BetaShares
Exchange Traded Funds

BETASHARES MODEL PORTFOLIO REPORT

QUARTER ENDING IN JUNE 2022

INFO@BETASHARES.COM.AU
1300 487 577 (IN AUSTRALIA)
+61 2 9290 6888 (OUTSIDE AUSTRALIA)

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1. MARKET AND PORTFOLIO REVIEW: JUNE QUARTER 2022

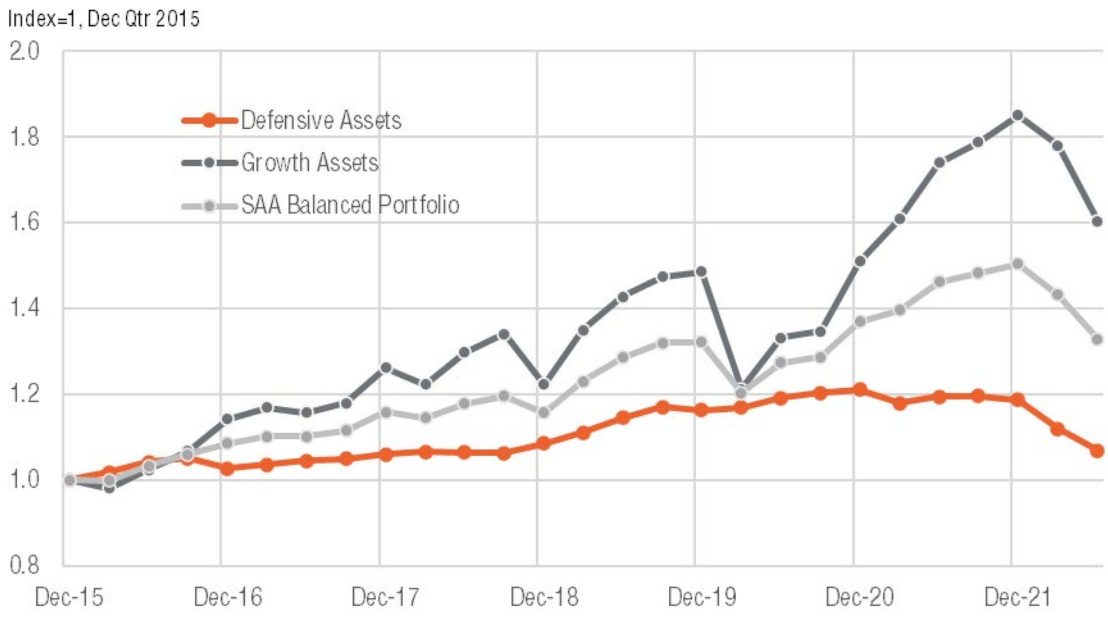
1.1. Market Review

As with the March quarter, both growth and defensive assets produced negative returns in the June quarter, though this time growth underperformed defensive assets.

Growth vs. Defensive Assets[1]

Major Asset Classes	Jun Qtr	Mar Qtr	6-months	12-months
Defensive	**-4.5%**	**-5.6%**	**-9.8%**	**-10.5%**
Cash	0.1%	0.1%	0.2%	0.3%
Aust. Bonds	0.0%	0.0%	0.0%	0.0%
Global bonds	-5.3%	-5.6%	-10.6%	-10.7%
Gold (hedged)	-6.5%	5.3%	-1.5%	1.2%
Aust. Listed Property	-17.5%	-6.8%	-23.1%	-11.5%
Aust Equities	-11.2%	4.5%	-7.1%	-4.0%
Global Equities (unhedged)	0.0%	0.0%	0.0%	0.0%
Growth	**-10.1%**	**-4.4%**	**-14.1%**	**-7.3%**

[1] Asset class returns based on the total return after fees for the respective model ETFs, using benchmark strategic weights. Growth and defensive asset returns are calculated using benchmark strategic asset class weights for the balanced portfolio. Past performance is not an indicator of future performance.



