

Invest in the rising stars of the Nasdaq



ASX: JNDQ

Betashares Nasdaq Next Gen 100 ETF

The Nasdaq Next Generation 100™ (NGX™) was launched on August 24, 2020 to offer investors a new benchmark to track the same type of innovation-driven companies that are part of the Nasdaq-100® (NDX®), but residing mostly within the midcap size spectrum.

The index functions as a natural complement to the Nasdaq-100, and is particularly useful as a means of gaining exposure to innovative companies listed on the Nasdaq Stock Market®, at an earlier stage of their growth journey.

Australian investors now have the opportunity to invest in the 'rising stars' of the Nasdaq, with the launch of Betashares Nasdaq Next Gen 100 ETF (ASX: JNDQ). JNDQ aims to track the performance of NGX (before fees and expenses).

The following discussion of NGX was written by Mark Marex, CFA, Senior Director, Nasdaq Index Research & Development.

Nasdaq Next Generation 100™ Index: Midcap Complement to the Nasdaq-100®

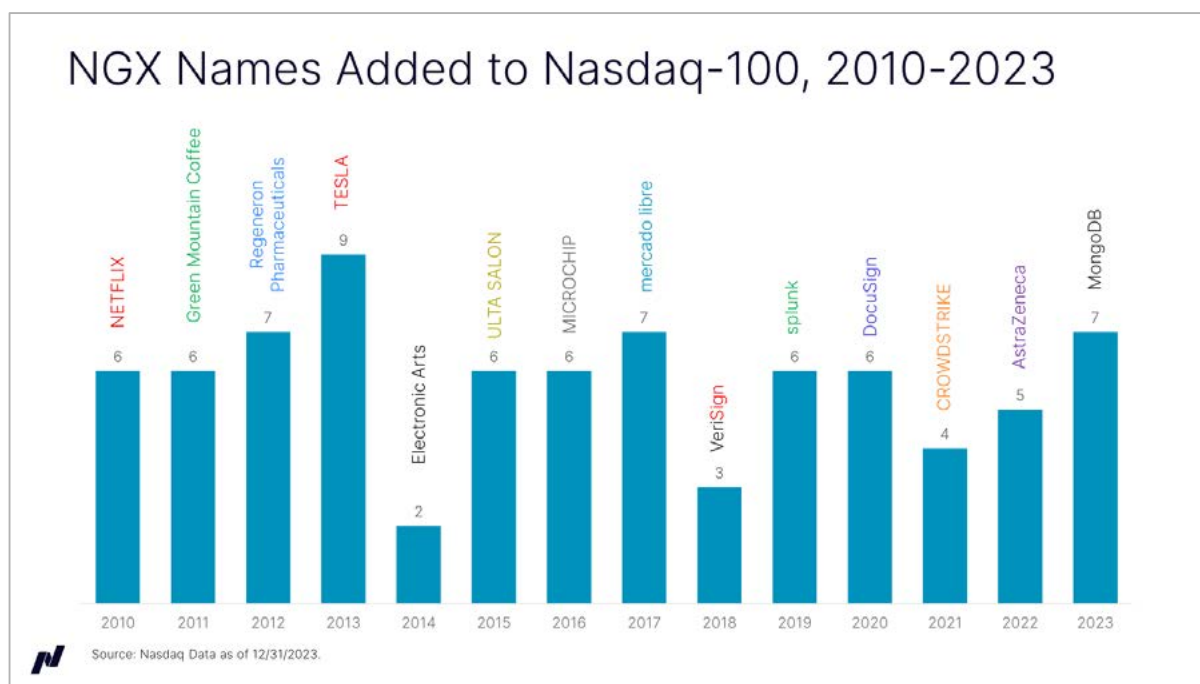
The Nasdaq Next Generation 100™ (NGX™) measures the performance of the 100 largest Nasdaq-listed non-financial companies outside the Nasdaq-100 Index®. These disproportionately comprise innovative companies at a relatively early stage of their development, with the potential to become tomorrow's leaders in a range of sectors including technology, healthcare and industrials.

