BetaShares
Exchange Traded Funds

ASX: GGOV

BetaShares Global Government Bond 20+ Year ETF – Currency Hedged

DEFENCE FOR YOUR PORTFOLIO: BETASHARES GLOBAL GOVERNMENT BOND 20+ YEAR ETF – CURRENCY HEDGED (ASX CODE: GGOV)

INVEST IN HIGH QUALITY FIXED INCOME SECURITIES ISSUED BY LEADING INDUSTRIAL NATIONS

When it comes to defending one's portfolio against share market declines, there are arguably few more reliable "safe havens" than sovereign bonds issued by the governments of today's major developed market economies.

These bonds are of very high credit quality, as the risk of default by governments of these economies is considered very low. After all, governments have the ultimate revenue source to fall back on – taxation – should it be needed. And due to this high credit quality, these bonds typically form a core part of most of the world's major pension and sovereign funds and central bank reserves.

What's more, history shows bonds of relatively long duration tend to offer attractive portfolio protection qualities in times of equity market weakness, as they benefit most from the declines in global bond yields usually seen in these periods.

With this in mind, BetaShares is pleased to bring to market the Global Government Bond 20+ Year ETF – Currency Hedged (ASX Code: GGOV), which provides exposure to high-quality, long-maturity global government bonds within one convenient ASX-traded ETF.

HIGH CREDIT QUALITY

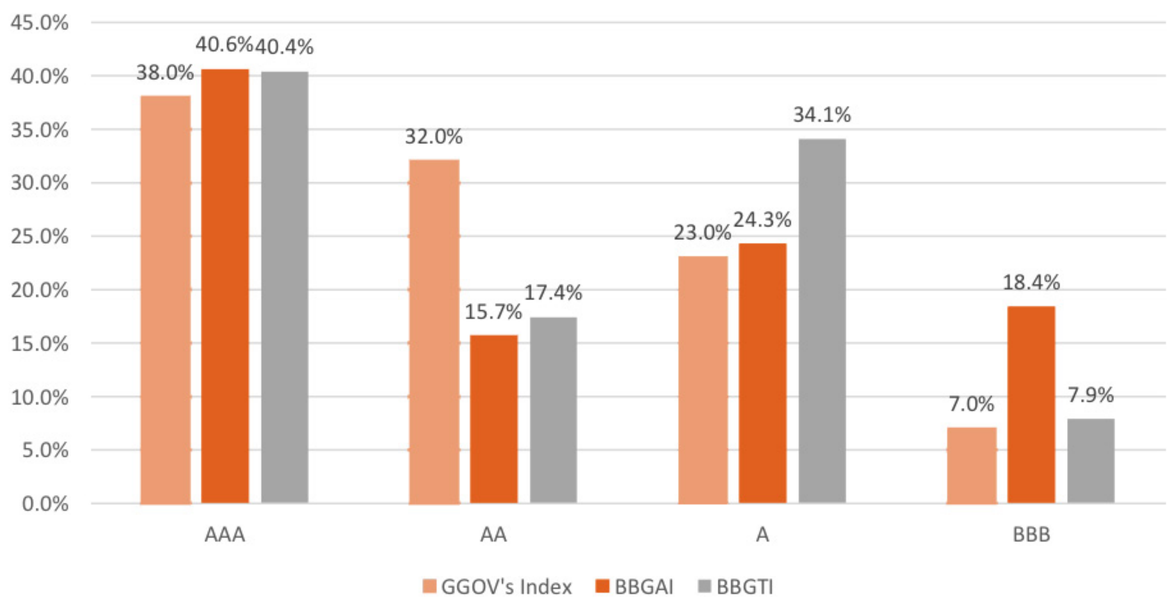
By only providing exposure to bonds issued by national governments from the leading G7[1] developed-market economies, the index which GGOV aims to track[2] has very high credit quality[3]. Around 40% of the index comprises bonds with the highest AAA credit rating, and only 7% have the lowest investment-grade credit rating, BBB[4].

By contrast, one of the most widely followed global benchmark bond indices, the Bloomberg Barclays Global Aggregate Index (BBGAI) allows for inclusion of smaller, non-G7[5] government bonds and corporate bonds.

Similarly, the Bloomberg Barclays Global Treasury Bond Index (BBGTI) – which, like GGOV's Index, only provides exposure to government bonds – has greater exposure to lower-rated A and BBB bonds than GGOV's Index, because its exposure is not restricted to major G7 countries.

[1] The G7 countries are: USA, Japan, Germany, United Kingdom, Italy, France and Canada.
[2] S&P G7 Sovereign Duration-Capped 20+ Year AUD Hedged Bond Index.
[3] Credit ratings merely reflect the opinion of a particular ratings agency, and do not provide any assurance regarding the bond issuer's ability to meet its payment obligations in relation to a bond. Credit ratings are not intended to be an investment recommendation or used as a basis for assessing investment merit.
[4] As at 31 March 2020.
[5] These include Spain, Korea, the Netherlands, Australia, Belgium, China and Switzerland.

Index breakdown by credit rating



Source: Bloomberg. As at 31 March 2020.

All up, as at 31 March 2020, GGOV's Index has an average credit rating of AA, compared with AA- for the BBGAI and BBGTI.

