INTRODUCTION TO BETASHARES FUNDAMENTAL INDEX SERIES

ASX CODES: QOZ (Australian equities), QUS (US equities)

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"Fundamental index strategies use measures that represent the overall economy – not security prices which are moved by the fads, bubbles, crashes and shifting expectations of the markets.

By using measures such as five-year averages of sales, cash flow, dividends and book value, the Fundamental Index approach – unlike traditional market cap-weighted index funds – sells the most popular and trendy stocks while buying shunned and neglected companies"

- Robert Arnott, Chairman, Research Affiliates

Using market-capitalisation as a basis for weighting index constituents is a methodology that has been in existence for well over a century, and is typically used by most major traditional benchmark indices (such as the S&P/ASX 200 index or S&P 500 index). More recently, significant advances in the understanding of financial markets have allowed for the development of indices that seek to improve on some of the limitations of such traditional methodologies. One of the most popular of these approaches is the RAFI® Fundamental Index® methodology.

RAFI® Fundamental Index® strategies select and weight constituents based on factors related to the fundamental size of a company, reflecting the company's economic footprint rather than its market capitalisation. Use of these factors seeks to overcome the limitations of traditional indices based on market capitalisation by using measures which do not depend on the fluctuations of market prices, while still maintaining the benefits of passive investment (lower turnover costs, broad economic representation and a transparent, rules-based process). An index based on fundamental values breaks the link between index weight and price and aims to produce superior long term performance compared to indices weighted using market capitalisation.

Potential Drawbacks of Market-Capitalisation Weighted Indices

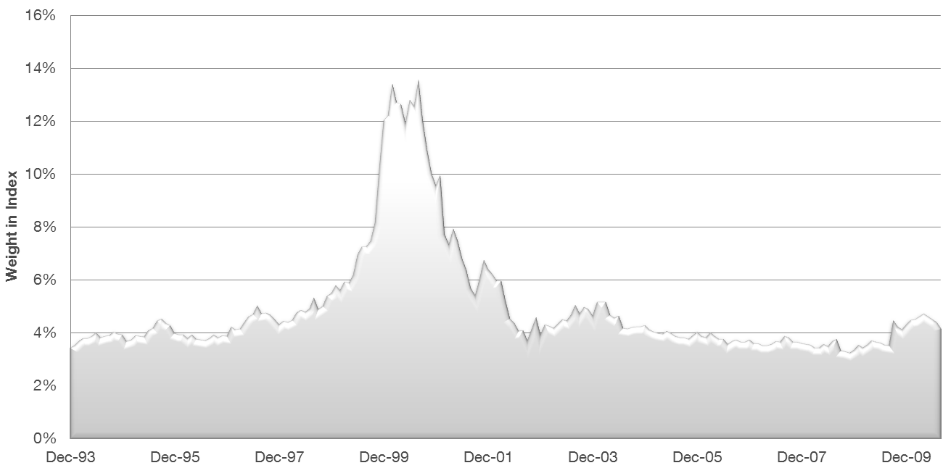
Market capitalisation weighted indices link the price of a security with its weight and therefore its importance to the index. Such an approach is based upon a premise that markets are perfectly efficient, and that prices will always reflect true valuations. To the extent markets are not, in fact, efficient, the market capitalisation weighted approach results in several potential drawbacks, including:

- Overweighting stocks that may be overvalued, and underweighting stocks that may be undervalued, leading to a potential drag in overall performance
- Being influenced by market speculation, which can cause significant mispricing of the stocks and therefore 'inappropriate' weightings

The 'Tech Boom' - a case study

An example of the issue described above can be seen in the exhibit below, which illustrates the weight of the Technology sector in a broad global market-cap weighted index during the period commonly known as the 'tech boom'. As is indicated below, during this period the index weight of the technology sector spiked dramatically, as prices of the underlying stocks rose, independent of the underlying constituents' importance to the global economy.

