

GROWTH OPPORTUNITY IN AUSTRALIA'S DYNAMIC TECH SECTOR: THE BETASHARES S&P/ASX AUSTRALIAN TECHNOLOGY ETF (ASX: ATEC)

February 2020

INVEST IN AUSTRALIA'S LEADING TECHNOLOGY COMPANIES

Few would deny the global economy is enjoying a period of profound technological change, supported by very fast broadband, digitisation of information and cloud storage.

Indeed, technology has been one of the standout global industry sectors since the GFC, led by household names such as Google, Amazon and Facebook.

But while perhaps less appreciated, Australia has developed its own group of tech-related companies, including Afterpay, carsales.com, Domain, Webjet, Xero online accounting and global logistics software supplier WiseTech Global.

Many of these companies are less well known than the big players that dominate Australia's equity market, such as the banks and miners. But they arguably offer a growth dynamism that the bigger players these days lack.

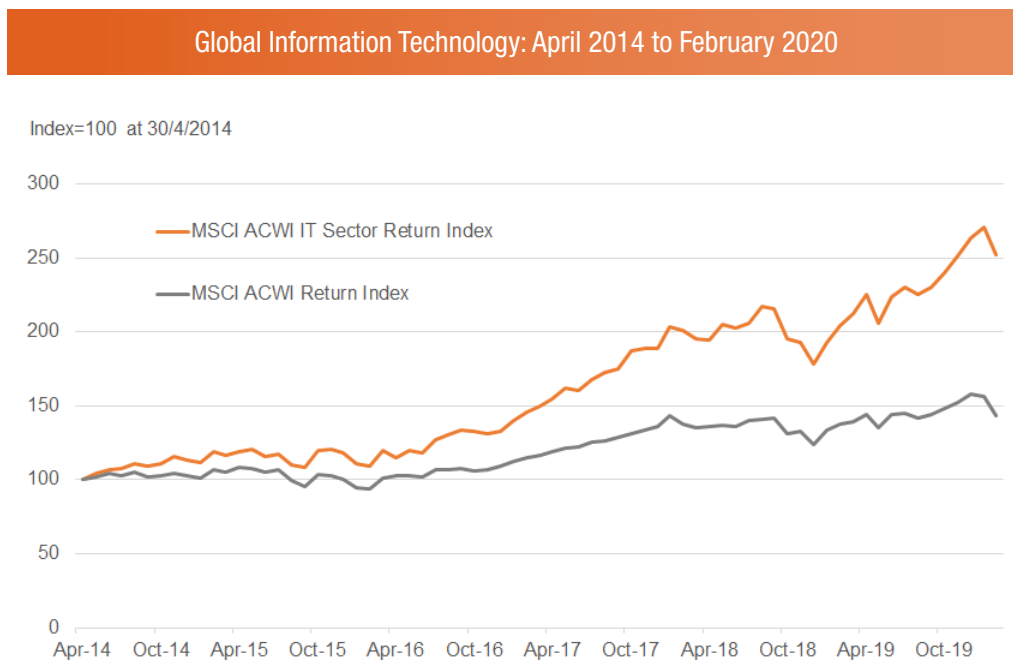
Investing in such tech-related companies offers opportunities for good capital growth over time and added sector diversification. It may also help to deepen the pool of capital available to our own local innovative tech sector, helping to build the jobs of tomorrow.

With this in mind, BetaShares is pleased to bring to market an exchange traded fund (ETF) that aims to track the newly-created S&P/ASX All Technology Index, the BetaShares S&P/ASX Australian Technology ETF (ASX: ATEC).

¹ Due to the broadening role of technology in the economy, the traditional GICs based "Information Technology" Sector Index may provide a less than comprehensive view of all technology-related companies. Under recently revised global equity industry classifications, for example, companies such as Facebook and Alphabet (Google) were moved from the information technology sector to an expanded communications sector, reflecting their strong media focus. Also, due to its focus on retailing, Amazon is not in the Information Technology sector but is classed instead as a Consumer Discretionary stock.

STRONG GLOBAL TECHNOLOGY PERFORMANCE TRACK RECORD

As seen in the chart below, the global technology sector has been a relatively strong performer in recent years. Between April 2014 and February 2020, for example, the MSCI All Country World Index (ACWI) Information Technology sector produced an annualised return of 15.5% p.a., compared with a return of 8.7% p.a. for the broader MSCI ACWI Index.