Reasons to consider NGX:

- Very similar methodology to the Nasdaq-100, and no overlap
- On average, six NGX companies 'graduate' into the Nasdaq-100 at each annual reconstitution
- NGX graduates have tended to outperform, on average, prior to graduation and receive much higher index weightings while in NGX than they do upon joining the Nasdaq-100
- Much lower single-company concentration in NGX than NDX (2.1% max weight as of December 31, 2023)
- Only ~32% exposure to the Technology sector (based on ICB Industry) vs. ~58% for NDX, but overall still ~80% exposure to the top 3 'new economy' sectors (Tech + Consumer Discretionary + Health Care)
- Scores highly on key measures of innovation (R&D spending, patent filings) vs. midcap benchmarks
- Substantial exposure to key investment themes driving economic growth in the 21st century

Nasdaq Next Gen 100: Pipeline for Nasdaq-100 Graduates

Since 2010, a total of 80 NGX constituents have 'graduated' into the Nasdaq-100. Some well-known examples are Netflix in 2010, Tesla in 2013, DocuSign in 2020, CrowdStrike in 2021, and AstraZeneca in 2022. Most recently, MongoDB – a leading database platform developer with a market cap in excess of \$30B – graduated from NGX into NDX on December 18, 2023. Its total return in the 12 months leading up to graduation was just over 100%.

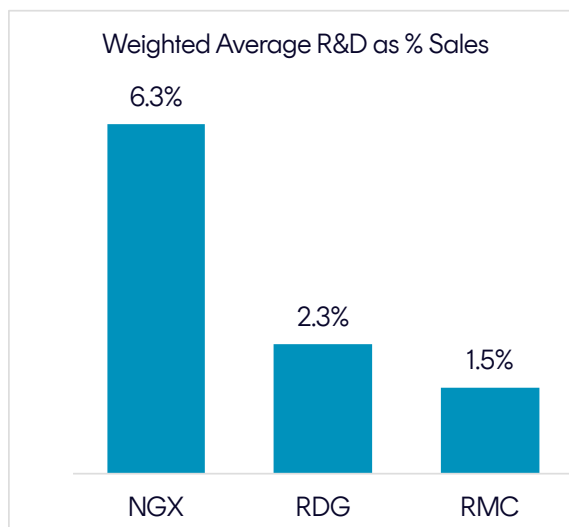
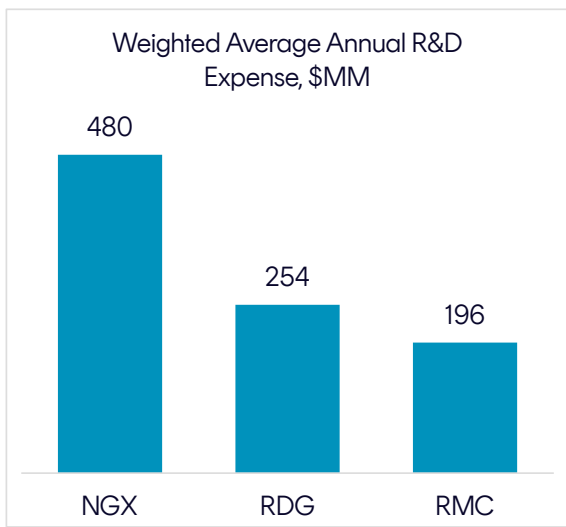


Looking at the full history of NGX graduates, a compelling argument comes into focus for adding exposure to these names before they're added to NDX: their performance has tended to be much better in the 12 months leading up to graduation (72.4% median, 82.3% average) than in the 12 months following graduation (11.0% median, 12.8% average). Their weights also drop precipitously as they exit one index and enter another. The largest NGX constituents tend to top out at around a 2-3% weighting (hard cap at 4%), while the smallest NDX constituents can be weighted as low as 0.10%. Thus a compounding effect is observed, wherein the most successful NGX companies have outperformed and have done so at higher weights, driving overall index performance higher. Upon joining NDX, they have tended to (initially) underperform – but at such low weights so as not to exert a measurable downward impact on index performance.