Source: Bloomberg, BetaShares. Past performance is not an indicator of future performance. Based on SAA weights.

Defensive asset returns fell by 4.5%, as a sharp rise in bond yields reduced the valuation on both Australian and global fixed-rate bonds.

In turn, rising bond yields reflected continued high inflation reports, especially in the United States. This led to further aggressive interest rate increases by the US Federal Reserve (the Fed) and Reserve Bank of Australia (RBA). Further aggressive interest rate increases by many central banks across the world are now expected by markets over coming months.

After having raised the Fed funds rate by 0.25% in the March quarter, the Fed raised it a further 1.25% over its May and June policy meetings, taking the Fed funds target range to 1.5-1.75%. The yield on US 10-year government bond yields rose from 2.3% to 3.2% over the quarter.

Reflecting an ongoing solid post-COVID economic rebound and a higher-than-expected March quarter inflation report, the RBA raised official rates twice over the quarter, from 0.1% to 0.85%. The market's 12-month-ahead expectation for the RBA cash rate rose from 2.1% to 3.7%.

Due to both higher global bond yields and heightened RBA policy tightening expectations, local bond yields also rose notably further over the June quarter, with the yield on 10-year bond yields rising from 2.8% to 3.7%.

Elsewhere among defensive assets, after strengthening in the March quarter, gold prices fell back in the June quarter, reflecting higher bond yields, a firm US dollar and general growing global growth concerns. Cash returns remained very muted, reflecting still fairly low short-term interest rates.

Growth asset returns declined by 10.1% in the quarter. While corporate earnings continued to grow, this was more than offset by a decline in equity valuations due to the significant rise in bond yields.

The June quarter was also marked by growing concerns not just with high inflation and rising interest rates, but also the downside risks posed to both economic growth and corporate earnings. This saw some broadening of equity market weakness from the growth/technology areas to the more commodity sensitive areas of the market. Compared to the March quarter, Australian equities had a notably weaker performance as a result.

The interest-rate sensitive listed property sector has suffered heavy falls. Higher interest rates and a strong US dollar also saw gold weakness after positive returns in the March quarter.

1.2. Balanced Model Portfolio Review

The value of the DAA (Balanced) Model Portfolio declined by 7.3% in the quarter, compared with a decline of 7.2% for the benchmark strategic portfolio.

Among defensive assets, returns were weakest among fixed-rate bond ETFs such as AGVT, CRED and VBND due to the strong lift in bond yields over the quarter. The floating rate bond ETF, QPON, also had a modest negative return due to a widening in credit spreads.

Among growth assets, the relative weakness in interest-sensitive property and growth exposures compared to more value oriented exposures was evident. Owing to their higher technology and consumer discretionary exposure, large-cap US equities (VTS) and global quality (QLTY) had larger falls than non-US global equities (VEU) and the equal-weight S&P 500 ETF (QUS).

Reflecting its interest-rate sensitivity, Australian listed property (VAP) had the largest decline among growth assets.

In the Australian market, the fundamentally-weighted QOZ ETF also modestly outperformed its market-cap weighted counterpart A200.

SAA and DAA Balanced Model Performance

	% return Jun Qtr	Balanced Model Weights *As at end of March 2022* SAA	DAA	+/-
Defensive Assets*	**-4.5%**	**50.00%**	**50.00%**	**0.00%**
Cash (AAA)	0.1%	5.00%	5.00%	0.00%
Floating-Rate Bonds (QPON)	-0.3%	6.50%	6.50%	-6.25%
Aust. Government Bonds (AGVT)	-6.2%	13.50%	17.25%	3.75%
Aust. Corporate Bonds (CRED)	-6.6%	7.00%	10.75%	3.75%
Global Bonds (VBND)	-5.3%	18.00%	10.50%	-7.50%
Gold (QAU)	-6.5%	0.00%	0.00%	0.00%
Growth Assets*	**-9.9%**	**50.00%**	**50.00%**	**0.00%**
Aust. Listed Property (VAP)	-17.5%	2.50%	2.50%	0.00%
Aust. Equities (QOZ)	-10.7%	8.75%	8.75%	0.00%
Aust. Equities (A200)	-11.6%	8.75%	8.75%	0.00%
US Equities (QUS)	-6.6%	7.25%	7.25%	0.00%
US Equities (VTS)	-11.5%	7.25%	7.25%	0.00%
Non-US Equities (QLTY)	-10.0%	6.00%	6.00%	0.00%
Non-US Equities (VEU)	-6.6%	9.50%	9.50%	0.00%
Quarterly % return		**-7.20%**	**-7.30%**	