EXAMPLE: INDEX WEIGHT OF TECHNOLOGY IN FTSE WORLD EX-US INDEX (A MARKET CAP WEIGHTED INDEX) – DECEMBER 1993- AUGUST 2010



Source: FTSE

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The RAFI® Fundamental Index® Methodology

By comparison to the market capitalisation weighted methodology, the RAFI® Fundamental Index® methodology is based on the premise that markets are not always efficient. Indeed, and as per the exhibit above, history has shown that security mispricing and market inefficiencies do exist.

The RAFI® Fundamental Index® methodology aims to construct an index based on fundamental measures of company size. The methodology seeks to reduce the performance drag created by overweighting overvalued securities and underweighting undervalued securities. In addition, the RAFI® Fundamental Index® approach reduces the effect of market speculation. As such, **fundamental index methodologies seek to outperform their cap-weighted counterparts while still maintaining the diversification and transparency advantages of broad market indices.**

The RAFI® Fundamental Index® methodology was created by Research Affiliates®, a leading global developer of Fundamental Index products.

The approach taken by the BetaShares Fundamental Index ETFs

BetaShares Fundamental Index ETFs are broad market fundamentally weighted exchange traded funds (“ETFs”) offering an intelligent alternative to market capitalisation weighted products. The ETFs provide investors with diversified exposure to a portfolio of Australian equities (in the case of QOZ) or US equities (in the case of QUS) weighted in a way that is reflective of the economic size of their constituents.

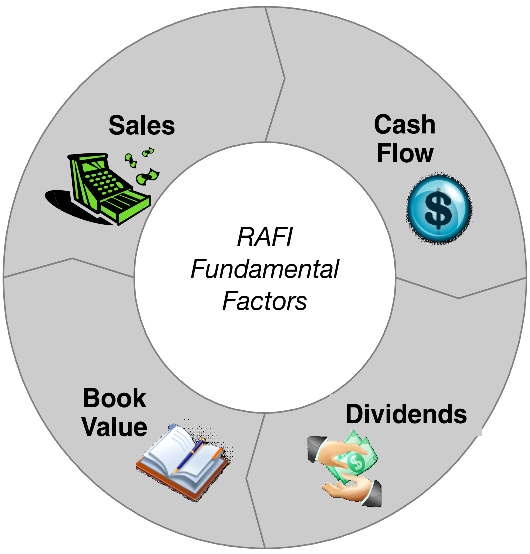
The ETFs aim to provide an investment return that tracks the performance of fundamental indices (before fees and expenses) calculated by FTSE and built using the RAFI® Fundamental Index® methodology:

- For **QOZ**: The FTSE RAFI Australia 200 Index, which comprises the 200 companies with the largest “fundamental values’ amongst companies listed on the ASX.
- For **QUS**: The FTSE RAFI US 1000 Index, which comprises the 1000 securities with the largest “fundamental values” amongst US listed stocks.

Fundamental Factors used by the BetaShares Fundamental Index ETFs

The equities included in the BetaShares Fundamental Index ETFs are selected and weighted based on measures of the fundamental size of the company, rather than market capitalisation.

Four equal-weighted fundamental measures of company size are used to determine the Index weights, as set out below:



(1) Sales: company sales averaged over prior 5 years

(2) Cash Flow: company cash flow averaged over prior 5 years, defined as Operating Income plus Depreciation and Amortization

(3) Dividends: total dividend distributions averaged over the last five years, including both special and regular distributions paid in cash

(4) Book Value: company book value at the review date

The factors have been chosen because:

- They reflect a company’s economic footprint and are not price related
- They are widely accepted indicators of company size, easily accessible and broadly available
- They are top line accounting measures that are less susceptible to manipulation
- 5 year averaging helps to smooth peaks and valleys in accounting data
- The methodology is transparent, repeatable and based on historical measures which have statistically proven to be successful in delivering attractive performance outcomes compared to market cap weighted indices