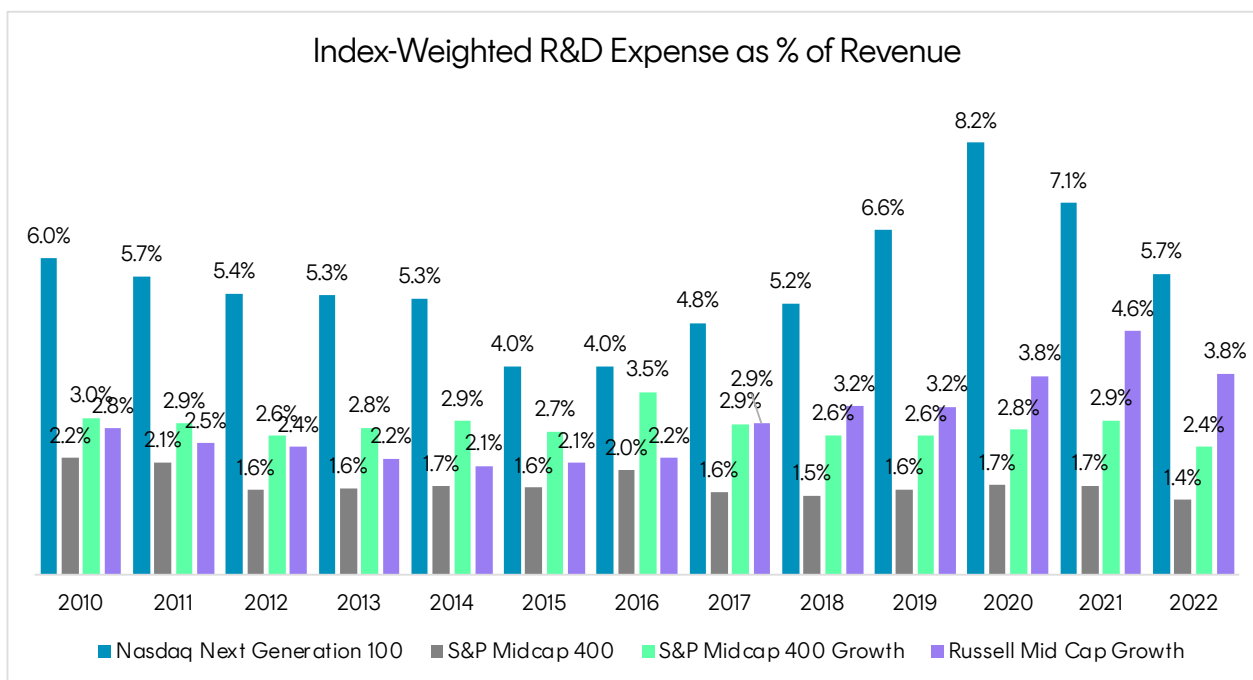
As of December 31, 2023, 39 of the current 100 companies in the Nasdaq-100 had graduated from the Nasdaq Next Generation 100 Index at some point over the past 14 years (based on simulated backtest and live results). Collectively they represent 19.4% of the Nasdaq-100's index weightings.

NGX Companies Score Highly on Innovation Metrics vs. Other Midcap Benchmarks

Just as the Nasdaq-100 has consistently scored better than large cap benchmarks like the S&P 500 on innovation metrics such as R&D spending, patent contribution ratios and patent portfolio valuations, so too has the Nasdaq Next Generation 100 outperformed its midcap competitor benchmarks on all of these measures. Compared to the Russell Mid Cap Growth Index (RDG), NGX constituents spent 90% more on R&D on a weighted average basis, and 2.7 times as a percentage of sales, in the most recent trailing four quarters of data as of December 31, 2023. Compared to the broader Russell Mid Cap Index (RMC), NGX companies spent nearly 2.5 times more on R&D on a weighted average basis, and 4.1 times as much as a percentage of sales.