*Using SAA weights.

In terms of performance attribution, the only tactical tilt last quarter was an overweight to Australian fixed-rate bonds (AGVT and CRED) over global fixed-rate (VBND) bonds, which marginally detracted from DAA performance due to a further (unwarranted in our view) widening in interest rate spreads between Australian and global bonds.

Balanced Dynamic Portfolio: Performance attribution

	Return performance DAA	SAA	DAA vs SAA	Performance attribution* growth vs. defensive	intra defensive	intra growth
Total Returns						
3-months	-7.3%	-7.2%	-0.1%	0.0%	-0.1%	0.0%
6-months	-12.2%	-11.6%	-0.6%	0.0%	-0.2%	-0.4%
12-months	-9.5%	-9.1%	-0.4%	0.3%	-0.4%	-0.3%
Since incept. (31/12/15)	4.1%	4.5%	-0.3%	-0.5%	0.0%	0.1%

*Growth vs. defensive refers to broad dynamic tilts between growth and defensive assets. Intra-defensive and intra-growth refer to tilts within each broad asset type. Attribution equals the difference in each ETF's quarterly return vs. overall SAA portfolio return multiplied by the difference between that ETF's DAA and SAA weights.

Regarding ETF selection, the Committee also decided to replace the granular building blocks of AGVT (fixed-rated Australian government bonds) and CRED (fixed-rated Australian corporate bonds) with the recently launched broad market composite bond ETF, OZBD, which aims to track the Bloomberg Australian Enhanced Yield Composite Bond Index (before fees and expenses). The rationale for this change was to consolidate our domestic fixed interest building blocks into the composite bond ETF, which carries enhanced index construction properties without deviating materially from the broader benchmark, and to reduce costs associated with the management of the domestic fixed interest asset class (management fees and transaction costs). AGVT and CRED will remain available within the DAA models for tactical positioning, owing to their relatively long interest rate duration and credit spread duration profiles respectively.

The table below shows the performance of the model portfolios across all risk profiles.

BetaShares Model Portfolios: Performance Summary	Conservative	Moderate	Balanced	Growth	High Growth
Strategic (Benchmark) ETF Model Portfolio					
Total Return Performance [1]					
3-months	-5.2%	-6.1%	-7.2%	-8.4%	-9.5%
6-months	-9.6%	-10.4%	-11.6%	-12.6%	-13.4%
12-months	-9.0%	-9.0%	-9.1%	-8.9%	-8.6%
3-year	-0.7%	0.4%	1.1%	2.2%	3.3%
Since incept.[2]	2.4%	3.5%	4.5%	5.6%	7.0%
Volatility[2]	2.9%	4.3%	6.0%	8.1%	10.9%
Net Yield[3]	1.8%	2.1%	2.4%	2.8%	3.0%
Gross Yield[3]	1.9%	2.3%	2.7%	3.1%	3.5%
Dynamic ETF Model Portfolio					
Total Return Performance [1]					
3-months	-5.3%	-6.2%	-7.3%	-8.5%	-9.5%
6-months	-10.1%	-11.0%	-12.2%	-13.3%	-14.0%
12-months	-9.4%	-9.4%	-9.5%	-9.5%	-8.8%
3-year	-1.2%	-0.2%	0.6%	1.6%	2.8%
Since incept[2]	2.3%	3.3%	4.1%	5.2%	6.6%
Volatility[2]	3.1%	4.4%	5.9%	8.1%	10.7%
Net Yield[3]	2.0%	2.3%	2.5%	2.9%	3.0%
Gross Yield[3]	2.1%	2.4%	2.7%	3.2%	3.4%

1 Portfolios are rebalanced on a quarterly basis.
2 Since inception 31 December 2015.
3 Trailing 12-months, as at 30 June 2022.

