

INTRODUCTION TO BETASHARES MANAGED RISK SERIES

ASX CODES: HVST, AUST & WRLD

August 2019

A smart way to get sharemarket exposure, with reduced risk.

Investors and their advisers are increasingly aware of a major investment challenge. Invest too cautiously and risk insufficient investment outcomes required to fund future needs. On the other hand, invest too aggressively and risk exposure to significant losses during a sharemarket decline.

In a low interest rate environment, the potential performance and income benefits of investing in shares are particularly apparent. However, many investors are concerned about the effects of volatility and the potential for suffering significant losses when markets experience sustained falls.

We've created the BetaShares Managed Risk Series to meet the needs of those investors who want share market exposure but, who are also looking for a 'smoother investment ride'.

The first of the BetaShares Managed Risk Series was our BetaShares Australian Dividend Harvester Fund (managed fund), ASX code: HVST, which was launched in 2014. We have now added two additional Funds to the Series providing investors with the choice and diversification opportunities of both Australian and Global Equities. The BetaShares Managed Risk Series now incorporates:

- **BetaShares Australian Dividend Harvester Fund (managed fund)**, ASX code: **HVST**
- **BetaShares Managed Risk Australian Share Fund (managed fund)**, ASX code: **AUST**
- **BetaShares Managed Risk Global Share Fund (managed fund)**, ASX code: **WRLD**

HVST, AUST and WRLD aim to provide exposure to a broadly diversified portfolio of shares, Australian shares in the case of HVST and AUST or Global shares for WRLD. The Funds aim to provide this exposure while reducing the volatility of the equity investment returns and defending against losses in declining markets.

Using these Funds, investors have the potential to:

- Benefit from share market returns with the potential for **reduced downside in declining markets**
- Obtain **exposure to an income stream from the dividends** of the Australian or global share markets
- Benefit from **reduced volatility and a smoother investor experience** despite changing market conditions
- Gain **cost-effective exposure to a diversified portfolio of shares** in a single trade on the ASX

Who may the Managed Risk Series be suitable for?

The BetaShares Managed Risk Series is particularly relevant to any investor seeking diversified equity exposure but who may also be concerned about uncertain financial markets. The Funds provide exposure to either Australian or Global shares whilst seeking to mitigate the risk of market volatility and large drawdowns during declining markets. The BetaShares Managed Risk Series has been specifically designed to meet the needs of SMSFs, pre-retirees and retiree investors.

The Funds' Investment Strategy

The Managed Risk Series combine a diversified exposure to shares, providing investors with the opportunity for capital growth and income, along with an active managed risk strategy, which seeks to reduce volatility and defend against losses in declining markets. More specifically;

- **HVST** invests in at least 18 large capitalisation Australian securities, generally selected from the largest 50 Australian shares (by market capitalisation) on the ASX, which are screened for high dividend and franking outcomes based upon expected future gross dividend payments.*
- **AUST** invests its assets into a passively managed portfolio of Australian shares (consisting of 200** of the largest shares on the ASX by market capitalisation).
- **WRLD** invests its assets into a passively managed portfolio that provides exposure to global shares (generally consisting of at least 1,500 of the largest companies listed on stock exchanges of the world's major developed economies weighted by market capitalisation).

In addition, the Funds employ a risk management strategy which actively seeks to reduce volatility and defend against losses in declining markets. The Fund's risk management strategy involves actively selling equity index futures. Selling futures can be generally be expected to generate a positive return when the share market declines, and a negative return when the share market rises.

HVST, AUST and WRLD do not track a published benchmark.