Source: Bloomberg. Past performance is not an indicator of future performance. You cannot invest directly in an index.

The reasons are all around us. The internet has become the world's information highway, with around 5.8 billion searches performed daily on Google alone. Traditional media has been disrupted by both online news sites and video streaming services. We're spending more of our leisure time on social media sites such as Facebook, and shopping less in malls and more on websites such as Amazon and eBay.

All this activity is spawning spill-over demand for 'cloud' data storage services, and for protection from scams and privacy intrusion through cyber security services.

Technology is also not just about the internet. Due to population ageing and technological advance, robotics and artificial intelligence (A.I.) are helping to revolutionise the delivery of services across a wide range of industries – such as crop maintenance in the agricultural sector, parts assembly in the manufacturing sector, and precision surgery and even patient care in the health care sector.

Reflecting these immense technological changes, BetaShares has already launched the following ETFs that aim to provide exposure to this global growth thematic:

- NASDAQ 100 ETF (ASX: NDQ)
- Global Robotics and Artificial Intelligence ETF (ASX: RBTZ)
- Global Cybersecurity ETF (ASX: HACK)
- Asia Technology Tigers ETF (ASX: ASIA)

² Source: <https://seotribunal.com/blog/how-many-google-searches-per-day/>

AUSTRALIA'S HOME-GROWN TECH STARS

While the big global technology players attract most of the headlines, Australia has managed to develop its own thriving group of tech-related companies in recent years.

As has been the case worldwide, several local internet upstarts such as carsales.com, Webjet and REA have successfully disrupted the established retailing and media industries to grow into dominant businesses in their own right. Afterpay is a more recent addition in the consumer space, with its innovative 'buy now, pay later' transaction service.

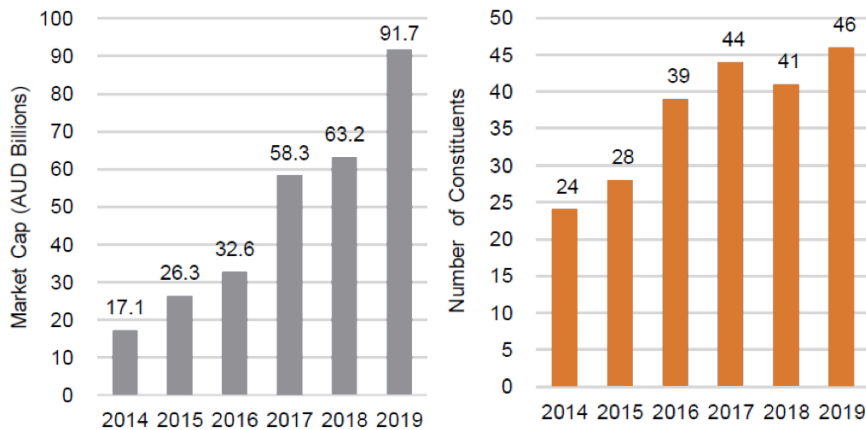
There is also a growing range of technology services for business, such as Xero online accounting and global logistics software supplier WiseTech Global.

Reflecting this broad array of tech-related local companies, ATEC aims to track Australia's leading companies in this area through the newly-created S&P/ASX All Technology Index.

The index includes ASX-listed companies within a diverse range of tech-related industry segments such as information technology, medical technology, consumer electronics, online retail, interactive media and internet marketing services – subject to each company having a minimum market capitalisation of \$120 million and minimum levels of daily market liquidity.

