

VanEck Vectors MSCI World ex Australia Quality ETF

(ASX Code: QUAL)

ARSN 601 798 172

Financial report

For the year ended 30 June 2017

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These financial statements cover the VanEck Vectors MSCI World ex Australia Quality ETF as an individual entity.

The Responsible Entity of the VanEck Vectors MSCI World ex Australia Quality ETF is VanEck Investments Limited (ACN 146 596 116) (AFSL 416755). The Responsible Entity's registered office is:

VanEck Investments Limited
Aurora Place
Level 4, 88 Phillip Street
Sydney NSW 2000

Directors' report

The Directors of VanEck Investments Limited (ACN 146 596 116), the Responsible Entity of VanEck Vectors MSCI World ex Australia Quality ETF (the "Fund"), present their report together with the financial statements of the Fund for the year ended 30 June 2017.

Fund information

The Fund is an Australian registered managed investment scheme.

On 2 May 2016, Market Vectors MSCI World ex Australia Quality ETF changed its name to VanEck Vectors MSCI World ex Australia Quality ETF and on 17 March 2016, Market Vectors Investments Limited changed its name to VanEck Investments Limited. These changes were part of a global rebranding of the associated businesses and investment offerings.

The Responsible Entity's registered office is located at Aurora Place, Level 4, 88 Phillip Street, Sydney NSW 2000.

Principal activities

The Fund invests in a diversified portfolio of global equities in accordance with the product disclosure statement of the Fund and the provisions of the Fund's Constitution.

The Fund did not have any employees during the year.

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

Directors

The following persons held office as directors of VanEck Investments Limited during the year and up to the date of this report:

Jan van Eck
Bruce Smith
Arian Neiron
Michael Brown
Jonathan Simon

Review and results of operations

The Fund continued to invest in a diversified portfolio of global equities as set out in the product disclosure statement of the Fund and in accordance with the provisions of the Fund's Constitution.

The Fund generally invests in the securities that are constituents of the MSCI World ex Australia Quality Index (the "Index") and aims to track the performance of the Index (with net dividends reinvested) in Australian dollars, before taking into account fees, expenses and tax.

Directors' report (continued)

Review and results of operations (continued)

Results

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

| | Year ended | |
|---|-----------------|-----------------|
| | 30 June 2017 | 30 June 2016 |
| Operating profit/(loss) before finance costs attributable to unitholders (\$'000) | <u>21,366</u> | <u>1,674</u> |
| Distribution to unitholders (\$'000) | <u>7,058</u> | <u>2,586</u> |
| Distribution (cents per unit - CPU) | <u>64.39</u> | <u>42.70</u> |

A final distribution was declared on 30 June 2017 of 64.39 cents per unit and \$7,058,359 was paid on 18 July 2017. The total amount unpaid at the reporting date is disclosed in the Statement of financial position.

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 financial year.

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

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

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 product disclosure statement of the Fund and in accordance with the provisions of the Fund's Constitution.

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

The future returns are dependent upon the performance of the underlying Index. The Fund's investment objective and strategy remains unchanged which is to track the performance of the Index. Accordingly the future returns of the Fund are dependent on the performance of the Index.

Indemnity and insurance of officers

No insurance premiums are paid for out of the assets of the Fund in regards to insurance cover provided to either the officers of VanEck Investments Limited or the auditors of the Fund. So long as the officers of VanEck Investments Limited act in accordance with the Fund's Constitution and the Law, the officers remain indemnified out of the assets of the Fund against losses incurred while acting on behalf of the Fund.

Directors' report (continued)

Indemnity of auditors

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

Proceedings on behalf of the Fund

No person has applied for leave of Court to bring proceedings on behalf of the Fund or intervene in any proceedings to which the Fund is a party for the purpose of taking responsibility on behalf of the Fund for all or any part of those proceedings.

The Fund was not a party to any such proceedings during the year.

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

Effective 29 October 2015, the management fee for the Fund was reduced from 0.75% p.a. to 0.40% p.a. of the Fund's Net Asset Value, in accordance with the supplementary Product Disclosure Statement dated 12 October 2015. Refer to note 17 to the financial statements for details of the fees paid to the Responsible Entity and its associates out of the Fund property during the year.

No fees were paid out of the Fund property 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 17 to the financial statements.

Interests in the Fund

The movement in units on issue in the Fund during the year is disclosed in note 10 to the financial statements.

The value of the Fund's assets and liabilities is disclosed on 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 thousand dollars

The Fund is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 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 thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

Directors' report (continued)

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 6.

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



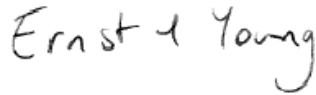
Arian Neiron
Director

Sydney
19 September 2017

Auditor's Independence Declaration to the Directors of VanEck Investments Limited, as Responsible Entity for VanEck Vectors MSCI World ex Australia Quality ETF

As lead auditor for the audit of VanEck Vectors MSCI World ex Australia Quality ETF for the financial year ended 30 June 2017, 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



Rohit Khanna
Partner
Sydney
19 September 2017

Statement of comprehensive income

| | | Year ended | |
|---|-------|-----------------|-----------------|
| | | 30 June 2017 | 30 June 2016 |
| | Notes | \$'000 | \$'000 |
| Investment income | | | |
| Dividend and distribution income | | 3,782 | 1,777 |
| Net gains/(losses) on financial instruments held at fair value through profit or loss | 6 | 19,056 | 674 |
| Other operating income/(loss) | | (85) | (72) |
| Total investment income/(loss) | | <u>22,753</u> | <u>2,379</u> |
| Expenses | | | |
| Management fees | 17 | 672 | 385 |
| Transaction costs | | 188 | 75 |
| Dividend withholding tax | | 473 | 232 |
| Other operating expenses | | 54 | 13 |
| Total operating expenses | | <u>1,387</u> | <u>705</u> |
| Profit/(loss) for the year | | <u>21,366</u> | <u>1,674</u> |
| Other comprehensive income for the year | | - | - |
| Total comprehensive income for the year | | <u>21,366</u> | <u>1,674</u> |

