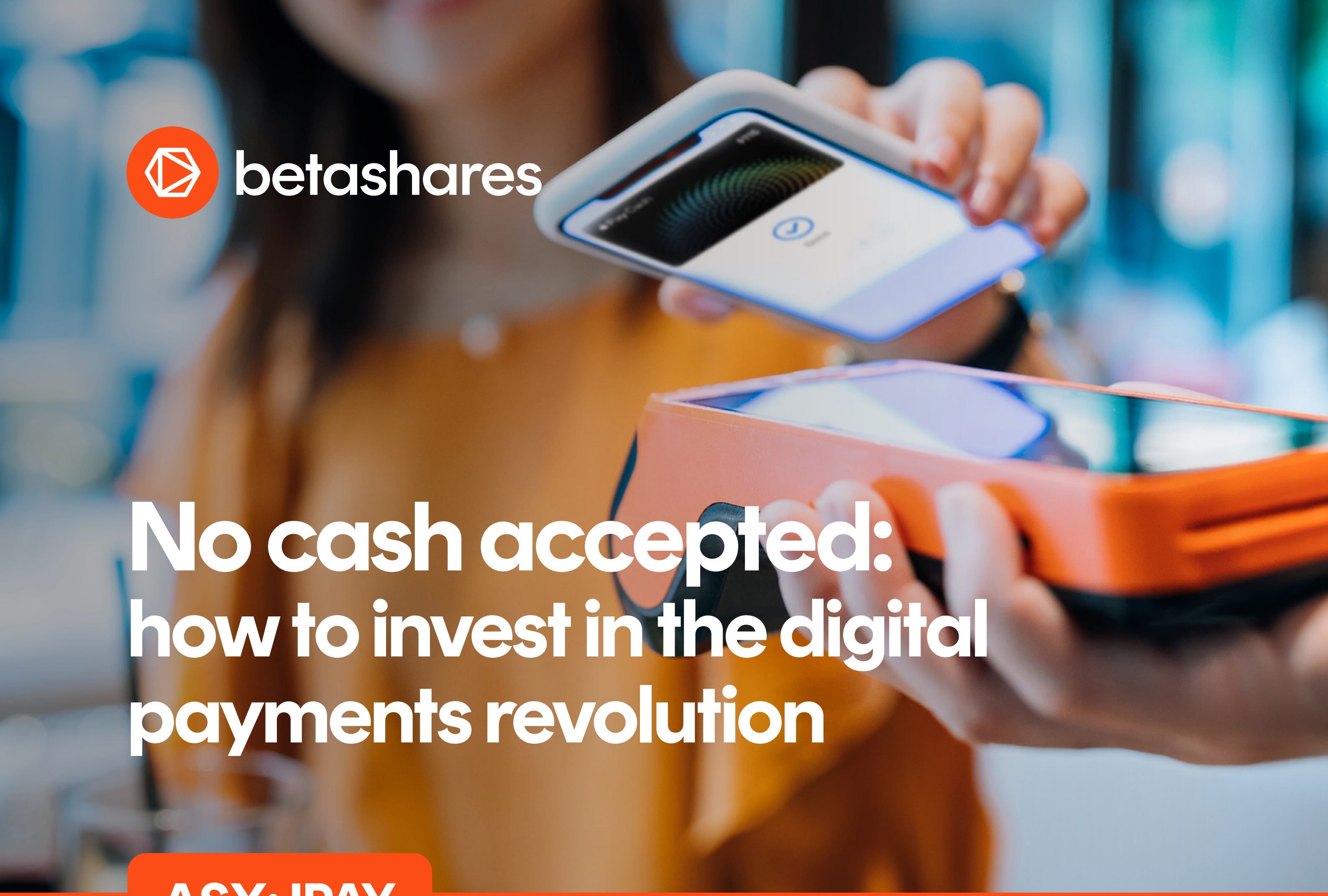


betashares

No cash accepted: how to invest in the digital payments revolution

ASX: IPAY

Betashares Future of Payments ETF

Introducing the Betashares Future of Payments ETF (ASX: IPAY)

Thanks to improvements in smartphones, mobile networks and payments technology, the traditional bank-centric payments system - based around cash and plastic credit cards – is increasingly being disrupted by faster, cheaper and often more secure mobile-based systems.

Across emerging markets, and among the young within developed markets especially, many are already 'leapfrogging' traditional payment systems and embracing the growing array of innovative alternatives.

With this in mind, the Betashares Future of Payments ETF (ASX: IPAY) has been designed to provide investors with exposure to leading companies innovating in the global payments sector.