The return performance for our suite of Model Portfolios is summarised **here**.

1.3. Market Outlook and Portfolio Positioning

The past two quarters have been especially challenging for diversified portfolios, due to the weakness in both growth and defensive assets. More often than not, defensive assets provide some return support when growth assets are weakening – and vice versa – as interest rates tend to weaken as growth slows.

That said, this negative correlation does not *always* prevail. In periods when central banks are raising interest rates, bonds returns are more clearly negatively impacted. But equities may also fall for a time in this environment, even if economic growth and corporate earnings are rising - if high interest rates reduce equity valuations to a sufficient degree. These are usually “late cycle” periods when demand is overly strong and inflation pressure and equity valuation are high.

This has largely been the situation over the past two quarters, with late cycle inflation pressures aggravated by lingering COVID related supply side disruptions and Russia’s invasion of Ukraine.

Indeed, even though some of today’s high level of global inflation does reflect supply side disruption, strong post-COVID pent up demand is the main factor. At a time of already tight labour markets and rising consumer inflation expectations, central banks are tightening policy aggressively to reduce the risk that the current high level of inflation is entrenched through an increase in inflation expectations.

Central banks are prepared to risk a material weakening in near-term economic growth if need be - as they feel the alternative of allowing inflation to remain high would only damage economic growth over the long-term, as was evident in the 1970s.

So in a sense, global markets are in a race against time. If global inflation can ease quickly enough, central banks may well relent – scaling back aggressive rate hike intentions and possibly allowing the global economy to avoid a hard landing.

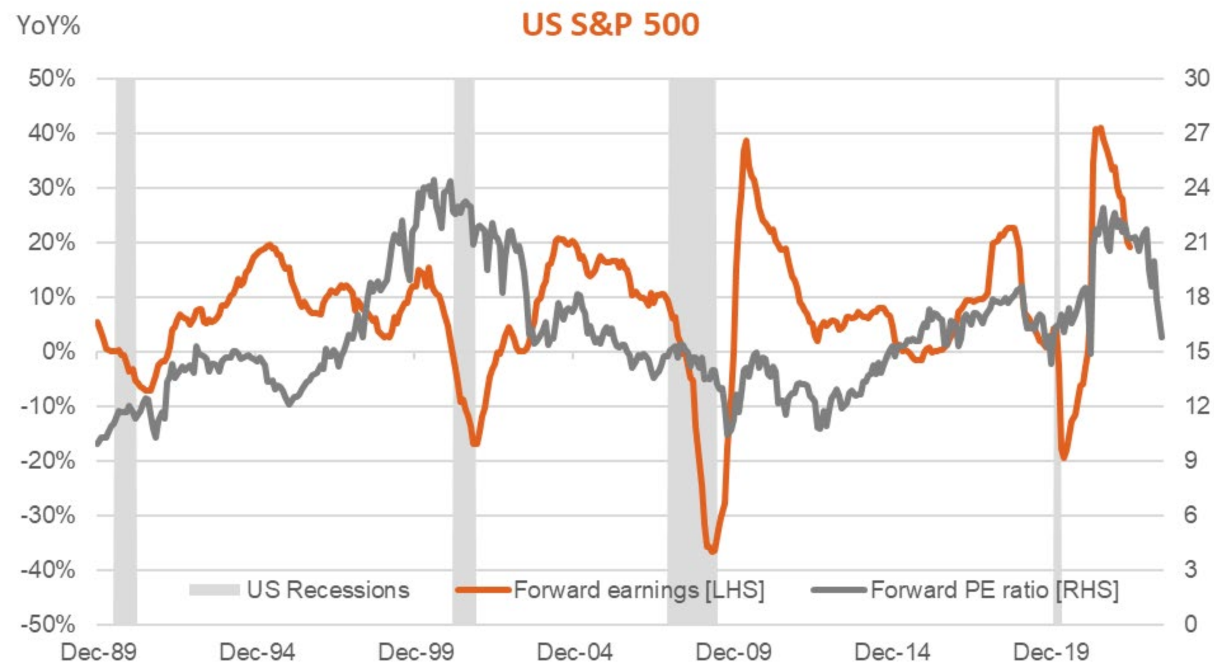
But if inflation remains stubbornly high, central banks may feel they have no choice but to keep raising rates and risk global recession.