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

Statement of financial position

| | | As at | |
|---|-------|-----------------|-----------------|
| | | 30 June 2017 | 30 June 2016 |
| | Notes | \$'000 | \$'000 |
| Assets | | | |
| Cash and cash equivalents | 12 | 336 | 135 |
| Due from brokers - receivable for securities sold | | 6,872 | 7 |
| Receivables | 15 | 6,120 | 5,350 |
| Financial assets held at fair value through profit or loss | 7 | <u>220,344</u> | <u>110,538</u> |
| Total assets | | <u>233,672</u> | <u>116,030</u> |
| Liabilities | | | |
| Bank overdraft | 12 | 451 | 223 |
| Due to broker - payable for securities purchased | | 5,792 | 2,628 |
| Payables | 16 | 102 | 23 |
| Distributions payable | 11 | 7,058 | 2,586 |
| Financial liabilities held at fair value through profit or loss | 8 | <u>4</u> | <u>-</u> |
| Total liabilities | | <u>13,407</u> | <u>5,460</u> |
| Equity | | <u>220,265</u> | <u>110,570</u> |

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

Statement of changes in equity

| | Notes | Year ended | |
|--|-------|---------------------------|---------------------------|
| | | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
| Total equity at the beginning of the year | | 110,570 | 44,750 |
| Issue of redeemable participating units | | 95,303 | 66,706 |
| Units issued upon reinvestment of distributions | | 84 | 26 |
| Comprehensive income for the year | | 21,366 | 1,674 |
| Distributions | 11 | (7,058) | (2,586) |
| Total equity at the end of the year | | 220,265 | 110,570 |

Movement in units in issue are disclosed in note 10 to the financial statements.

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

Statement of cash flows

| | | Year ended | |
|---|-------|---------------------|--------------------|
| | | 30 June 2017 | 30 June 2016 |
| | Notes | \$'000 | \$'000 |
| Cash flows from operating activities | | | |
| Proceeds from sale of financial instruments held at fair value through profit or loss | | 43,009 | 27,335 |
| Purchase of financial instruments held at fair value through profit or loss | | (137,451) | (89,154) |
| Dividends and distributions received | | 3,092 | 1,480 |
| Management fees paid | | (615) | (391) |
| Payment of other expenses | | (299) | (166) |
| Net cash inflow/(outflow) from operating activities | 13(a) | <u>(92,264)</u> | <u>(60,896)</u> |
| Cash flows from financing activities | | | |
| Proceeds from applications by unitholders | | 94,602 | 61,472 |
| Distributions paid | | <u>(2,361)</u> | <u>(790)</u> |
| Net cash inflow/(outflow) from financing activities | | <u>92,241</u> | <u>60,682</u> |
| Net increase/(decrease) in cash and cash equivalents | | (23) | (214) |
| Cash and cash equivalents at the beginning of the year | | (88) | 126 |
| Effects of foreign exchange rate changes on cash and cash equivalents | | <u>(4)</u> | <u>-</u> |
| Cash and cash equivalents at the end of the year | 12 | <u>(115)</u> | <u>(88)</u> |

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

Contents of the notes to the financial statements

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1 General information

These financial statements for the year ended 30 June 2017 cover the VanEck Vectors MSCI World ex Australia Quality ETF (the "Fund") as an individual entity. The Fund was constituted on 12 September 2014. The Fund will terminate in accordance with the provisions of the Fund's Constitution.

The Responsible Entity of the Fund is VanEck Investments Limited (the "Responsible Entity"). The Responsible Entity's registered office is Aurora Place, Level 4, 88 Phillip Street, Sydney, NSW, 2000.

These financial statements are presented in Australian dollars, which is the Fund's functional and presentation currency.

The Fund invests in a diversified portfolio of global equities in accordance with the product disclosure statement of the Fund and the provisions of the Fund's Constitution.

The financial statements were authorised for issue by the directors on 19 September 2017. The directors of the Responsible Entity have the power to amend and reissue the financial statements.

The Custodian and Administrator of VanEck Vectors MSCI World ex Australia Quality ETF is State Street Australia Limited. The ultimate holding company of the Custodian is State Street Corporation (incorporated in the United States of America).

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 throughout the period presented, unless otherwise stated in the following text.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001* in Australia. The 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 at fair value through profit or loss and equity attributable to unitholders.

The Fund manages financial assets at fair value through profit or loss based on the economic circumstances at any given point in time, as well as to meet any liquidity requirements. As such, it is expected that a portion of the portfolio will be realised within twelve months, however, an estimate of that amount cannot be determined as at reporting date.

In the case of equity attributable to unitholders, the units are redeemable on demand at the unitholders' option. However, holders of these instruments typically retain them for the medium to long term. As such, the amount expected to be settled within twelve months cannot be reliably determined.

(i) Compliance with International Financial Reporting Standards (IFRS)

The financial statements of the Fund also comply with IFRS as issued by the International Accounting Standards Board (IASB).

(b) Changes in accounting standards

There are no standards, interpretations or amendments to existing standards that are effective for the first time for the period beginning 1 July 2016 that have a material impact on the Fund.

2 Summary of significant accounting policies (continued)

(c) Financial instruments

(i) Classification

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

- Financial instruments held for trading

These include derivative financial instruments including futures and foreign currency contracts. The Fund does not designate any derivatives as hedges in a hedging relationship.

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

These include financial assets and financial liabilities that are not held for trading purposes and which may be sold. These are investments in equity securities.