Especially for Australian investors, where dynamic digital payment companies account for a relatively small share of the overall market, exposure to these payment innovators offers the opportunity for both growth and diversification within their portfolios.

The rise of innovative payment systems

There are several drivers behind the revolution in the payments system.

For starters, growth in smartphones worldwide is encouraging technological innovation to also turn them into handy payment devices – avoiding the need for cumbersome cash or plastic credit cards in one's wallet. According to IHS Markit forecasts, there were already 6 billion smartphones across the world last year, a 50% increase in just four years.

Development of Near Field Communication (NFC), for example, provides for contactless communication between devices – like smartphones and NFC-compatible payment readers – which in turn has seen 'pay-wave' capabilities flourish across a widening array of retail outlets.

Storing credit card information on a smart phone payments app – or 'digital wallet' – is but an early example of the revolution in the payments systems underway. Digital wallets allow users to make contactless payments with their phone, without the need for a separate credit card – and can speed up the process of making phone-based online payments by the automated pre-filling of credit card data.

At present, these systems still tend to rely on credit card information stored within smartphones, which in turn are linked to established banks. But in time it's conceivable that mobile-based payment systems could start to bypass traditional banks and credit card companies altogether.

Indeed, many users not yet engaged with traditional bank-centric payment systems – such as in emerging markets and among younger populations in developed markets – are already technologically 'leap-frogging' into the new payment systems.

In emerging markets, for example, McKinsey estimates that two billion individuals and 200 million small businesses today lack access to savings and credit. These individuals and businesses do not participate in the formal financial system, operating primarily in cash. The mobile money market is a gateway for providers to access swathes of untouched markets.

Apart from youth and emerging markets, as the convenience, cost-saving and security of new payment systems evolve, it seems likely that broader adoption will also become evident.

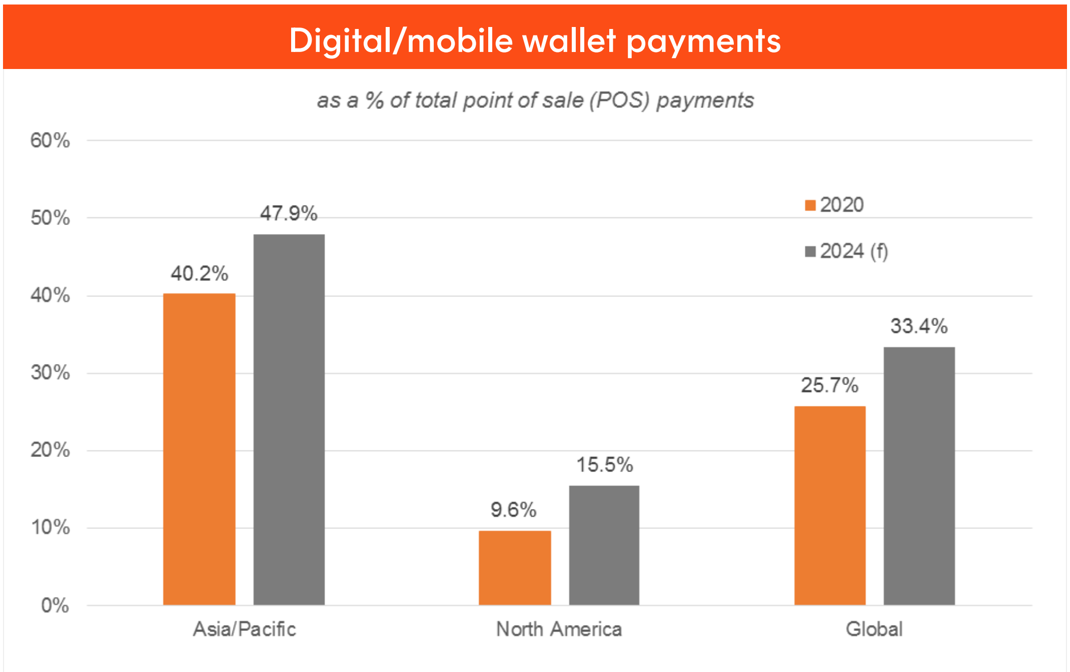
As it stands, banks and credit card providers have been able to charge significant fees to handle transactions, to the detriment of small business and consumers. Quicker and cheaper mobile/digital payment systems may well attract more users over time, in turn placing downward pressure on bank and credit card fees – and force these traditional businesses to innovate as well.