Our base case, however, is that the global economy will likely be unable to avoid a hard landing, and equity valuations may well weaken somewhat further. Labour markets are simply too tight, demand pressures still too strong, and supply disruptions associated with COVID and Russia's invasion of Ukraine still too pervasive.

As a result, and as evident in the table below, <u>we have moved to a modest underweight to growth assets against defensive assets</u>, reflecting our expectation that the United States now likely faces a recession (albeit potentially mild) over the coming year as a result of stubbornly high inflation and ongoing aggressive interest rate increases. The underweight exposure to growth assets has been spread among Australian and global equities broadly in proportion to their SAA weights.

Investment Theme	Investment Strategy	Comment/Analysis
Heightened risk of US recession	Underweight growth vs. defensive assets	Aggressive US monetary tightening to contain inflation risks has materially increased the risk of recession in the coming year. Despite weakness in equities to date, further downside is likely if the US does move into recession.
RBA to lag the Fed	Overweight Australian government bonds over global bonds	Although the RBA is expected to continue to raise interest rates in the coming months, market pricing of local policy tightening appears too aggressive, as it implies a move in policy rates into highly restrictive territory.
Mixed global sector performance	Neutral Australian vs. global equities	Global sector performance, and hence Australian vs. global equity performance, is expected to remain somewhat mixed. While higher global interest rates are generally expected to hurt growth/technology stocks, the recent rise in commodity prices could also be unwound if the US tumbles into recession.

With 2022 and 2023 US earnings still expected to grow at around 10% p.a. and the US S&P 500 price to forward earnings (PE) ratio only back to around long-run average levels (16.5), the US market does not appear to have adequately yet priced the risk of recession. In a full blown recession, annual growth in forward earnings could drop by around 10 to 30%, and the forward PE ratio could drop as low as 10 to 12 times earnings.