Financial instruments 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.

(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 the fair value of the financial assets or financial liabilities from this date.

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

(iii) Measurement

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

At initial recognition, the Fund measures a financial asset at its fair value. Transaction costs of financial assets carried at fair value through profit or loss are expensed in the Statement of comprehensive income.

Subsequent to initial recognition, all financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Gains and losses arising from changes in the fair value of the 'financial assets or financial liabilities at fair value through profit or loss' category are presented in the Statement of comprehensive income within net gains/(losses) on financial instruments held at fair value through profit or loss in the period in which they arise. This also includes dividend expense on short sales of securities, which have been classified at fair value through profit or loss.

The fair value of financial assets and liabilities traded in active markets is subsequently based on their quoted market prices at the end of the reporting period without any deduction for estimated future selling costs. The quoted market price used for financial assets held by the Fund is the current bid price and the quoted price for financial liabilities is the current asking price.

For further details on how the fair value of financial instruments are determined, please see note 5 to the financial statements.

(iv) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position where the Fund currently has 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.

At the end of the reporting period, there are no financial assets or liabilities offset or which could be offset in the Statement of financial position.

2 Summary of significant accounting policies (continued)

(d) Redeemable participating units

Units are redeemable at the unitholders' option and are classified as equity. 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 (based on the redemption unit price) at the end of the reporting period if unitholders exercised their right to redeem the units in the Fund.

(e) Cash and cash equivalents

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

Payments and receipts relating to the purchase and sale of investment securities are classified as cash flows from operating activities, as movements in the fair value of these securities represent the Fund's main income generating activity.

(f) Investment income

Interest income is recognised in the Statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. When calculating the effective interest rate, the Fund estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

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

(g) Expenses

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

(h) Income tax

Under current legislation, the Fund is not subject to income tax as unitholders are presently entitled to the income of the Fund.

Financial instruments held at fair value may include unrealised capital gains. Should such a gain be realised, that portion of the gain that is subject to capital gains tax will be distributed so that the Fund is not subject to capital gains tax.

Realised capital losses are not distributed to unitholders but are retained in the Fund to be offset against any realised capital gains. If realised capital gains exceed realised capital losses, the excess is distributed to unitholders. The Responsible Entity may elect to distribute concessional capital gains when they arise. This may occur even when total capital losses exceed capital gains.

The benefits of tax credits paid are passed on to unitholders.

The Fund currently incurs withholding tax imposed by certain countries on investment income. Such income is recorded gross of withholding tax in the Statement of comprehensive income.

2 Summary of significant accounting policies (continued)

(i) Distributions

In accordance with the Fund's Constitution, the Fund distributes its distributable taxable income adjusted for amounts determined by the Responsible Entity, to unitholders by cash or reinvestment. The distributions are usually payable on an annual basis. The distributions to unitholders are recognised in the Statement of changes in equity.

(j) 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.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translations at year/reporting period end exchange rates, of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of comprehensive income.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value was determined. Translation differences on assets and liabilities carried at fair value are reported in the Statement of comprehensive income on a net basis within net gains/(losses) on financial instruments held at fair value through profit or loss.

(k) Due from/to brokers

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

(l) Receivables

Receivables may include amounts for dividends, trust distributions, interest and applications received for units in the Fund. Dividends and trust distributions are accrued when the right to receive payment is established. Interest is accrued at the end of the reporting period from the time of last payment. Amounts are generally received within 30 days of being recorded as receivables.

(m) Payables

Payables include liabilities and accrued expenses owed by the Fund which are unpaid as at the end of the reporting period.

The distribution amount payable to unitholders as at the end of the reporting period is recognised separately on the Statement of financial position as unitholders are presently entitled to the distributable income under the Fund's Constitution.

(n) Applications and redemptions

Application amounts can be paid by cash or in the form of a parcel of prescribed securities transferred to the Responsible Entity's custodian. The parcel of securities related to in-specie applications generally reflect the characteristics of the MSCI World ex Australia Quality Index. Investors may purchase units by trading on the Australian Securities Exchange (ASX).

2 Summary of significant accounting policies (continued)

(n) Applications and redemptions (continued)

Unitholders can only redeem units if they are “Authorised Participants”, as defined in the Fund’s product disclosure statement. Units can be sold by trading on ASX.

Unit prices are 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.

(o) Goods and Services Tax (GST)

The GST incurred on the costs of various services provided to the Fund by third parties such as management, administration and custodian services where applicable have been passed onto the Fund. The Fund qualifies for Reduced Input Tax Credits (RITC) at a rate of at least 55%. Hence fees for these services and any 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. Cash flows relating to GST are included in the Statement of cash flows on a gross basis.

(p) Use of estimates

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

For the majority of the Fund’s financial instruments, quoted market prices are readily available.

For certain other financial instruments, including amounts due from/to brokers, accounts payable and accrued expenses, the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments.

(q) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for the 30 June 2017 reporting period and have not been early adopted by the Fund. 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 directors do 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 materially impact the Fund.

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

AASB 15 will replace AASB 118 *Revenue* which covers contracts for goods and services and AASB 111 *Construction Contracts* which covers construction contracts. AASB 15 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.

2 Summary of significant accounting policies (continued)

(q) New accounting standards and interpretations (continued)

The Fund's main source of income are interest, dividends and distributions and gains on financial instruments held at fair value. All of these are outside the scope of the new revenue standard. As a 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.

There are no other standards that are not yet effective and that are expected to have a material impact on the Fund in the current or future reporting periods and on foreseeable future transactions.

(r) Rounding of amounts

The Fund is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 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 thousand dollars in accordance with that ASIC Corporations Instrument, unless otherwise indicated.