GROWTH OF THE AUSTRALIAN TECHNOLOGY INDUSTRY

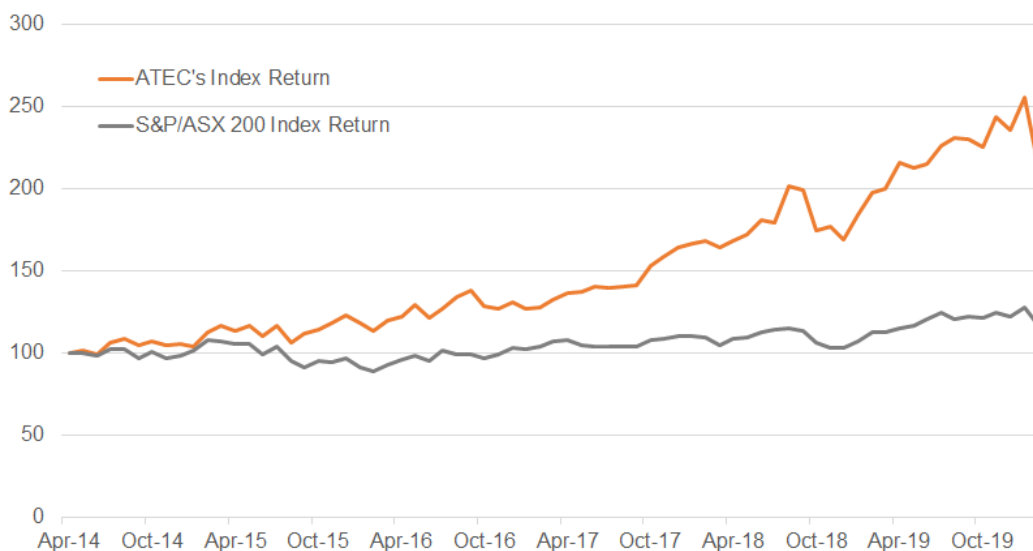
Reflecting the dynamism in this area of the share market, the number of companies within the S&P/ASX All Technology Index has nearly doubled – from 24 to 46 – over the five years to 31 December 2019, with the total market capitalisation of these companies increasing more than fourfold from \$A17 billion to nearly \$A92 billion over the same period.



Source: S&P Dow Jones Indices LLC. Data based on the S&P/ASX All Technology Index and is as of the last day of each year from 2014 to 2019. Charts are provided for illustrative purposes.

³ Index launch date is 21 February 2020. All information relating to periods prior to the launch date is back-tested by the index provider using the index methodology in effect as at the launch date.

As can be seen in the chart below, the S&P/ASX All Technology Index has produced relatively strong returns in recent years compared to the broader Australian market, in line with the outperformance of the technology sector globally (albeit with greater volatility than the broader market, given its tech-sector concentration).



Source: Bloomberg, S&P Dow Jones Indices. Index launch date is 21 February 2020. Index performance prior to launch is back-tested by the index provider using the index methodology in effect at the date of launch. Past performance, whether simulated or actual, is not an indicator of future performance of the index or ATEC. Does not take into account ATEC fees and costs. You cannot invest directly in an index.

Between April 2014 and February 2020, the S&P/ASX All Technology Index produced an annualised return of 13.4% p.a., compared with a return of 7.6% p.a. for the S&P/ASX 200 Index.

The current top ten companies in the index as at February 2020 are outlined in the table below.

| | Company | Index weight |
|----|--------------------------------------|--------------|
| 1 | Xero Limited | 13.09% |
| 2 | Computershare Ltd | 12.33% |
| 3 | Afterpay Ltd | 9.79% |
| 4 | REA Group Ltd | 7.75% |
| 5 | carsales.com Ltd | 6.23% |
| 6 | Altium Limited | 5.67% |
| 7 | Link Administration Holdings Limited | 4.71% |
| 8 | WiseTech Global Limited | 4.15% |
| 9 | NEXTDC Ltd | 3.91% |
| 10 | Appen Limited | 3.79% |

DIVERSIFICATION

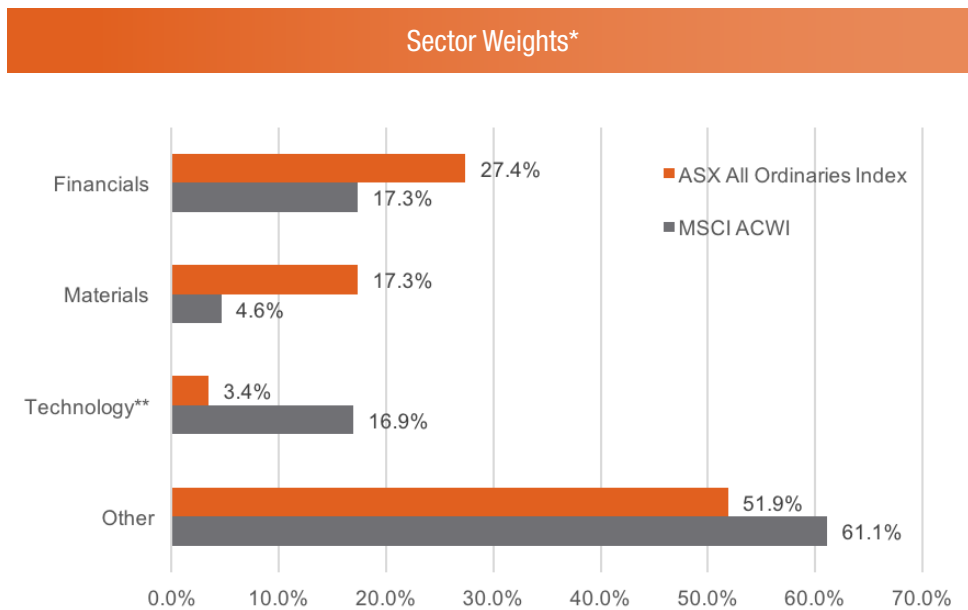
Given the top-heavy nature of the Australian equity market, not only does ATEC potentially provide a good long-term domestic growth opportunity, it also offers a handy means of reducing exposure to the fortunes of the large and long-established financial and mining companies that dominate our market.