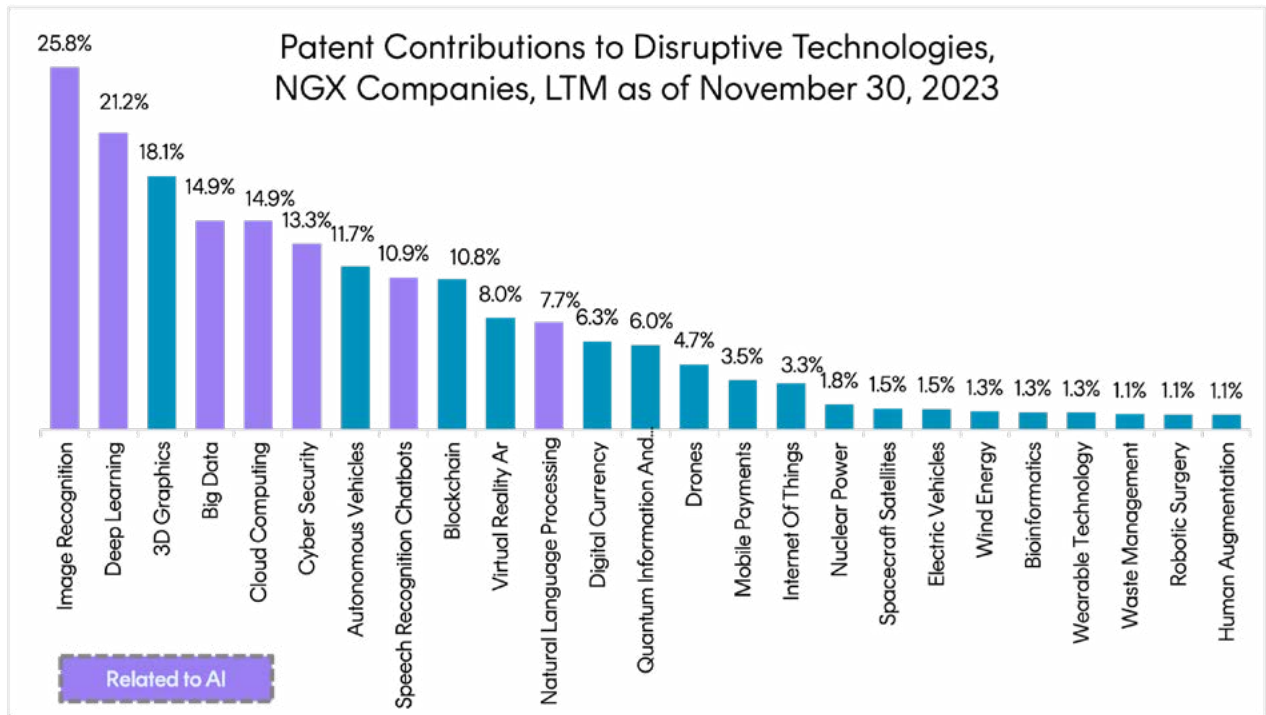


Looking at an extended time horizon, NGX appears to be a consistent outperformer in terms of the reinvestment rate of revenue into R&D, whether comparing to a broad midcap benchmark, or even midcap growth:



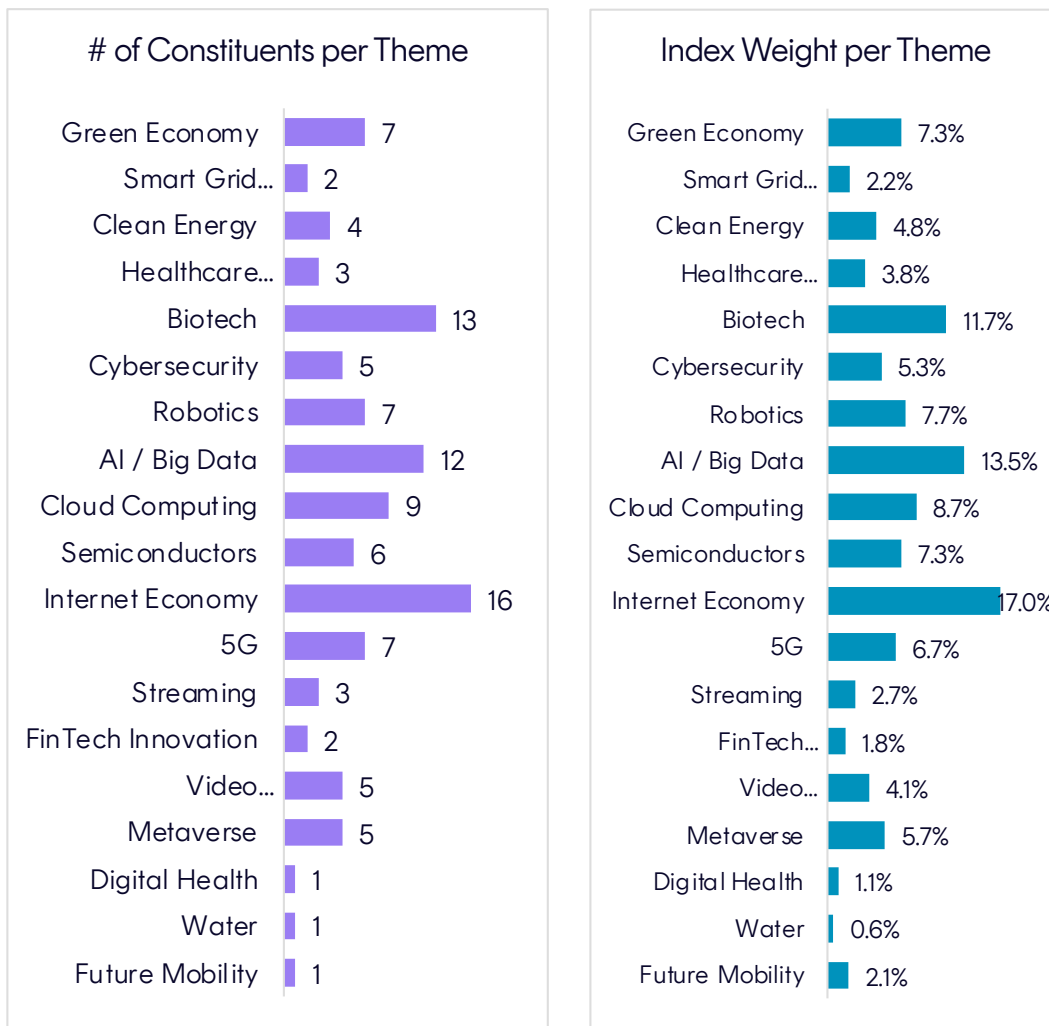
Compared to midcap benchmarks from S&P and Russell, Nasdaq Next Generation 100 constituents also tend to be more active in filing patents across various areas of disruptive technology, on average. Around half of the index registered disruptive tech patent activity over the most recent 12-month period ending November 30, 2023, nearly three times the rate for the S&P Midcap 400 Index.