3 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 PDS and Constitution and seeks to maximise the returns derived for the level of risk to which the Fund is exposed. Financial risk management is carried out by the Responsible Entity.

The Fund uses different methods to measure different types of risk to which it is exposed. These methods are explained below.

The table on page 20 shows the impact on net asset value of the Fund of a reasonably possible shift in the MSCI World ex Australia Quality Index, assessed as an increase of 10% and decrease of 10% (2016: +/-10%) in the MSCI World ex Australia Quality Index (with all other variables held constant).

(i) 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.

The Fund's foreign exchange exposure on international equity securities is embedded in the price risk as presented on page 20.

3 Financial risk management (continued)

(i) Foreign exchange risk (continued)

The table below summarises the Fund's assets and liabilities that are denominated in a currency other than the Australian dollar.

| As at 30 June 2017 | US Dollars A\$'000 | Euro A\$'000 | Swiss Franc A\$'000 | Other currencies A\$'000 |
|--|-----------------------|-----------------|------------------------|--------------------------------|
| Cash and cash equivalents | 299 | 5 | - | 25 |
| Receivables | 103 | 12 | 100 | 111 |
| Due from brokers - receivable for securities sold | 4,910 | 400 | 393 | 1,168 |
| Financial assets held at fair value through profit or loss | 157,302 | 12,759 | 13,041 | 37,242 |
| Bank overdraft | (451) | - | - | - |
| Payables | (14) | - | - | (4) |
| Due to brokers - payables from securities purchased | (4,135) | (337) | (335) | (985) |
| Financial liabilities held at fair value through profit or loss | - | (1) | - | (3) |
| | <u>158,014</u> | <u>12,838</u> | <u>13,199</u> | <u>37,554</u> |
| Net increase/(decrease) in exposure for foreign currency contracts | | | | |
| - sell foreign currency | <u>4,137</u> | <u>337</u> | <u>335</u> | <u>983</u> |
| | <u>162,151</u> | <u>13,175</u> | <u>13,534</u> | <u>38,537</u> |

| As at 30 June 2016 | US Dollars A\$'000 | Euro A\$'000 | British Pounds A\$'000 | Other currencies A\$'000 |
|--|-----------------------|-----------------|---------------------------|--------------------------------|
| Cash and cash equivalents | 112 | - | 5 | 12 |
| Receivables | 37 | 1 | 18 | 48 |
| Due from brokers - receivable for securities sold | 4 | - | 3 | - |
| Financial assets held at fair value through profit or loss | 79,382 | 6,111 | 8,420 | 16,625 |
| Bank overdraft | (223) | - | - | - |
| Payables | (5) | - | (1) | (1) |
| Due to brokers - payables from securities purchased | (1,887) | (145) | (201) | (395) |
| | <u>77,420</u> | <u>5,967</u> | <u>8,244</u> | <u>16,289</u> |
| Net increase/(decrease) in exposure for foreign currency contracts | | | | |
| - sell foreign currency | <u>2</u> | <u>-</u> | <u>-</u> | <u>(2)</u> |
| | <u>77,422</u> | <u>5,967</u> | <u>8,244</u> | <u>16,287</u> |

3 Financial risk management (continued)

(ii) Interest rate risk

Interest rate risk is the risk that interest 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.

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

| 30 June 2017 | Floating interest rate \$'000 | Fixed interest rate \$'000 | Non-interest bearing \$'000 | Total \$'000 |
|---|-------------------------------------|----------------------------------|-----------------------------------|-----------------|
| Assets | | | | |
| Cash and cash equivalents | 336 | - | - | 336 |
| Receivables | - | - | 6,120 | 6,120 |
| Due from brokers - receivable for securities sold | - | - | 6,872 | 6,872 |
| Financial assets held at fair value through profit or loss | - | - | 220,344 | 220,344 |
| Total assets | 336 | - | 233,336 | 233,672 |
| Liabilities | | | | |
| Bank overdraft | - | (451) | - | (451) |
| Distributions payable | - | - | (7,058) | (7,058) |
| Payables | - | - | (102) | (102) |
| Due to brokers - payable for securities purchased | - | - | (5,792) | (5,792) |
| Financial liabilities held at fair value through profit or loss | - | - | (4) | (4) |
| Total liabilities (excluding net assets attributable to unitholders) | - | (451) | (12,956) | (13,407) |
| Net exposure | 336 | (451) | 220,380 | 220,265 |

| 30 June 2016 | Floating interest rate \$'000 | Fixed interest rate \$'000 | Non-interest bearing \$'000 | Total \$'000 |
|--|-------------------------------------|----------------------------------|-----------------------------------|-----------------|
| Assets | | | | |
| Cash and cash equivalents | 135 | - | - | 135 |
| Receivables | - | - | 5,350 | 5,350 |
| Due from brokers - receivable for securities sold | - | - | 7 | 7 |
| Financial assets held at fair value through profit or loss | - | - | 110,538 | 110,538 |
| Total assets | 135 | - | 115,895 | 116,030 |

3 Financial risk management (continued)

(ii) Interest rate risk (continued)

| 30 June 2016 | Floating interest rate \$'000 | Fixed interest rate \$'000 | Non-interest bearing \$'000 | Total \$'000 |
|---|-------------------------------------|----------------------------------|-----------------------------------|-----------------|
| Liabilities | | | | |
| Bank overdraft | - | (223) | - | (223) |
| Distributions payable | - | - | (2,586) | (2,586) |
| Payables | - | - | (23) | (23) |
| Due to brokers - payable for securities purchased | - | - | (2,628) | (2,628) |
| Total liabilities (excluding net assets attributable to unitholders) | - | (223) | (5,237) | (5,460) |
| Net exposure | 135 | (223) | 110,658 | 110,570 |

An analysis of financial liabilities by maturities is provided in note 3 (c)(i) on page 21.