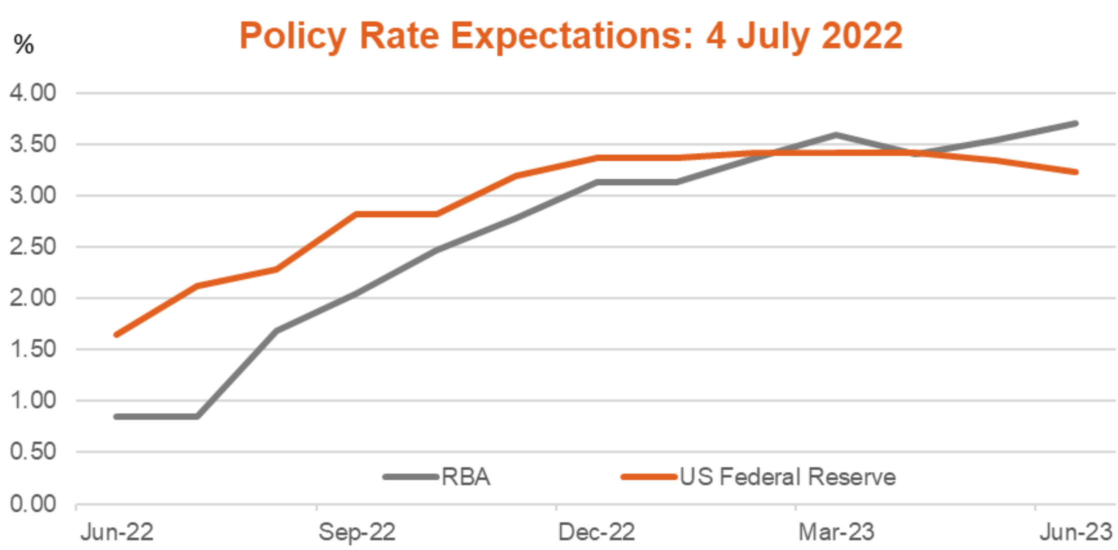


Source: Refintiv.

History suggests that Australia will not be immune to a US recession. Equities are likely to remain under pressure, especially if weaker global growth leads to greater weakness in the energy and resource sectors.

The offsetting overweight exposure to defensive assets has been placed in cash, as there remains the risk of further upside to interest rates, which argues against an overall overweight to fixed-rate bonds at this stage.

The models retain an overweight to Australian bonds over global bonds on our stronger view that expected policy tightening locally remains overly aggressive – at least compared to that evident globally. At end-June, for example, the market expected the RBA to raise the the overnight policy rate by almost one percentage point more than that in the United States by mid-2023, taking the local official cash rate to around 3.75%, compared to 3.25% for the US federal funds rate.



Source: Refintiv.

Despite this challenging near-term outlook, the good news for investors is that central banks will have demonstrated a commitment to keeping inflation contained – which bodes well for economic growth, interest rates and asset prices over the long-run. As and when inflation is contained and global economic growth recovers, growth assets should then eventually rebound – and start outperforming defensive assets once again.

Indeed, equities have already fallen some way and there remains upside risk if a faster than anticipated decline in inflation comes through. It is for this reason we have moved to a relatively modest underweight growth asset position.

Given this outlook, it's also likely that recent weakness in both growth and defensive assets won't persist much longer. As and when economic growth weakens and inflation pressures ease, the recent period of weakness in defensive assets – fixed-rate bonds – should end. Higher interest rates are already starting to restore prospective income returns from defensive assets to more attractive levels.

2. MODEL PORTFOLIOS: AS AT 30 JUNE 2022

2.1. Strategic and Dynamic Model Portfolios

The SAA and DAA Model Portfolios are detailed in the table below. The suite of Dynamic Income Model Portfolios is provided here. The suite of Pension Risk-Managed Model Portfolios is provided here. The Pension Risk-Managed models are rebalanced quarterly and subject to annual strategic review.

