



BetaShares

Exchange Traded Funds

INTRODUCTION TO BETASHARES AUSTRALIAN DIVIDEND HARVESTER FUND (MANAGED FUND) ASX CODE: HVST

The background of the entire page is a photograph of a city skyline at sunset. The sky is a deep, vibrant orange. In the foreground, the silhouettes of various skyscrapers are visible against the bright sky. On the right side, the Sydney Tower Eye is a prominent feature. A semi-transparent grey rectangular box is positioned in the upper-middle section of the image, containing three paragraphs of white text. The box has a slight drop shadow and a small triangular tail pointing towards the bottom left.

The BetaShares Australian Dividend Harvester Fund (managed fund) (ASX: HVST) is an investment fund that trades on the ASX, and seeks to provide high levels of income, along with exposure to a diversified portfolio of Australian equities.

Because of its focus on high income, HVST is well-suited to generating income in retirement portfolios. Understanding the key benefits of HVST, along with its risks, will enable the investor to position it appropriately within their portfolio.

Existing and prospective investors in the Fund may find this document useful to obtain a broad understanding of the essential features of HVST and its potential role in investment portfolios.

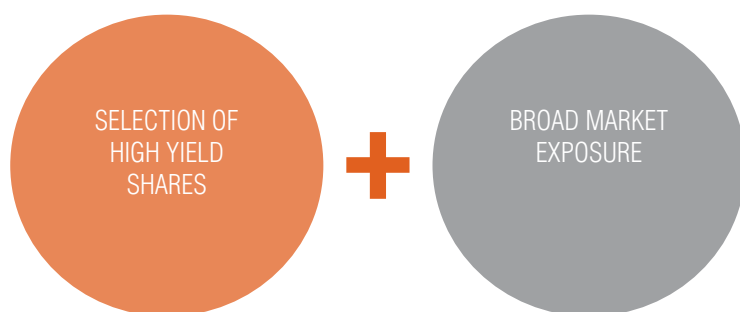
What is HVST?

HVST is an objectives or rules-based fund

This means that HVST does not track an index or benchmark, but instead follows a set of rules designed to pursue its objective of providing investors with monthly franked dividend income¹ which exceeds the income yield of the broad Australian sharemarket on an annual basis and providing market exposure that corresponds with a diversified portfolio of Australian shares.

How does HVST work?

HVST has two major components:



- 1. The dividend harvest strategy:** HVST generally holds a portfolio of 40-60 stocks from the universe of the largest 100 stocks on the Australian sharemarket over the period in which they will go ex-dividend. The portfolio is rotated approximately every three months to another selection of stocks that will be going ex-dividend over the subsequent period. This rotation strategy aims to provide exposure to dividend-paying shares and associated franking credits. Each rebalance also aims to maintain a sector neutral securities portfolio relative to the broader Australian share market.
- 2. Broad market exposure:** As well as the portfolio of securities outlined above, there will be a permanent allocation in the Fund's portfolio to an exchange traded fund quoted on the ASX that seeks to track a published, broad-based Australian equity index. This ETF allocation will generally be in the range of 15-30% of the Fund's net asset value as at each portfolio rebalance.

¹ Franking credits available for distribution will be determined as at the end of the financial year and may differ from any estimates provided during the year due to various factors, including changes in the number of units on issue.

How does HVST differ from other Australian equities funds?

HVST is not an index fund, and therefore should not be compared to one

HVST is a rules-based fund. It does not track a market index.

While HVST does hold some broad market exposure, it does not hold stocks representative of any index. As such, HVST's total returns will differ from the returns of a broad market index over various time periods. This will be especially evident over short time periods.

HVST performance can diverge significantly
– both positively and negatively – from that of the
S&P/ASX 200 Index

HVST's total return comprises both income and capital return

The total return from the Fund has two elements – the income paid by the fund, and the capital return (change in the unit price), which may be positive or negative.

% TOTAL RETURN =
% CAPITAL RETURN + % INCOME RETURN

Because the Fund explicitly targets a high level of income, it is expected that a significantly higher proportion of its total return will be in the form of income than would be the case with, for example, a fund that aims to track the performance of the S&P/ASX 200 Index.

As most investors are aware, stocks typically fall in price on going ex-dividend, to account for the fact that the share price no longer 'contains' the dividend. At rebalance dates, HVST rotates funds out of stocks that have gone ex-dividend into stocks that are about to go ex-dividend - a process that may mean that stocks are sold for lower prices than they have been purchased for. Changes in share prices (whether due to market movements generally or company-specific factors) may accentuate or diminish this effect.

This means that during some periods the net asset value of the Fund may fall. However, to get an accurate picture of the total return, the income generated by the Fund must be taken into account.