(a) Summarised sensitivity analysis

The following table summarises the sensitivity of the Fund's operating profit and equity attributable to unitholders to the various market risks. 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.

| | Price risk Impact on operating profit/Net assets attributable to unitholders | |
|---------------------|---|----------------|
| | -10% \$'000 | +10% \$'000 |
| 30 June 2017 | (22,033) | 22,033 |
| 30 June 2016 | (11,054) | 11,054 |

In determining the impact of an increase/decrease in equity attributable to unitholders arising from market risk, the Responsible Entity has considered the current financial year and expected future movements of the portfolio based on market information in order to determine a reasonably possible shift in assumptions.

(b) Credit risk

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or part. Credit risk primarily arises from investments in derivative financial instruments. Other credit risk 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 due but not impaired.

Credit risk is managed primarily by:

- Ensuring counterparties, together with the respective credit limits, are approved in accordance with the Responsible Entity's criteria; and

3 Financial risk management (continued)

(b) Credit risk (continued)

- Ensuring that transactions are undertaken with a range of counterparties.

For derivative financial instruments, the Responsible Entity has established limits such that, at any time, the maximum exposure of the Fund to derivative instruments shall be limited to 10%.

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

The maximum exposure to credit risk at the end of each reporting period is the carrying amount of the financial assets.

The clearing and depositary operations of the Fund's security transactions are mainly concentrated with one counterparty namely State Street Australia Limited. At 30 June 2017, State Street Australia Limited had a credit rating of A (2016: A). As at 30 June 2017, substantially all cash and investments are held in custody by State Street Australia Limited.

(c) Liquidity risk

The Fund has no significant liquidity risk exposure as the redemptions of redeemable units by unitholders are made through in-specie asset transfers and not payable wholly in the form of cash.

The Fund's listed securities are considered readily realisable, as they are listed on the Australian Securities 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 quickly liquidate 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 deterioration in the creditworthiness of any particular issuer or counterparty. No such investments were held at the end of the reporting period.

(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/reporting period end date. The amounts in the table are contractual undiscounted cash flows.

| As at 30 June 2017 | Less than 1 month \$'000 | 1 to 6 months \$'000 | 6 to 12 months \$'000 | Over 12 months \$'000 | Total \$'000 |
|---|--------------------------------|----------------------------|-----------------------------|-----------------------------|-----------------|
| Bank overdraft | 451 | - | - | - | 451 |
| Due to brokers - payable for securities purchased | 5,792 | - | - | - | 5,792 |
| Payables | 102 | - | - | - | 102 |
| Distributions payable | 7,058 | - | - | - | 7,058 |
| Contractual cash flows (excluding net settled derivatives) | 13,403 | - | - | - | 13,403 |

3 Financial risk management (continued)

(c) Liquidity risk (continued)

| | Less than 1 month \$'000 | 1 to 6 months \$'000 | 6 to 12 months \$'000 | Over 12 months \$'000 | Total \$'000 |
|---|--------------------------------|----------------------------|-----------------------------|-----------------------------|-----------------|
| As at 30 June 2016 | | | | | |
| Bank overdraft | 223 | - | - | - | 223 |
| Due to brokers - payable for securities purchased | 2,628 | - | - | - | 2,628 |
| Payables | 23 | - | - | - | 23 |
| Distributions payable | 2,586 | - | - | - | 2,586 |
| Contractual cash flows (excluding net settled derivatives) | 5,460 | - | - | - | 5,460 |

(ii) Maturities of net settled derivative financial instruments

The table below analyses the Fund's net settled derivative financial instruments based on their contractual maturity. The Fund may, at its discretion, settle financial instruments prior to their original contractual settlement date, in accordance with its investment strategy, where permitted by the terms and conditions of the relevant instruments.

| | Less than 1 month \$'000 | 1-6 months \$'000 | 6-12 months \$'000 | Over 12 months \$'000 | Total \$'000 |
|--------------------------------------|--------------------------------|-------------------------|--------------------------|-----------------------------|-----------------|
| At 30 June 2017 | | | | | |
| Foreign currency contracts | 12 | - | - | - | 12 |
| Total Net settled derivatives | 12 | - | - | - | 12 |

| | Less than 1 month \$'000 | 1-6 months \$'000 | 6-12 months \$'000 | Over 12 months \$'000 | Total \$'000 |
|--------------------------------------|--------------------------------|-------------------------|--------------------------|-----------------------------|-----------------|
| At 30 June 2016 | | | | | |
| Foreign currency contracts | - | - | - | - | - |
| Total Net settled derivatives | - | - | - | - | - |

4 Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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.

| | Effects of offsetting on the statement of financial position | | | Related amount not offset | | |
|----------------------------------|--|--|--|--|-----------------------------|------------|
| | Gross amounts of financial instruments | Gross amounts set off in the statement of financial position | Net amount of financial instruments presented in the statement of financial position | Amounts subject to master netting arrangements | Collateral received/pledged | Net amount |
| | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| As at 30 June 2017 | | | | | | |
| Financial assets | | | | | | |
| Derivative financial instruments | 7,466 | (7,450) | 16 | (4) | - | 12 |
| Total | 7,466 | (7,450) | 16 | (4) | - | 12 |
| Financial liabilities | | | | | | |
| Derivative financial instruments | 7,454 | (7,450) | 4 | (4) | - | - |
| Total | 7,454 | (7,450) | 4 | (4) | - | - |
| As at 30 June 2016 | | | | | | |
| Financial assets | | | | | | |
| Derivative financial instruments | - | - | - | - | - | - |
| Total | - | - | - | - | - | - |
| Financial liabilities | | | | | | |
| Derivative financial instruments | - | - | - | - | - | - |
| Total | - | - | - | - | - | - |

(a) Master netting arrangement – not currently enforceable

Agreements with derivative counterparties are based on the International Swaps and Derivatives Association (ISDA) Master Agreement. Under the terms of these arrangements, only when certain credit events occur (such as default), the net position owing/receivable to a single counterparty in the same currency will be taken as owing and all the relevant arrangements terminated. As the Fund does not presently have a legally enforceable right of set-off, these amounts have not been offset in the statement of financial position, but have been presented separately in the above table.

