

SIMPLE, COST EFFECTIVE CURRENCY EXPOSURE

BetaShares Currency ETFs
ASX CODES: USD, POU & EEU



BetaShares

Exchange Traded Funds

www.betashares.com.au

The currency market is the largest and most liquid financial market in the world, with turnover in excess of US\$3 trillion per day. However, until the introduction of BetaShares Currency ETFs, it has been difficult for Australian investors to access this market easily.

Individuals, businesses and institutional investors seek exposure to foreign currencies for many reasons – to profit from an expected move in exchange rates, to provide diversification to investment portfolios and to hedge against currency risk (e.g. the risk that a fixed U.S. dollar expense in the future becomes more expensive in Australian dollars if the Australian dollar falls in value).

BetaShares Currency ETFs provide investors with perhaps the simplest, cheapest and most convenient way to gain exposure to the performance of selected foreign currencies – all without the need to use complicated foreign currency trading platforms, trade CFDs or open a foreign currency bank account.

The objective of BetaShares Currency ETFs is to track the change in the price of the relevant foreign currency relative to the Australian dollar, before fees and expenses.

What is a Currency ETF?

BetaShares Currency ETFs seek to provide a simple, cost effective and convenient investment alternative for investors interested in gaining exposure to the performance of a specified foreign currency relative to the Australian dollar.

For example, the BetaShares U.S. Dollar ETF (ASX: USD) aims to track the change in value of the U.S. dollar relative to the Australian dollar, (before fees and expenses). So if the US\$ goes up 10% against the A\$ (i.e. the A\$ falls in value), the price of the ETF should go up 10% too.

How are BetaShares Currency ETFs structured?

One of the most appealing aspects of BetaShares Currency ETFs is the simplicity of the structure.

The assets of each ETF are invested in bank deposit accounts denominated in the relevant foreign currency. Any interest earned on the deposits accrues to the benefit of the ETF and will be distributed to investors (if such interest exceeds the fees and expenses of the ETF).

The deposit accounts are held with JP Morgan Chase Bank, one of the world's largest financial institutions, with total assets of over US\$2 trillion.

The structure allows BetaShares to provide investors with access to direct foreign currency performance at rates that would otherwise only be available to the largest wholesale investors.

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What are the costs and how do they compare?

Costs include a small annual management fee, and you will also pay brokerage costs just like when you trade any share on the ASX. For most investors, this will be much cheaper than alternative ways to get exposure to a foreign currency.

The example below is based on an individual with A\$10,000 who wishes to gain exposure to the U.S. dollar for six months. It compares:

- the cost of buying units in the BetaShares U.S Dollar ETF and selling them at the end of six months with;
- the costs of buying U.S. dollars through a foreign currency bank account and then selling the U.S. dollars after six months.

COST EFFECTIVENESS: BETASHARES U.S. DOLLAR ETF V FOREIGN CURRENCY BANK ACCOUNT (COST OF A\$10,000 INVESTMENT OVER 6 MONTHS)

	BETASHARES USD DOLLAR ETF		FOREIGN CURRENCY BANK ACCOUNT ⁽¹⁾	
	COST	ASSUMPTIONS	COST	ASSUMPTIONS
TRANSACTION COSTS	\$40.00	\$20 brokerage per trade	\$0	
SPREAD (BUY & SELL)	\$20.00	Assumes buy-sell spread of 0.20% on the ASX	\$981.59	9.7% buy-sell spread
INTEREST RECEIVED	(\$7.50)	0.15% p.a. ⁽²⁾	(\$0)	
MANAGEMENT FEES	\$22.50	0.45% p.a.	\$0	
TOTAL COSTS	\$82.50		\$981.59	

(1) Example using a Top 4 Australian Bank Foreign Currency Account (US\$) with published rates/fees and spreads as at 23 March 2016

(2) Based on interest applicable to BetaShares U.S. Dollar ETF as of 23 March 2016. Interest rates variable and subject to change

Using a foreign currency bank account is over 10 times more expensive than using BetaShares U.S. Dollar ETF!

Benefits of BetaShares Currency ETFs

Traditionally, investors wishing to gain foreign currency exposure have had to do so via foreign exchange brokers, foreign exchange trading platforms or the direct purchase of currency from banks. BetaShares Currency ETFs have significant advantages over each of these alternative methods.

CURRENCY ACCESS: COMPARISON OF CURRENCY ETFs TO ALTERNATIVE WAYS TO OBTAIN FOREIGN EXCHANGE EXPOSURE

	CURRENCY ETFs	CURRENCY BROKERS	CURRENCY TRADING PLATFORMS	DIRECT FROM FINANCIAL INSTITUTIONS
EASE OF ACCESS	YES Purchased like a share on the ASX	NO Limited to large clients	NO Requires proprietary platform and platform account, can include minimum balances	NO Account opening and set up; may require minimum balances
EXPENSES AND FEES	LOW Brokerage costs Low management fees	VARIABLE Buy/sell spreads	VARIABLE Buy/sell spreads Platform fees Financing margin	HIGH Buy/sell spreads Monthly fees
LEVERAGE FACTOR	NONE	NONE	VARIABLE Can be as high as 99x	NONE
EFFECTIVE FX RATE ON PURCHASE/SALE	VERY COMPETITIVE 0.05%-0.15% away from mid wholesale FX rate	VARIABLE Depends on size of client	VARIABLE Can be altered by platform provider	VARIABLE Up to 3.90% away from mid wholesale FX rate
MARGIN CALLS	NO	NO	YES	NO