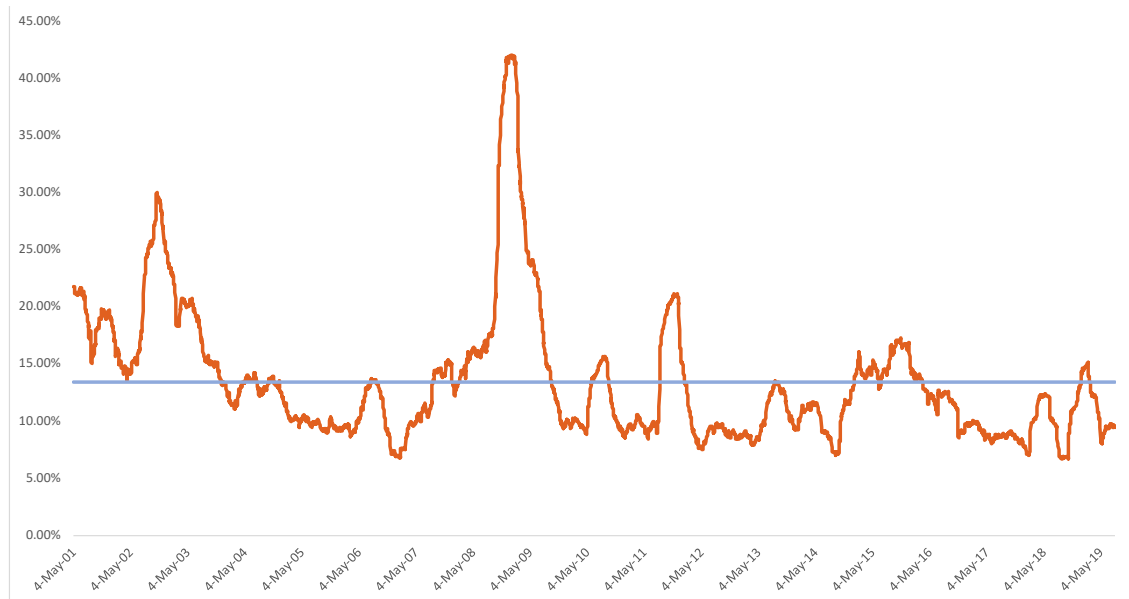
* HVST may also maintain a position in one or more ASX exchange traded funds with broad Australian sharemarket exposure, for added diversification.

**Exact components may differ due to corporate events.

The Risk Management Strategy

The risk management strategy utilised by the BetaShares Managed Risk Series acknowledges that equity markets are not a 'straight road', with volatility in the market creating many 'bends and turns'. The diagram below, for example, shows that over 18+ years, the average volatility in Global Share Markets (as illustrated by the MSCI World Index) has been ~13% p.a. However, as can be seen by the spikes on the graph, the actual volatility at any one time has varied dramatically from that average.

MSCI WORLD INDEX – ANNUALISED VOLATILITY (90 DAY TRAILING): MAY 2001 – JULY 2019

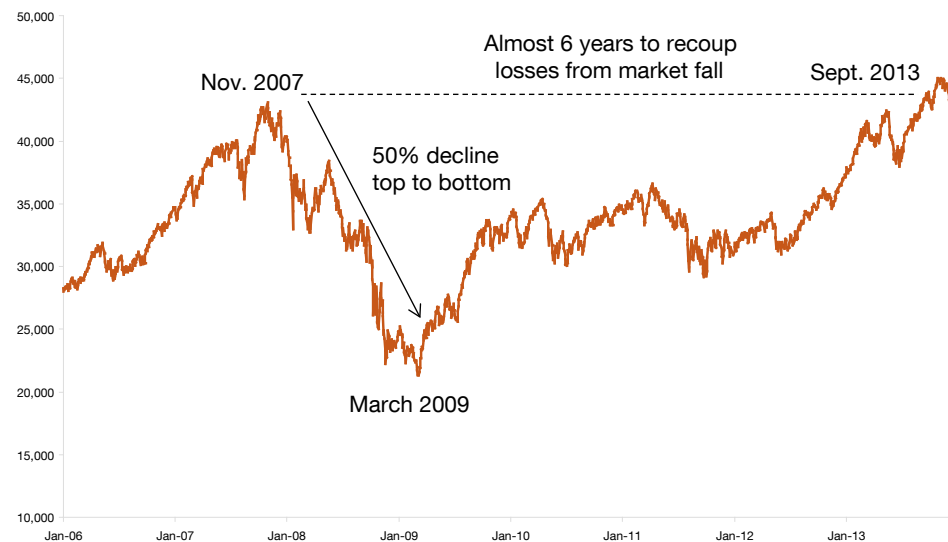


Source: Bloomberg, BetaShares. Past performance is not an indicator of future performance