5 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 (see note 7)

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

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

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

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

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

The Fund values its investments in accordance with the accounting policies set out in note 2 to the annual financial statements. For the majority of its investments, the Fund relies on information provided by independent pricing services for the valuation of its investments.

The quoted market price used for financial assets held by the Fund is the current bid price; the appropriate quoted market price for financial liabilities is the current asking price. When the Fund holds derivatives with offsetting market risks, it uses mid-market prices as a basis for establishing fair values for the offsetting risk positions and applies this bid or asking price to the net open position, as appropriate.

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

(ii) Valuation techniques used to derive level 2 and level 3 fair value

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

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

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

The 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 reporting period taking into account current market conditions (volatility and appropriate yield curve) and the current creditworthiness of the counterparties. The fair value of a forward contract is determined as a net present value of estimated future cash flows, discounted at appropriate market rates as at the valuation date.

Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

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.

5 Fair value measurement (continued)

Recognised fair value measurements

The table below presents the Fund's financial assets measured at fair value according to the fair value hierarchy as at 30 June 2017 and 30 June 2016.

| As at 30 June 2017 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
|---|-------------------|-------------------|-------------------|-----------------|
| Financial assets | | | | |
| Financial assets held for trading: | | | | |
| Derivatives | - | 16 | - | 16 |
| Financial assets designated at fair value through profit or loss: | | | | |
| Equity securities | 219,525 | - | - | 219,525 |
| Unit trusts | 803 | - | - | 803 |
| Total | 220,328 | 16 | - | 220,344 |
| Financial liabilities | | | | |
| Financial liabilities held for trading: | | | | |
| Derivatives | - | 4 | - | 4 |
| Total | - | 4 | - | 4 |
| As at 30 June 2016 | Level 1 \$'000 | Level 2 \$'000 | Level 3 \$'000 | Total \$'000 |
| Financial assets | | | | |
| Financial assets designated at fair value through profit or loss: | | | | |
| Equity securities | 110,043 | - | - | 110,043 |
| Unit trusts | 495 | - | - | 495 |
| Total | 110,538 | - | - | 110,538 |

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

(i) Transfers between levels

There were no transfers between the levels in the fair value hierarchy for the year ended 30 June 2017 and year ended 30 June 2016. There were also no changes made to any of the valuation techniques applied as at 30 June 2017.

(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 2017 or year ended 30 June 2016.

(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.

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

Net gains/(losses) recognised in relation to financial instruments held at fair value through profit or loss:

| | Year ended | |
|--|---------------------------|---------------------------|
| | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
| Financial assets | | |
| Net gain/(loss) on financial assets held for trading | 240 | 103 |
| Net gain/(loss) on financial assets designated at fair value | 18,835 | 571 |
| Net gains/(losses) on financial assets held at fair value through profit or loss | 19,075 | 674 |
| Financial liabilities | | |
| Net gain/(loss) on financial liabilities held for trading | (19) | - |
| Net gains/(losses) on financial liabilities held at fair value through profit or loss | (19) | - |
| Total net gains/(losses) on financial instruments held at fair value through profit or loss | 19,056 | 674 |

7 Financial assets held at fair value through profit or loss

| | As at | |
|---|---------------------------|---------------------------|
| | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
| Held for trading | | |
| Derivatives (Note 9) | 16 | - |
| Total held for trading | 16 | - |
| Designated at fair value through profit or loss | | |
| Equity securities | 219,525 | 110,043 |
| Unit trusts | 803 | 495 |
| Total designated at fair value through profit or loss | 220,328 | 110,538 |
| Total financial assets held at fair value through profit or loss | 220,344 | 110,538 |

8 Financial liabilities held at fair value through profit or loss

| | As at | |
|--|---------------------------|---------------------------|
| | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
| Held for trading | | |
| Derivatives (Note 9) | 4 | - |
| Total held for trading | 4 | - |
| Total financial liabilities held at fair value through profit or loss | 4 | - |

9 Derivative financial instruments

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

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

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

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

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

The Fund holds the following derivatives:

(a) Foreign currency contracts

Foreign currency contracts are primarily used by the Fund to economically hedge against foreign currency exchange rate risks on its non-Australian dollar denominated trading securities. The Fund agrees to receive or deliver a fixed quantity of foreign currency for an agreed upon price on an agreed future date. Foreign currency contracts are valued at the prevailing bid price at the end of each reporting period. The Fund recognises a gain or loss equal to the change in fair value at the end of each reporting period.

| | Fair values | | |
|----------------------------|---------------------------------|------------------|-----------------------|
| | Contract/ notional \$'000 | Assets \$'000 | Liabilities \$'000 |
| As at 30 June 2017 | | | |
| Foreign currency contracts | 7,450 | 16 | 4 |
| | 7,450 | 16 | 4 |

10 Units in issue

Movements in the number of units during the year were as follows:

| | Year ended | |
|---|-----------------|-----------------|
| | 30 June 2017 | 30 June 2016 |
| | No.'000 | No.'000 |
| Opening balance | 6,056 | 2,520 |
| Applications | 4,900 | 3,535 |
| Units issued upon reinvestment of distributions | 5 | 1 |
| Closing balance | 10,961 | 6,056 |

As stipulated within the Fund's Constitution, a unit confers an equal undivided, vested, and indefeasible interest in the assets as a whole, subject to the liabilities. There are no separate classes of units and each unit has the same rights attaching to it as all other units of the Fund.