Overall, given its fairly modest size in terms of number of companies and associated market caps, NGX punches well above its weight in terms of patent contributions to a number of important disruptive tech areas including several that are closely tied to Artificial Intelligence, such as Image Recognition (26% of all patents filed across ~20,000 publicly listed companies), Deep Learning (21% patent contribution), and Big Data (15%).



NGX Thematic Exposures

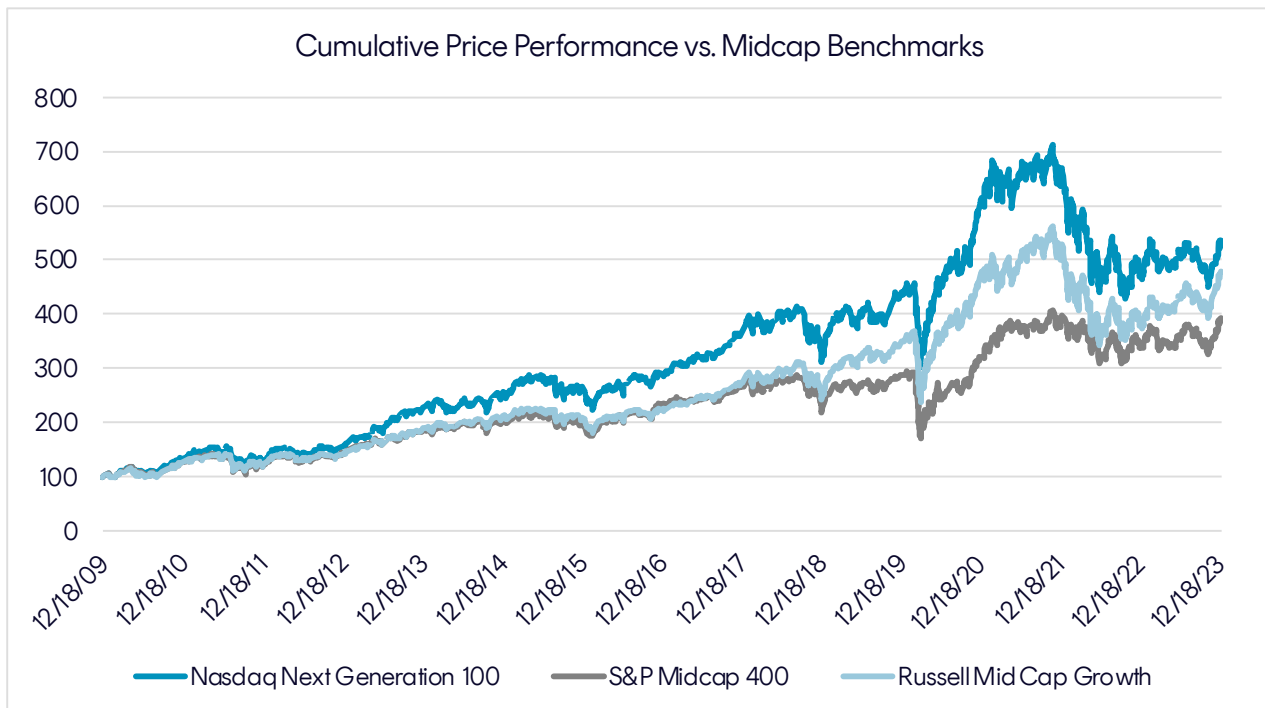
Reinforcing the idea that NGX provides significant exposure to some of today's most important innovation-oriented investment themes is the simple analysis of the index's overlap with various thematic indexes that Nasdaq (or, in a few cases, competitor index providers) maintains to provide more targeted one-off exposure. As of December 31, 2023, 12 of the index's constituents were also featured in one or more of Nasdaq's AI indexes, representing 13.5% of NGX index weight. Internet Economy was overall strongest with 16 overlapping constituents and 17% of index weight.