Asset Class	ETF	Conservative SAA	Conservative DAA	Conservative +/-	Conservative qtrly change	Moderate SAA	Moderate DAA	Moderate +/-	Moderate qtrly change	Balanced SAA	Balanced DAA	Balanced +/-	Balanced qtrly change	Growth SAA	Growth DAA	Growth +/-	Growth qtrly change	High Growth SAA	High Growth DAA	High Growth +/-	High Growth qtrly change
Defensive		**80.0%**	**85.0%**	**5.0%**	**5.0%**	**65.0%**	**70.0%**	**5.0%**	**5.0%**	**50.0%**	**55.0%**	**5.0%**	**5.0%**	**30.0%**	**35.0%**	**5.0%**	**5.0%**	**10.0%**	**15.0%**	**5.0%**	**5.0%**
Cash	AAA	15.00%	20.00%	5.00%	5.00%	10.00%	15.00%	5.00%	5.00%	5.00%	10.00%	5.00%	5.00%		5.00%	5.00%	5.00%		5.00%	5.00%	5.00%
Aust.Bonds - Floating	QPON	6.50%	8.00%	1.50%	-1.50%	5.50%	7.00%	1.50%	-1.0%	4.50%	5.75%	1.25%	-0.75%	3.00%	4.00%	1.00%	-0.50%				
Aust.Bonds - Fixed Govt	AGVT				-24.50%				-22.00%				-17.25%				-11.75%				-10.00%
Aust.Bonds - Fixed Corp	CRED				-15.00%				-13.0%				-10.75%				-7.25%				
Aust.Bonds	OZBD	32.50%	41.00%	8.50%	41.00%	27.50%	36.00%	8.50%	36.00%	22.50%	28.75%	6.25%	28.75%	15.00%	19.50%	4.50%	19.50%	10.00%	10.00%		10.00%
Int. bonds	VBND	26.00%	16.00%	-10.00%		22.00%	12.00%	-10.00%		18.00%	10.50%	-7.50%		12.00%	6.50%	-5.50%					
Gold ($US)	QAU																				
Growth		**20.0%**	**15.0%**	**-5.0%**	**-5.0%**	**35.0%**	**30.0%**	**-5.0%**	**-5.0%**	**50.0%**	**45.0%**	**-5.0%**	**-5.0%**	**70.0%**	**65.0%**	**-5.0%**	**-5.0%**	**90.0%**	**85.0%**	**-5.0%**	**-5.0%**
Aust. A-REITs	VAP									2.50%	2.50%			3.50%	3.50%			4.50%	4.50%		
Aust. Equities	QOZ	4.00%	3.00%	-1.00%	-1.00%	7.00%	6.00%	-1.00%	-1.00%	8.75%	7.75%	-1.00%	-1.00%	12.25%	11.25%	-1.00%	-1.00%	15.50%	14.50%	-1.00%	-1.00%
Aust. Equities	A200	4.00%	3.00%	-1.00%	-1.00%	7.00%	6.00%	-1.00%	-1.00%	8.75%	7.75%	-1.00%	-1.00%	12.25%	11.25%	-1.00%	-1.00%	15.50%	14.50%	-1.00%	-1.00%
Int. Equities	QLTY	2.50%	2.00%	-0.50%	-0.50%	4.25%	3.75%	-0.50%	-0.50%	6.00%	5.50%	-0.50%	-0.50%	8.50%	8.00%	-0.50%	-0.50%	11.00%	10.50%	-0.50%	-0.50%
US Equities	QUS	3.00%	2.25%	-0.75%	-0.75%	5.00%	4.25%	-0.75%	-0.75%	7.25%	6.50%	-0.75%	-0.75%	10.00%	9.25%	-0.75%	-0.75%	13.00%	12.25%	-0.75%	-0.75%
US Equities	VTS	3.00%	2.25%	-0.75%	-0.75%	5.00%	4.25%	-0.75%	-0.75%	7.25%	6.50%	-0.75%	-0.75%	10.00%	9.25%	-0.75%	-0.75%	13.00%	12.25%	-0.75%	-0.75%
Non-US Equities	VEU	3.50%	2.50%	-1.00%	-1.00%	6.75%	5.75%	-1.00%	-1.00%	9.50%	8.50%	-1.00%	-1.00%	13.50%	12.50%	-1.00%	-1.00%	17.50%	16.50%	-1.00%	-1.00%
Total		**100.0%**	**100.0%**			**100.0%**	**100.0%**			**100.0%**	**100.0%**			**100.0%**	**100.0%**			**100.0%**	**100.0%**		
MER [1]		**0.20%**	**0.19%**			**0.20%**	**0.19%**			**0.20%**	**0.20%**			**0.20%**	**0.20%**			**0.20%**	**0.20%**		

[1] These are the weighted average management costs of the underlying funds in the model portfolio and can be expected to change over time as asset allocations and underlying investment vehicles change. These costs do not include certain other costs, such as any transaction costs (e.g. brokerage and bid-offer spreads) that might be incurred when implementing model portfolios.

3. TECHNICAL APPENDIX

Technical appendix available here.

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