Capital risk management

The amount of equity 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.

Daily applications and redemptions are reviewed relative to the liquidity of the Fund's underlying assets on a daily basis by the Responsible Entity. Under the terms of the Fund's Constitution, the Responsible Entity has the discretion to reject an application for units and to defer or adjust a redemption of units if the exercise of such discretion is in the best interests of unitholders.

11 Distributions to unitholders

The distributions during the year were as follows:

| | Year ended | | | |
|----------------------------|-----------------|-----------------|-----------------|-----------------|
| | 30 June 2017 | 30 June 2017 | 30 June 2016 | 30 June 2016 |
| | \$'000 | CPU | \$'000 | CPU |
| Distributions payable | 7,058 | 64.39 | 2,586 | 42.70 |
| Total distributions | 7,058 | 64.39 | 2,586 | 42.70 |

12 Cash and cash equivalents

| | As at | |
|--|-----------------|-----------------|
| | 30 June 2017 | 30 June 2016 |
| | \$'000 | \$'000 |
| Cash at bank | 336 | 135 |
| Total cash and cash equivalents | 336 | 135 |

12 Cash and cash equivalents (continued)

Reconciliation to cash at the end of the year

The above figures are reconciled to cash at the end of the financial year as shown in the Statement of cash flows as follows:

| | As at | |
|-------------------------------------|---------------------------|---------------------------|
| | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
| Balances as above | 336 | 135 |
| Bank overdrafts* | (451) | (223) |
| Balance per statement of cash flows | (115) | (88) |

*The bank overdrafts are Westpac overdraft accounts used for dividend equitisation. During the period, interest was charged at 1.95% until 21 June 2017 when it increased to 2.60% (2016: 1.95% p.a.).

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

| | Year ended | |
|---|---------------------------|---------------------------|
| | 30 June 2017 \$'000 | 30 June 2016 \$'000 |
| (a) Reconciliation of profit/(loss) to net cash inflow/(outflow) from operating activities | | |
| Profit/(loss) for the year | 21,366 | 1,674 |
| Proceeds from sale of financial instruments held at fair value through profit or loss | 43,009 | 27,335 |
| Purchase of financial instruments held at fair value through profit or loss | (137,451) | (89,154) |
| Net (gains)/losses on financial instruments held at fair value through profit or loss | (19,056) | (674) |
| Net change in receivables | (210) | (71) |
| Net change in payables | 79 | (2) |
| Dividend/distribution income reinvested | (5) | (4) |
| Effects of foreign currency exchange rate changes on cash and cash equivalents | 4 | - |
| Net cash inflow/(outflow) from operating activities | (92,264) | (60,896) |

(b) Non-cash financing activities

During the year, the following distribution payments were satisfied by the issue of units under the distribution reinvestment plan

| | |
|----|----|
| 84 | 26 |
|----|----|

14 Remuneration of auditors

During the year, the following fees were paid or payable for services provided by the auditor of the Fund:

| | Year ended | |
|--|-----------------|-----------------|
| | 30 June 2017 | 30 June 2016 |
| | \$ | \$ |
| Ernst & Young | | |
| <i>Audit services</i> | | |
| Audit and review of financial statements | 18,540 | 18,540 |
| Other assurance services | 2,289 | 2,133 |
| Total remuneration of Ernst & Young | 20,829 | 20,673 |

During the year 2017 and 2016, auditor's remuneration was paid by VanEck Australia Pty Ltd., the direct parent of the Responsible Entity.

15 Receivables

| | As at | |
|---------------------------------------|-----------------|-----------------|
| | 30 June 2017 | 30 June 2016 |
| | \$'000 | \$'000 |
| Dividend and distributions receivable | 327 | 104 |
| Applications receivable | 5,793 | 5,233 |
| GST receivables | - | 13 |
| Total Receivables | 6,120 | 5,350 |

16 Payables

| | As at | |
|-------------------------|-----------------|-----------------|
| | 30 June 2017 | 30 June 2016 |
| | \$'000 | \$'000 |
| Management fees payable | 73 | 16 |
| Withholding tax payable | 17 | 6 |
| Other payables | 12 | 1 |
| Total Payables | 102 | 23 |

17 Related party transactions

Responsible Entity

The Responsible Entity of VanEck Vectors MSCI World ex Australia Quality ETF is VanEck Investments Limited, a wholly owned subsidiary of VanEck Australia Pty Ltd. The direct parent of the Responsible Entity is a wholly owned subsidiary of Van Eck Associates Corporation, incorporated in the United States of America. The registered office of the Responsible Entity and the Fund is Aurora Place, Level 4, 88 Philip Street, Sydney, NSW, 2000.

Effective 29 October 2015, the management fee for the Fund was reduced from 0.75% p.a. to 0.40% p.a., calculated and accrued daily on the Fund's Net Asset Value and reflected in the daily unit price and payable from the assets of the Fund on a monthly basis on or about the first business day of the following month. The fees charged for the year are in accordance with the supplementary Product Disclosure Statement dated 12 October 2015.

Key management personnel

Key management personnel includes persons who were directors of VanEck Investments Limited at any time during the year as follows:

Jan van Eck
Bruce Smith
Arian Neiron
Michael Brown
Jonathan Simon

(a) Key management personnel unitholdings

There were no key management personnel who held units in the Fund as at 30 June 2017. Key management personnel who held units in the Fund as at 30 June 2016 were, as follows:

| 30 June 2016 | | | | | | | |
|--------------|---|---|--|-------------------------|---|---|--|
| Unitholder | Number of units held opening (Units) | Number of units held closing (Units) | Fair value of investment (\$) | Interest held (%) | Number of units acquired (Units) | Number of units disposed (Units) | Distributions paid/payable by the Fund (\$) |
| Arian Nerion | - | - | - | - | 2,611 | 2,611 | - |

Key management personnel compensation

Key management personnel are paid by VanEck Australia Pty Ltd, the parent company of VanEck Investments Limited. Payments made from the Fund to VanEck Investments Limited do not include any amounts attributable to the compensation of key management personnel.