Indeed, another avenue of payments innovation has been in the 'buy-now-pay-later' or BNPL space. Reflecting an aversion to credit cards, due to often high fees, interest charges, and the accumulation of debt, many consumers have become attracted to the simplicity of paying for purchases over several future interest-free instalments. Innovative companies such as Affirm in the United States operate in this space, offering merchants full up-front payments on consumer purchases, for a fee, in exchange for collecting the future instalment payments due.

The potential of enhanced security features through the adoption of blockchain technology is yet another innovative element on the horizon.

Reflecting both the growth in online commerce and the rise in mobile/digital payments across both online and offline payments, the adoption of innovative payment solutions is projected to grow strongly in the years ahead. According to Allied Market Research, global mobile payments are expected to grow from around US$1.5 trillion in 2019, to US$12.1 trillion by 2027 – implying compound annual growth of 35% p.a. over this period[1].

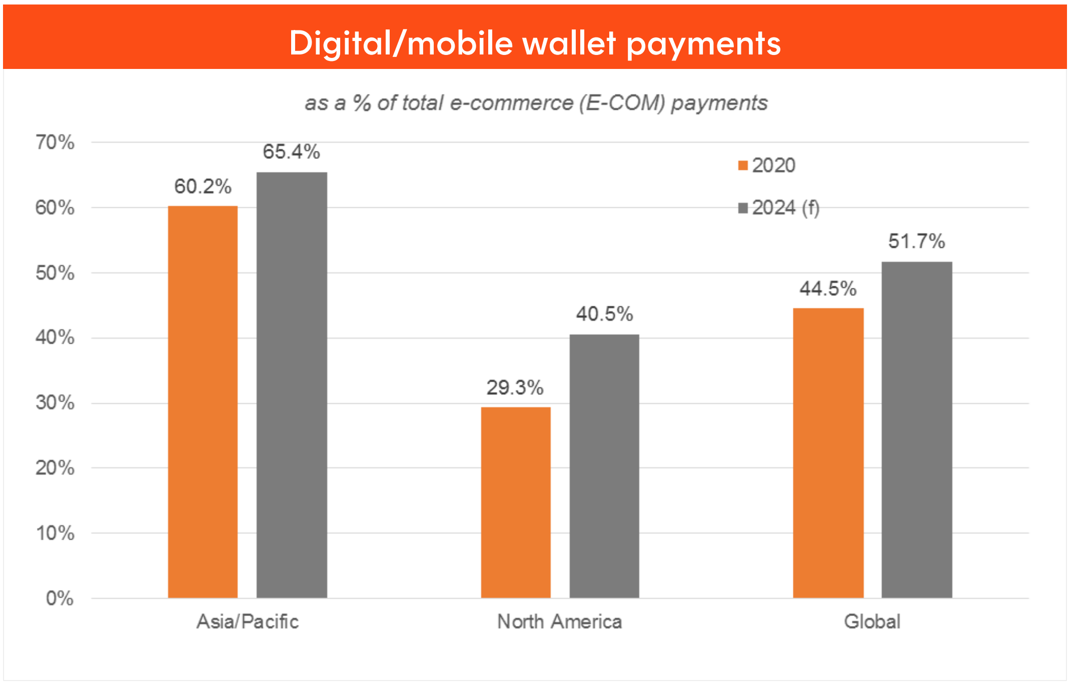
As seen in the chart below, projections by WorldPay suggest the share of digital/mobile wallet payments could jump from around 25% of total point of sale transactions in 2020 to 33% within the next three years.



Source: WorldPay, Global Payments Report, 2021. Actual outcomes may differ materially from projected outcomes.

[1] Allied Market Research, Mobile Payment Market Outlook - 2027

As might be expected, the share of mobile/digital payments for online or e-commerce transactions is already somewhat higher, at 44% in 2020 – and this is projected to rise to almost 52% by 2024. Mobile/digital payments for both online and offline transactions are already quite popular in the Asia/Pacific area especially (thanks to a strong take-up in China), with North America still offering significant catch-up potential.



Source: WorldPay, Global Payments Report, 2021. Actual outcomes may differ materially from projected outcomes.

Exposure to leading global innovators

The index which the IPAY ETF aims to track provides exposure to up to 50 of the leading digital and mobile payment companies around the world.