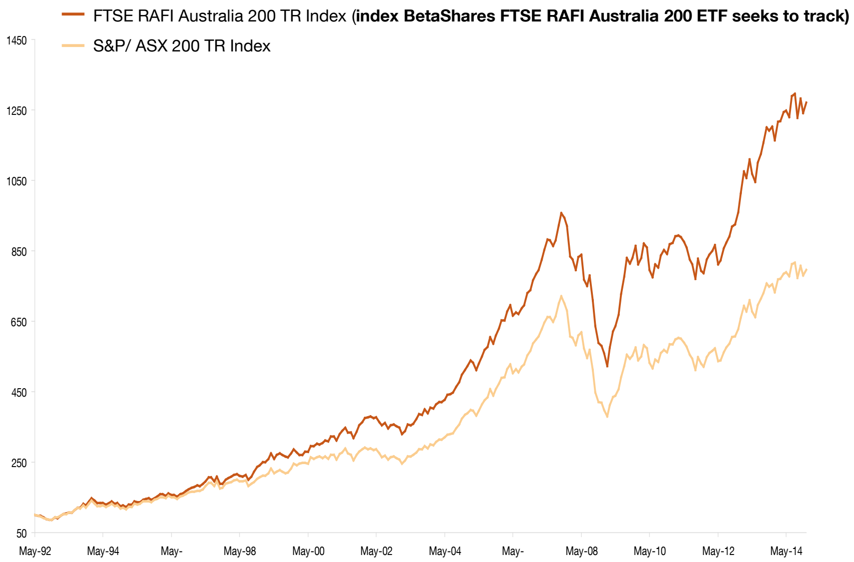
Performance

The RAFI® Fundamental Index® methodology aims to produce superior long term performance compared to market cap weighted indices and to reduce the potential return drag that can occur with traditional market cap weighted portfolios.

As an example, the below exhibit sets out the performance of the FTSE RAFI Australia 200 Index (the index the BetaShares FTSE RAFI Australia 200 ETF aims to track) vs. the S&P/ASX 200 index.

As can be noted, from inception of the Index in May 1992 to 31st December 2014, the FTSE RAFI Australia 200 index has **outperformed by 2.3% p.a.** The results are similar for the FTSE RAFI US 1000 index, which **outperformed by 2.2% p.a.** from March 1990 to 31st December 2014.

FTSE RAFI AUSTRALIA 200 INDEX V S&P/ASX 200 INDEX: MAY 1992 - DECEMBER 2014



TOTAL RETURN	FTSE RAFI AUSTRALIA 200	S&P/ASX 200
3M	3.4%	3.1%
6M	3.3%	2.5%
1 YR	5.6%	5.6%
3 YR (p.a)	17.4%	15.1%
5 YR (p.a)	8.1%	6.8%
10 YR (p.a)	9.5%	7.6%
20 YR (p.a)	12.2%	9.9%
Incept (p.a)	11.9%	9.6%

Value add since inception:
2.3% p.a

Graph shows performance of underlying index relative to S&P/ASX 200 index, not ETF performance and does not take into account ETF management costs. You cannot invest directly in an index. Returns for periods longer than one year are annualised. Past performance is not an indicator of future performance of index or ETF. The FTSE RAFI Australia 200 Index was launched on 10/8/2009. Index returns prior to launch are simulated based on Research Affiliates' patented non-capitalisation weighted indexing system, method and computer program product. Actual investment results may differ from simulated results. Source: Bloomberg, FTSE

When looking at the performance of the index on a calendar year basis, the results are similarly attractive, with the FTSE RAFI Australia 200 Index outperforming the S&P/ASX 200 Index in 16 of the last 22 calendar years.

FTSE RAFI AUSTRALIA 200 INDEX V S&P/ASX 200 INDEX TOTAL RETURNS BY CALENDAR YEAR: 1993-2014

Total Return	FTSE RAFI 200	S&P/ASX 200	Difference
2014	5.6%	5.6%	0.0%
2013	25.5%	20.2%	5.3%
2012	21.9%	20.3%	1.7%
2011	-9.4%	-10.5%	1.1%
2010	0.6%	1.6%	-1.0%
2009	48.6%	37.0%	11.5%
2008	-36.9%	-38.4%	1.5%
2007	20.1%	16.1%	4.0%
2006	21.8%	24.2%	-2.4%
2005	23.1%	22.8%	0.3%
2004	26.5%	28.0%	-1.5%
2003	14.4%	14.6%	-0.2%
2002	-3.0%	-8.8%	5.8%
2001	17.4%	10.4%	7.0%
2000	7.8%	6.4%	1.4%
1999	19.1%	18.7%	0.4%
1998	20.0%	9.8%	10.2%
1997	13.2%	12.7%	0.5%
1996	16.4%	14.4%	2.0%
1995	20.4%	21.1%	-0.7%
1994	-7.9%	-8.8%	0.8%
1993	48.7%	40.0%	8.6%