² Source: BetaShares, Bloomberg. Past performance is not an indicator of future performance.

Investors in HVST (or, for that matter, any fund explicitly targeting a high level of income) should focus on total return, including, for Australian investors, franking credits. Investors who want to compare the performance of HVST with that of a broad sharemarket index should compare the **total return** (comprising both income and capital return) from HVST with an **accumulation**, or total return, index.

Investors who do not immediately need income may consider participating in the Fund's distribution reinvestment program (DRP), which, by reinvesting income, can help to maintain the capital amount invested in HVST over time.

Distributions per unit

Distributions from HVST are derived from the dividends paid by the underlying securities in the portfolio. The factors that affect the yield of HVST include:

- **Yields of the underlying securities** – as the yield of underlying securities increases or decreases, so should the yield of HVST. Because of the rotation strategy in the Fund, and its yield objective, HVST will be more sensitive to changes in yield than a broad market index.
- **The price of HVST** – the distribution paid per unit is affected by the unit price/net asset value (NAV). The higher the NAV at rebalance time, the more that can be invested in the underlying securities, and therefore the greater the income that will be derived per unit.

A period of falling unit prices is likely to result in a fall in distribution **per unit**. However, participating in the DRP can assist in preserving the **total dollar amount** received by way of distributions. Investors who participate in the DRP will have increasing numbers of units, which will at least partially offset any decline in the amount paid per unit.

Franking credits

Along with seeking to generate high levels of income, HVST also seeks to generate high levels of franking credits compared to the S&P/ASX 200 Index. Investors should include the benefit of these franking credits in any evaluation of HVST as an investment.

Investors receive franking credits regardless of whether they take their distributions in cash or reinvest them (either fully or in part) via the DRP. The franking credits generated by HVST are one of the fund's primary potential benefits, particularly for investors on lower tax rates.

³ Source: Betashares, As at 31 July 2019. Past performance is not an indicator of future performance.

⁴ Assumes full participation in the HVST DRP. These numbers are based on the difference between gross total return and net total return over the relevant period. Compared to the S&P/ASX 50 Index, from the period from inception of the Fund to 30 June 2019. Past performance is not an indicator of future performance.

Who might HVST suit?

HVST is primarily designed for investors who are seeking high levels of income. It is also useful for investors seeking high levels of franking credits.

As such, HVST may be particularly attractive in SMSFs, or for pre-retirees and retiree investors. Such investors generally either have a direct need for income, or will have such a need in the short to medium term.

While interest rates have begun to rise following a long period of near-zero cash rates, yields from cash, term deposits and fixed income remain low. HVST can be a good addition to a portfolio where income is important, provided its risks are understood.

HVST may also suit investors seeking exposure to the Australian equities market, although, as explained above, the equities exposure provided by HVST cannot be compared to that provided by a broad sharemarket index such as the S&P/ASX 200.

The companies held in HVST's portfolio are drawn from the top 100 stocks listed on the ASX, and selected based on the expectation that they will pay a dividend. There is a regular and repeated rotation into and out of different securities at rebalance dates. This methodology means that HVST provides a very different type of exposure to a fund that weights its holdings in line with a broad market index such as the S&P/ASX 200 Index.

As such, HVST should generally not be used as the core equity component of a portfolio, and may be more appropriately used in combination with other funds.

Possible strategies utilising HVST include:

- using HVST in combination with a broad Australian sharemarket fund such as the BetaShares Australia 200 ETF (ASX: A200). A combination of these two funds would result in a market-exposed portfolio with enhanced income. The blend and level can be determined to suit the needs of a specific investor.
- blending HVST with other income-generating funds to produce a high, diversified income stream. An example would be to combine HVST with fixed income or hybrids products such as the BetaShares Australian Investment Grade Corporate Bond ETF (ASX: CRED), BetaShares Australian Bank Senior Floating Rate Bond ETF (ASX: QPON), BetaShares Australian Major Bank Hybrids Index ETF, and BetaShares Active Australian Hybrids Fund (managed fund) (ASX:HBRD) for a combination of equity and fixed income based income. Again, the specific blend should be chosen to suit the needs of an individual investor.

There are risks associated with an investment in the Fund, including market risk, security and sector concentration risk, the risk management strategy may not be effective and selling futures in rising markets can be expected to limit the Fund's capital growth. For more information on risks and other features of the Fund please see the Product Disclosure Statement.



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Learn more about BetaShares

BetaShares is a leading manager of ETFs and other Funds that are traded on the Australian Securities Exchange (ASX). Our aim is to provide intelligent investment solutions for Australian investors.

Visit our website and explore our full range of Funds that can help you achieve your financial objectives.

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