This includes companies with exposure to:

- **Card networks:** companies that provide services for controlling where cards are accepted, and facilitate transactions between merchants and card issuers. Example companies include Visa and Mastercard.
- **Infrastructure and software:** companies that provide hardware or software services for transacting payments across various channels, such as point-of-sale, mobile, and online. Example companies include Fidelity National Information Services and Global Payments.
- **Processors:** companies that handle front-end and back-end transactions and processing from various channels, such as credit cards, debit cards, point-of-sale payments, or buy-now-pay-later (BNPL) services. Example companies include Paypal and Square.
- **Solutions:** companies that provide products and services for accepting payments by a variety of payment methods. Example companies include Fiserv and Worldline.

Companies must also meet minimum market capitalisation and liquidity conditions and are subject to specified weighting caps.

The top-ten holdings within IPAY's Index as at 30 November 2021 are outlined in the table below.

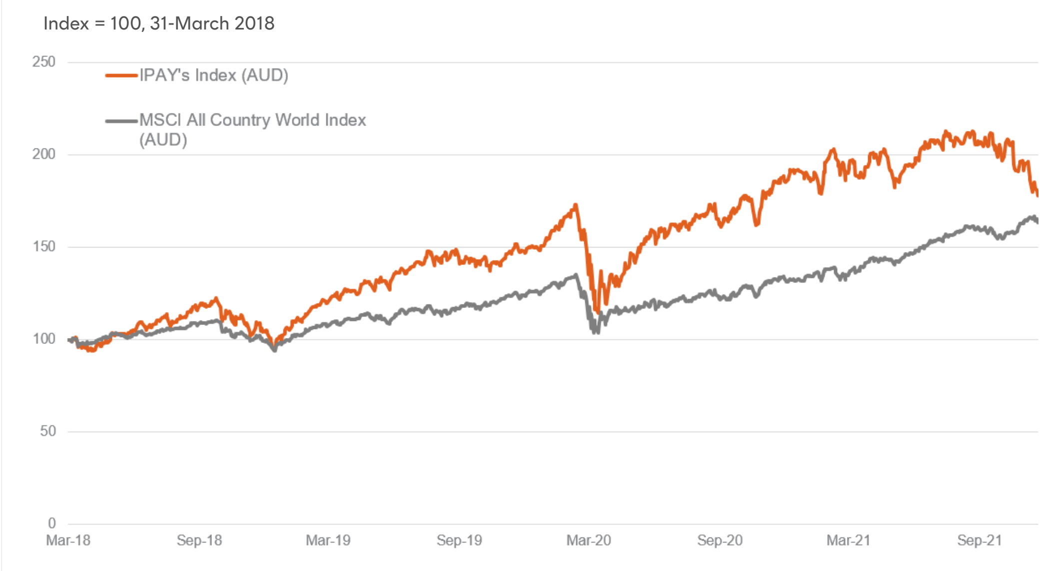
Top 10 companies in IPAY's index: November 2021	
Affirm Holdings	8.4%
American Express	6.8%
Coinbase Global	6.5%
Mastercard	6.3%
Visa Inc	5.9%
Square Inc	5.6%
PayPal Holdings	4.8%
Adyen NV	4.8%
Discover Financial Services	4.5%
Fiserv Inc	4.4%

Source: Nasdaq. No assurance is given that these companies will remain in the index or will be profitable investments.

As might be expected given the strong growth in online payments over recent years, the investment performance of leading global payment companies has also been relatively good.

Since its inception in March 2018, the Index which IPAY ETF aims to track has delivered annualised $A returns of 16.7% to end-November 2021, compared with 14.1% for the MSCI All Country World Index.

Performance Indices



Source: Bloomberg, Betashares. IPAY aims to track the Nasdaq CTA Global Digital Payments Index before fees and expenses. Past performance is not an indicator of future performance. Does not take into account ETF's fees and costs. You cannot invest directly in an index. The Index's returns can be expected to be more volatile (i.e. vary up and down) than a broad global shares exposure, given its concentrated sector exposure.

Summary

The transition from traditional cash and plastic credit card payments to an array of more innovative alternatives only seems likely to accelerate in the years to come, suggesting opportunities for investors wanting to tap into this emerging growth thematic.

With this in mind, Betashares is pleased to offer IPAY, which aims to provide a cost-effective and easily accessible way to gain exposure to some of the world's leading digital and mobile payment companies.

There are risks associated with investment in the Fund, including market risk, sector risk, international investment risk and concentration risk. The Fund's returns can be expected to be more volatile (i.e. vary up and down) than a broad global shares exposure, given its more concentrated exposure. The Fund should only be considered as a component of a diversified portfolio. For more information on risks and other features of the Fund, please see the Target Market Determination (TMD) and Product Disclosure Statement, available at www.betashares.com.au.