Table shows performance of underlying index relative to S&P/ASX 200 index, not ETF performance and does not take into account ETF management costs. You cannot invest directly in an index. Past performance is not an indicator of future performance of index or ETF. The FTSE RAFI Australia 200 Index was launched on 10/8/2009. Index returns prior to launch are simulated based on Research Affiliates' patented non-capitalisation weighted indexing system, method and computer program product. Actual investment results may differ from simulated results. Source: Bloomberg, FTSE

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Academic Rigour underlies the RAFI® Fundamental Index® methodology

The RAFI® Fundamental Index® methodology is owned by Research Affiliates LLC, and is the result of rigorous research from some of the most senior and respected names in modern investment research.

Research Affiliates was founded in 2002 by Rob Arnott as a specialist research and product development firm

- Headquartered in Newport Beach, CA, USA
- A global leader in global tactical asset allocation (GTAA) and Innovative Indexation
- Over $150 billion in assets managed using Research Affiliate investment strategies as of December 2014

Research Affiliates' panel of advisers includes individuals such as Harry Markowitz (Nobel Prize winner and father of modern portfolio theory) and Burton Malkiel, author of one of the most respected books on investing, A Random Walk Down Wall Street.

Benefits of BetaShares Fundamental Index ETFs

- **Performance -** aim to produce superior long term performance compared to market cap weighted indices
- **Alternative to traditional benchmarks -** similar historical yield and volatility to market cap equivalents
- **Low Cost -** cost of ETFs are lower than traditional active managers
- **Diversification -** investors gain exposure to the performance of the largest companies as measured by fundamental size, in a single trade
- **Accessible -** the ETFs can be bought or sold like any share, and are not platform dependent
- **Liquid -** trades on ASX throughout the day
- **Transparent -** portfolio holdings, value of the ETF's assets and net asset value per unit available daily on BetaShares' website

Uses of BetaShares Fundamental Index ETFs

The ETFs should have broad appeal and may be suitable for a variety of investors and uses

- A core portfolio holding providing broad economic representation, transparency, and diversification benefits
- A rules-based, enhanced passive solution for the equity portfolios of Australian investors
- Tactical exposure to the Australian or US share markets
- A low cost complement and/or alternative to investments with active fund managers

Trading Information

The ETF can be bought or sold throughout the trading day on the ASX, and trades like ordinary shares.

EXCHANGE	ASX
ASX CODE	QOZ (Australian)/QUS (US)
CURRENCY	AUD
TRADING	10:00-16:00 (AEST)
BLOOMBERG	QOZ AU/QUS AU
IRESS CODE	QOZ.AXW/QUS.AXW

Fund Information

ISSUER	BetaShares Capital Ltd
CUSTODIAN	RBC Investor Services
ADMINISTRATOR	RBC Investor Services
REGISTRAR	Link Market Services
AUDITOR	KPMG
DISTRIBUTIONS	Semi-Annual
MANAGEMENT FEE	0.30% p.a
EXPENSES	capped at 0.10% p.a

About BetaShares

BetaShares Capital Ltd ("BetaShares") is a leading provider of exchange traded products ("ETPs") which are traded on the Australian Securities Exchange. BetaShares offers a range of ETPs which cover Australian and international equities, cash, currencies, commodities and alternative strategies. As at 31 December 2014, BetaShares has approximately $1.9 billion in assets under management.

BetaShares is a member of the Mirae Asset Global Investments Group, one of Asia's largest asset management firms. Mirae currently manages in excess of US$60B, including over US$8B in ETFs.

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