The link between market volatility and market declines can make higher volatility particularly detrimental for investors relying on equities to fund some, or all, of their future needs. In particular, individuals nearing, or in, retirement may not have the time to 'ride out' large market declines, should they need to make withdrawals to meet current income needs (often referred to as 'sequencing risk').

The graph below highlights the time an investor who invested at the top of the Australian sharemarket in late 2007 and experienced the declines of the GFC, would have had to wait to recoup their losses.

S&P/ASX 200 ACCUMULATION INDEX – TIME TAKEN TO RECOUP LOSSES FROM MARKET FALLS



Source: Bloomberg

In order to combat the volatility issues investors may experience during turbulent market cycles, and to provide investors with a smoother investment ride, the Managed Risk Series' risk management strategy involves monitoring the volatility of equities daily.

If volatility rises beyond 'normal' levels, a 'handbrake' is applied in each of the Funds and market exposure is reduced by selling either ASX SPI 200 futures in the case of HVST and AUST, and by selling a combination of global futures contracts in the case of WRLD (S&P 500, Topix, FTSE 100 and Euro Stoxx 50 futures). These futures contracts are highly liquid and transparent instruments that are traded daily. By selling futures, the Funds seek to stabilise the volatility of the portfolio around a target level, and reduce the downside exposure of the portfolio during periods of significant and sustained market declines.

Broadly speaking, in falling share markets, the aim of the risk management strategy is to reduce exposure to the share market, and, conversely, in rising share markets, the aim of the risk management strategy is to increase exposure to the share market.

As a result:

- **In falling markets:** the Funds have an opportunity to outperform the underlying share market as the risk management strategy seeks to reduce downside performance. This is because the risk management strategy seeks to detect increases in share market volatility, which is often characteristic of a falling market. As a result of increased volatility, tactical changes are applied to the portfolio, by decreasing share market exposure and potentially mitigating losses. While the Fund's value may well fall, it is likely it will not fall by as much as would be the case if there was no any risk management strategy in place.
- **In rising markets:** the Funds have an opportunity to rise in value, however not by the same amount as the rise in the underlying share market. This is because the risk management strategy seeks to detect decreases in share market volatility, which is often characteristic of a rising market. As a result of decreased volatility, tactical changes are applied to the portfolio, by increasing share market exposure and market participation. That said, the presence of the risk management strategy should mean that HVST, AUST or WRLD will not be, during rising market environments, fully invested in the sharemarket, and so the upside potential may be less than if it was fully invested.

The risk management strategy used by the Managed Risk Series aims, over market cycles, to provide exposure to upside potential in rising markets while avoiding most of the downside in periods of decline.

The Fund's Risk Manager

The risk management strategy employed by the Fund is being run in conjunction with Milliman, one of the largest institutional risk managers in the world, assisting clients in hedging some US\$210B worldwide. Milliman's risk management strategies have been used for the last 15 years by some of the largest firms and institutional investors in the world. Strategies used by Milliman helped their clients navigate the 'tech bubble' and global financial crisis. The Fund provides investors access to such a strategy, which was previously primarily confined to large institutional investors.

Trading Information

All BetaShares Funds can be bought or sold throughout the trading day on the ASX, and trade like shares.

EXCHANGE	ASX
ASX CODES	HVST / AUST / WRLD
CURRENCY	AUD
TRADING	10:00-16:00 (AEST)
BLOOMBERG CODE	HVST.AU / AUST AU / WRLD AU
IRESS CODE	HVST.AXW / AUST.AXW / WRLD.AXW
IRESS INAV CODE	HVSTINAV.ETF / AUSTINAV.ETF

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There are risks associated with an investment in the Fund, including market 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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