NGX Sector Exposures: Less Concentrated in Tech than NDX, Similar Exposure to 'New Economy'

The Nasdaq Next Generation 100 is overweight on Technology, Health Care, and Consumer Discretionary compared to S&P Midcap 400 and Russell Mid Cap Growth. Despite having substantially less Tech exposure than the Nasdaq-100, the combined weighting across these three 'new economy' sectors is similar at approximately 78%, vs. 84% for NDX as of December 31, 2023. It is underweighted across most other sectors relative to broader midcap benchmarks, just as NDX is vs. large cap. There is no exposure to Financials by design, just like the Nasdaq-100.

NGX vs. Midcap Benchmarks:



Past performance is not indicative of future performance. Returns shown are index returns and do not take into account ETF management fees and costs. You cannot invest directly in an index. Performance is shown in USD and therefore does not reflect performance in AUD terms, which would be affected by movements in the AUD/USD exchange rate.

Compared to the S&P Midcap 400 Index, the Nasdaq Next Generation 100 Index has delivered impressive (blended live and backtested) outperformance over an extended time horizon, up 435% on a price-return basis from December 18, 2009 – December 31, 2023, vs. only 289% for its competitor benchmark. On an annualised basis, that translates to more than 3% of outperformance each year (11.1% vs. 7.9%), before dividends.

NGX Offers Investors a Natural Midcap Complement to NDX Exposure

With its similar, derived methodology, the Nasdaq Next Generation 100 Index offers a straightforward, logical complement to the Nasdaq-100, one of the most tracked indexes in existence and a leader in growth and innovation. With its natural exposure to predominantly midcap companies, and less dramatic weightings toward Technology as a sector, it also provides diversification to existing investors in Nasdaq-100 tracking products. Its tighter range of constituent market caps ensures both less concentration at the top end of the spectrum, and more meaningful allocations to typically faster-growing, newer additions to the index at the bottom end. With a similarly high level of R&D intensity, a meaningful subset of Nasdaq Next Generation 100 companies are often in a position to graduate into the ranks of the Nasdaq-100.

Methodology Overview

To be eligible for inclusion in the index, a security must meet the existing Nasdaq-100 Index® eligibility criteria. The index begins with the universe of all companies, both domestic and foreign, that are listed on the Nasdaq Stock Market® and then removes all companies classified as Financials from eligibility. The Nasdaq Next Generation 100 Index follows the same annual reconstitution and quarterly rebalancing schedule as the Nasdaq-100 Index.

At each Index Reconstitution, all issuers that meet the applicable security eligibility criteria are ranked by market capitalisation. The next largest 100 issuers by market capitalisation that are not in the Nasdaq-100 Index are included in the index.

The index is a modified market capitalisation-weighted index. Initial weights are adjusted to ensure that no Index Security weight exceeds 4%.

There are risks associated with an investment in JNDQ, including market risk, country risk, currency risk and medium-sized companies risk. Investment value can go up and down. For more information on risks and other features of the Fund, please see the Product Disclosure Statement and Target Market Determination available at www.betashares.com.au.

Chart sources: Nasdaq Global Indexes, FactSet, Bloomberg.

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