assets and liabilities and commitments

There are no outstanding contingent assets, liabilities or commitments as at 30 June 2016 (30 June 2015: Nil).

Directors' Declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 6 to 31 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards, 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 30 June 2016 and of its performance, as represented by the results of its operations and cash flows, for the 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(a).

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



B J Doherty
Chairman



A L Anderson
Director

Sydney
21 September 2016

Independent auditor's report to the unitholders of UBS IQ Morningstar Australia Quality ETF (formerly "UBS IQ Research Preferred Australian Share Fund")

We have audited the accompanying financial report of UBS IQ Morningstar Australia Quality ETF (formerly "UBS IQ Research Preferred Australian Share Fund") ('the Fund'), which comprises the Statement of Financial Position as at 30 June 2016, the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the Directors' Declaration.

Directors' responsibility for the financial report

The directors of UBS Asset Management (Australia) Ltd as Responsible Entity of the Fund are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 2(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

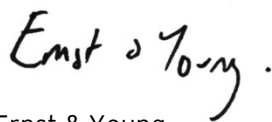
Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of UBS Asset Management (Australia) Ltd a written Auditor's Independence Declaration, a copy of which is attached to the Directors' Report.

Auditor's Opinion

In our opinion:

- a. the financial report of UBS IQ Morningstar Australia Quality ETF (formerly "UBS IQ Research Preferred Australian Share Fund") is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of UBS IQ Research Preferred Australian Share Fund's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2(a).



Ernst & Young



Graeme McKenzie
Partner
Sydney
21 September 2016



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

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