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BetaShares Currency ETFs offer the following benefits to investors

- **Accessible** – gain exposure to the performance of foreign currency as easily as buying any share on the ASX
- **Convenient** – avoid the cost and complexity associated with accessing the FX markets through currency trading platforms, CFDs, currency brokers or opening a foreign currency bank account
- **Flexible** – can be used to implement a range of investment strategies
- **Low cost** – costs expected to be significantly lower than buying foreign currency directly from a bank or other financial institution for most investors
- **Simple and secure structure** – the ETF holds actual foreign currency in deposit accounts with JP Morgan Chase
- **Liquid** – the ETFs trade on ASX throughout the day with tight bid-offer spreads
- **Transparent** – value of the ETFs assets (including the wholesale FX rate used to value the foreign currency) is available daily on the BetaShares website
- **Suitable for SMSFs** – Betashares Currency ETFs can be included in SMSFs (self managed super funds)

Uses of BetaShares Currency ETFs

BetaShares Currency ETFs can be used to implement a number of different strategies. For example, they can be used to Profit from a view that a specific foreign currency will strengthen relative to the Australian dollar (i.e. the Australian dollar will fall in value against the foreign currency).

The example below illustrates how an investor with a negative view on the Australian dollar can profit from this view.

On 1 January, the AUD/GBP is at GBP0.67. Bill decides to purchase A\$15,000 worth of units in the BetaShares British Pound ETF (ASX: POU), in the expectation of a fall in the value of the Australian dollar. Six months later, the Australian dollar has indeed fallen – to GBP0.50. Bill sells his units in the ETF and makes a profit of A\$5,000 (example does not include the effect of ETF fees and expenses).

EXAMPLE: TAKING A VIEW ON THE BRITISH POUND USING BETASHARES BRITISH POUND ETF (ASX: POU)

	1 JANUARY	1 JULY
AUD/ GDP	\$40.00	\$0
ETF UNIT PRICE	A\$15.00	A\$20.00
UNITS PURCHASED/ DISPOSED	Purchase 1,000 units	Dispose 1,000 units
CASHFLOW	- \$15,000	+ \$20,000
PROFIT		A\$5,000

* Note: Hypothetical example only – does not take into account effect of fees and expenses

Hedge against currency risk

Individuals or businesses that are exposed to foreign currency risk can use BetaShares Currency ETFs to hedge against movements in foreign currency exchange rates.

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Hedge against resources exposure

Many investors are naturally heavily exposed to the resources industry, either via direct equities holdings or via the holdings of their managed funds. As the below chart indicates, the USD/AUD exchange rate typically moves inversely with the resources index, making the BetaShares U.S. Dollar ETF a particularly effective hedge against commodities and resources exposures in investor portfolios.

PERFORMANCE OF S&P/ASX 200 RESOURCES INDEX V USD/AUD: AUGUST 2011- AUGUST 2016



Source: IRESS. Past performance is not an indicator of future performance

Diversify a portfolio

Currencies are a low correlation asset class that can be used to reduce the volatility of an investment portfolio, so the addition of currency ETFs into an investor's portfolio can substantially diversify overall returns. The table below sets out the correlations between the performance of the AUD v. selected foreign currencies and the performance of other major asset classes.

CORRELATION OF RETURNS – AUD V SELECTED FOREIGN CURRENCIES & OTHER ASSET CLASSES

(5 YEAR): JUNE 2008-AUGUST 2016

	AUSTRALIAN EQUITIES (S&P/ASX 200 Index)	GLOBAL EQUITIES (MSCI World Index in A\$ Returns)	COMMODITIES (S&P/GSCI Total Return Index)	GOLD (Bullion Spot Price)	GLOBAL BONDS (Morningstar Global Government Bond Index)
USD/AUD	-0.14	-0.46	-0.4	-0.31	0.081
GBP/AUD	-0.09	-0.27	-0.19	-0.18	0.008
EUR/AUD	-0.16	-0.38	-0.23	-0.06	0.065

Source: Bloomberg

BetaShares Currency ETFs Trading Information

BetaShares Currency ETFs can be bought or sold during the trading day on the ASX, and trade like ordinary shares.

EXCHANGE	ASX
ASX CODES	USD/POU/EEU
CURRENCY	AUD
TRADING HOURS	10:00-16:00 (AEST)

BetaShares Currency ETFs Fund Information

ISSUER	BetaShares Capital Ltd
UNDERLYING ASSETS	Foreign Currency
DEPOSITORY BANK	JP Morgan Chase
CUSTODIAN	RBC Investor Services
ADMINISTRATOR	RBC Investor Services
AUDITOR	PricewaterhouseCoopers
DISTRIBUTIONS	June and December
MANAGEMENT COSTS	0.45% p.a

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There are risks associated with an investment in the Fund, including interest rates on the Fund's bank deposits are variable and credit risk generally associated with bank deposits. For more information on risks and other features of the Fund please see the Product Disclosure Statement.

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