Having bonds of high credit quality is important for portfolio diversification as, all else remaining constant, they tend to perform better during periods of equity market weakness as they retain a lower risk of default in adverse economic times.

LONG DURATION OR INTEREST RATE SENSITIVITY

Another important feature of GGOV's Index with respect to portfolio diversification is that it comprises bonds with relatively long duration[6]. As at 31 March 2020, the average duration of bonds in GGOV's Index is around 21 years, or almost three times the 7.2 year average duration of bonds with the BBGAI, and more than twice the 8.5 year average duration of the BBGTI.

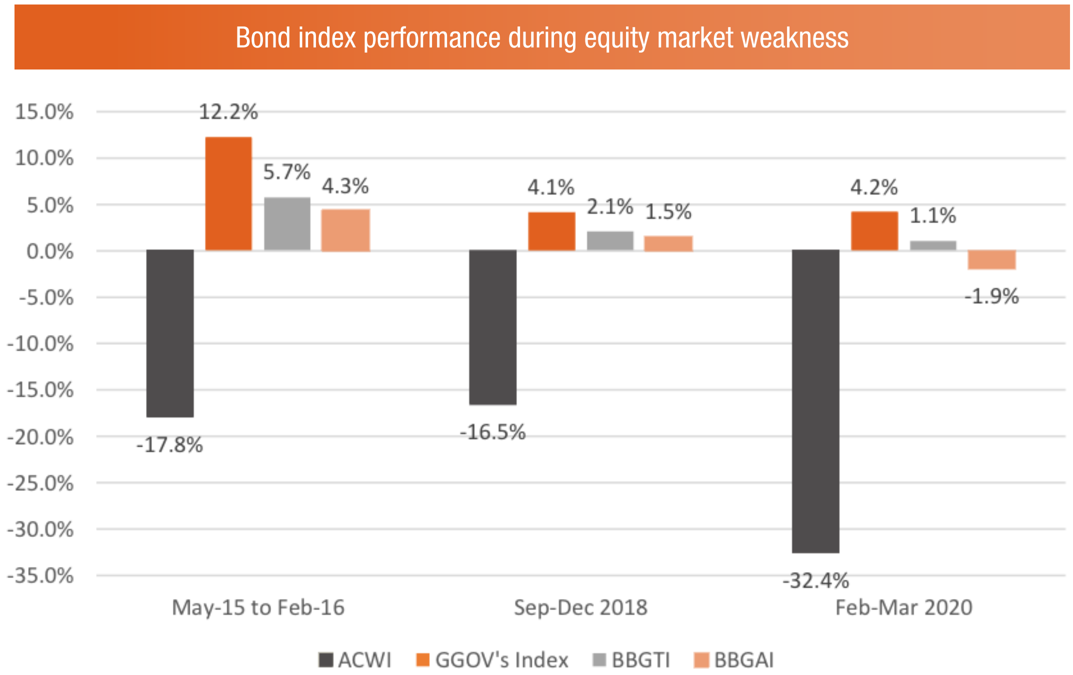
Long duration increases the sensitivity of a bond's price or market value to changes in the general level of interest rates[7]. When interest rates decline, for example, the market value of long duration bonds tends to increase more than that of shorter duration bonds, and vice versa.

To the extent that interest rates and bond yields tend to decline in periods of equity market weakness, long duration bond returns will tend to exhibit greater return offset with equity returns – enhancing their appeal as a source of diversification within diversified multi-asset class portfolios.

[6] Duration, or more technically defined modified duration, is a summary measure of the price sensitivity of a bond, or bond index, to changes in the general level of interest rates. A modified duration of 5, for example, indicates that the price return of the bond or bond index would decline by around 5% for every 1 percentage point change in interest rates. Financial markets usually reward bonds with a higher price sensitivity to interest rates with a higher yield, due to their likely greater return volatility – as a standalone investment – over time.

[7] The longer the term to maturity, the longer the future stream of fixed nominal income payments that a bond pledges to pay investors. When interest rates change, the present value of this future stream is worth more in today's dollars.

As seen in the chart below, for example, GGOV's Index has tended to produce stronger returns than the BBGAI and BBGTI during recent periods of significant equity market weakness, reflecting both its long duration and high credit quality features.



Source: Bloomberg. **Past performance is not an indicator of future returns of the ETF or index.** Does not take into account ETF fees and costs. You cannot invest directly in an index. ACWI refers to the MSCI All-Country World Equity Index.

Last, but not least, another advantage of longer duration bonds is that their greater price sensitivity to interest rate changes, as well as enhancing their portfolio diversification properties, tend to be rewarded by the market though a generally higher yield, or income return over time, relative to bonds with shorter duration.

As at end-March 2020, the yield-to-maturity (after AUD-hedging) for GGOV's Index was 1.68% p.a.,[8] compared with 1.59% p.a. and 1.13% p.a. for the BBGAI and BBGTI respectively.

[8] Yield is variable, not indicative of future yields. Yield does not take into account GGOV's fees and costs.

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SUMMARY

GGOV combines desirable bond features of some of the world's highest credit quality and long duration. As such, it offers attractive diversification features when held alongside equities in a multi-asset class portfolio.

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

There are risks associated with an investment in the Fund, including interest rate sensitivity risk, credit risk, country risk and currency hedging risk. For more information on risks and other features of the Fund, please see the Product Disclosure Statement.