Key management personnel loan disclosures

The Fund has not made, guaranteed or secured, directly or indirectly, any loans to the key management personnel or their personally related entities at any time during the reporting period (2016: Nil).

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 reporting year and there were no material contracts involving directors' interests existing at year end (2016: Nil).

17 Related party transactions (continued)

Fees incurred and payable for services provided by the Responsible Entity

The Responsible Entity fees for the year ended 30 June 2017 were \$671,995 (2016: \$384,585). The aggregate amount payable to the Responsible Entity for the year ended 30 June 2017 was \$72,989 (2016: \$15,798).

Investments

The Fund did not hold any investments in VanEck Investments Limited or its related parties during the year (2016: Nil).

18 Events occurring after the reporting period

No significant events have occurred since the end of the reporting period which would impact on the financial position of the Fund disclosed in the Statement of financial position as at 30 June 2017 or on the results and cash flows of the Fund for the year ended on that date.

19 Contingent assets and liabilities and commitments

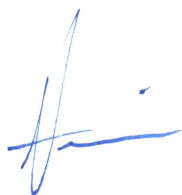
There are no outstanding contingent assets, liabilities or commitments as at 30 June 2017 and 30 June 2016.

Directors' declaration

In the opinion of the directors of the Responsible Entity:

- (a) the financial statements and notes set out on pages 7 to 32 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Australian Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
 - (ii) giving a true and fair view of the Fund's financial position as at 30 June 2017 and of its performance for the reporting period ended on that date; and
- (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) Note 2(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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



Arian Neiron
Director

Sydney
19 September 2017

INDEPENDENT AUDITOR'S REPORT

To the Unitholders of VanEck Vectors MSCI World ex Australia Quality ETF

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of VanEck Vectors MSCI World ex Australia Quality ETF, which comprises the statement of financial position as at 30 June 2017, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the 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 of VanEck Investments Limited, the Responsible Entity of the Fund.

In our opinion:

the accompanying financial report of VanEck Vectors MSCI World ex Australia Quality ETF is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Fund's financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of VanEck Vectors MSCI World ex Australia Quality ETF in accordance with the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia; and we have fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of

material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

1. Investment Valuation

Why significant

As a listed exchange traded fund, the Fund has a significant investment portfolio consisting primarily of listed equities and listed unit trusts. As at 30 June 2017, the value of these financial assets, per Note 7 to the financial statements was \$220,343,664, which equates to 94% of the total assets held by the Fund.

As detailed in the Fund's accounting policy, as described in Note 2 to the financial statements, these financial assets are recognised at fair value through profit or loss in accordance with Australian Accounting Standards - AASB 9: *Financial Instruments* (AASB 9).

Volatility and other market drivers can have a significant impact on the value of these financial assets and the financial statements, therefore valuation of the investment portfolio is considered a key area of focus.

How our audit addressed the key audit matter

We assessed the design and operating effectiveness of the key controls in place around the recognition and valuation of investments, through review of the audited internal controls report prepared under *ISAE 3402 Assurance Reports on Controls at a Service Organisation* by other audit firm, of the Fund's administrator. We assessed the competence and objectivity of the audit firm performing the audit of the internal controls report. We relied on these controls to gain assurance over the recognition and valuation of the investment balances.

We agreed all investment holdings, including cash accounts, to third party confirmations at 30 June 2017.

We checked the valuation of all positions in the portfolio held at 30 June 2017. To validate the fair value in accordance with AASB 9, we agreed the listed securities to independent pricing sources.

We assessed the adequacy of the disclosures in Note 2 to the financial statements in line with AASB 9, AASB 7: *Financial Instruments Disclosures* and AASB 13: *Fair Value Measurement*.

2. Management Fees

Why significant

Management fees paid to the responsible entity, VanEck Investments Limited, are the most significant expense for the Fund.

The Fund's accounting policy for Management fees is described in Note 2 to the financial statements. All expenses are recognised on an accruals basis.

As at 30 June 2017, management fees totalled \$671,995 which equates to 48% of total expenses.

How our audit addressed the key audit matter

We assessed the design and operating effectiveness of the key controls in place in relation to the calculation of management fees, through review of the audited internal controls report of the administrator. We relied on these controls to gain assurance over the calculation of the fee expenses.

We performed a recalculation of management fees in accordance with contractual arrangements including agreeing the contract rate to the calculation.

We assessed the adequacy of the disclosures in Note 17 to the financial statements.

Information Other than the Financial Statements and Auditor's Report Thereon

The directors of VanEck Investments Limited as Responsible Entity of the Funds are responsible for the other information. The other information is the directors' report accompanying the financial report.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Directors' Responsibilities for the Financial Report

The Directors of the Responsible Entity 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 control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Fund or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

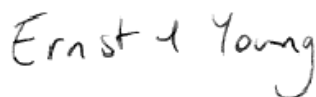
- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of the Directors' use of the going concern basis of accounting in the preparation of the financial report. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events and conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the disclosures in the financial report about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial report. However, future events or conditions may cause an entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

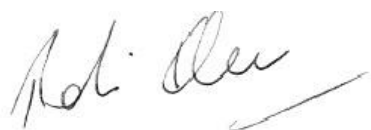
We communicate with the Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



Ernst & Young



Rohit Khanna
Engagement Partner
Sydney
19 September 2017