Each of these major sectors has had its challenges in recent years, with the materials sector underperforming following the post-GFC decline in commodity prices, and the financial sector plagued by slowing credit growth, increased home loan competition, financial scandals and increased regulation.

These challenges, along with our market's relatively low weighting to the technology sector, have seen the Australian equity market largely underperform the global benchmark index in recent years.

As seen in the chart below, as at early February 2020, the financials and materials (largely mining companies) sectors accounted for approximately 27% and 17% of the ASX All Ordinaries Index respectively, meaning these two sectors alone account for almost half of the index. By contrast, companies within the S&P/ASX All Technology Index accounted for only 3.4% of the ASX All Ordinaries Index. At the same time, few would dispute that Australia's future is very much tied to technology, innovation and entrepreneurship. ATEC provides exposure to that innovative and unique sector of our market, which is poised to continue growing in its significance.

Globally, even the more narrowly defined information technology index (the MSCI ACWI Information Technology Index) has a weight of around 17% of the broader MSCI ACWI Index, with financial and materials accounting for around half the percentage weight in the global benchmark index compared to that for Australia.



Source: Bloomberg.

*As at 4 February 2020 for the ASX All Ordinaries Index and as at 31 December 2019 for MSCI ACWI Index.

**S&P/ASX All Technology Index in the case of Australia, and the MSCI ACWI Information Technology Index for the global benchmark.

RULES-BASED STRATEGY TO MAINTAIN EXPOSURE TO AUSTRALIA'S LARGEST TECH COMPANIES OVER TIME

Last, but not least, in such a dynamic sector as technology, there's something to be said for a transparent rules-based indexing strategy that weights companies according to their market capitalisation - as is the case for the S&P/ASX All Technology Index that ATEC aims to track.

The S&P/ASX All Technology Index is rebalanced quarterly, to ensure the relative weighting of companies within the index is reflective of shifting relative market capitalisation. This means that rather than trying to actively pick winners, regular index re-balancing effectively lets the market decide which companies should be included in or excluded from the index – and ATEC's portfolio holdings - over time.

For example, companies that continue to be viewed favourably by the market - due to either actual or expected growth in earnings - will generally retain a solid presence within the index (and ATEC's portfolio) over time. By contrast, companies with a less favourable market performance face reduced index exposure and can potentially be removed from the index in favour of other up-and-coming companies.

So, while such a rules-based strategy is considered a passive style of investing, it can actually be quite active in terms of the companies included in or excluded from the index over time.

SUMMARY

Australia, along with the global economy more broadly, is going through a period of profound technological advance. It's therefore no surprise that since the GFC, technology stocks – both at home and abroad – have performed relatively strongly. BetaShares has already developed and offered local investors exposure to a range of global technology opportunities.

But it's now time to focus closer to home. ATEC aims to provide an easily accessible, cost-effective, transparent and rules-based exposure to Australia's leading ASX-listed technology companies - spanning a wide range of areas such as software services, consumer electronics, online retail and medical technology. Periodic rebalancing ensures ATEC will continue to provide exposure to the leading companies in this dynamic part of the market over time.

As such, ATEC provides a handy new growth opportunity for Australian equity investors that also allows them to diversify exposure away from the large cap financial and mining stocks that dominate the local share market. It will also indirectly help build a pool of local capital vital to further development of the local technology sector and the jobs of tomorrow.

ATEC continues the BetaShares tradition of offering Australian investors innovative and intelligent investment solutions to help them meet their financial objectives.

There are risks associated with an investment in the Fund, including market risk, technology sector risk and concentration risk. For more information on risks and other features of the Fund, please see the Product Disclosure Statement.

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