

THE CASE FOR DRUG

AUGUST 2016

BetaShares Global Healthcare ETF - Currency Hedged (ASX: DRUG)



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A Healthy Choice: The case for investing in the BetaShares Global Healthcare ETF – Currency Hedged (ASX Code: DRUG)

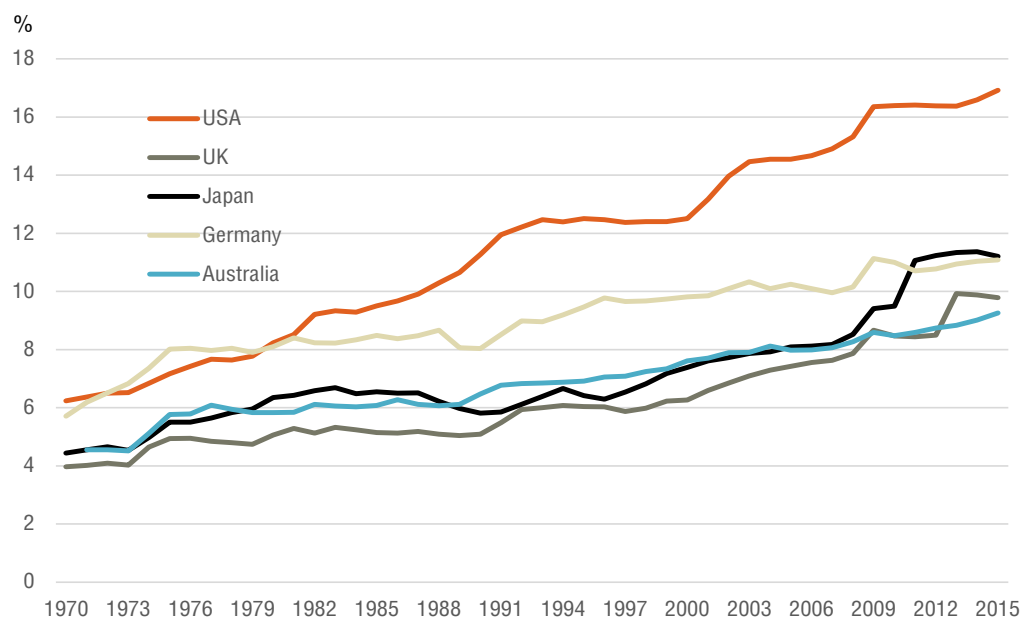
Due to population ageing, rising living standards and ongoing scientific advancements, spending on healthcare has increased strongly across the globe in recent decades and further strong growth is widely expected. As a result, healthcare is anticipated to remain one of the global economy's leading growth sectors for some time.

BetaShares Global Healthcare ETF – Currency Hedged (ASX Code: DRUG) taps into this growth potential, and provides investors an easy and transparent way to gain investment exposure to some of the world's leading healthcare companies outside of Australia.

The case for Healthcare investment exposure

Spending on healthcare has increased relatively strongly across the globe in recent decades and further strong growth seems likely given rising living standards, population ageing and improvements in innovation and technology. According to OECD estimates, in the United States alone total (public and private) healthcare spending increased from 6.2% of GDP in 1970 to 16.9% by 2015.

TOTAL HEALTHCARE SPENDING (% OF GDP), CURRENT PRICES: 1970-2015



Source: OECD Health Statistics, June 2016

There are several reasons underpinning the strong growth in healthcare spending. For starters, healthcare is considered a “superior good”, so its share of household budgets tends to rise along with living standards. This source of healthcare spending growth will be particularly important in emerging markets in coming years, given their scope for “catch-up” per-capita income gains toward that of developed countries, and given their current relatively low level of healthcare spending as a share of their economies.

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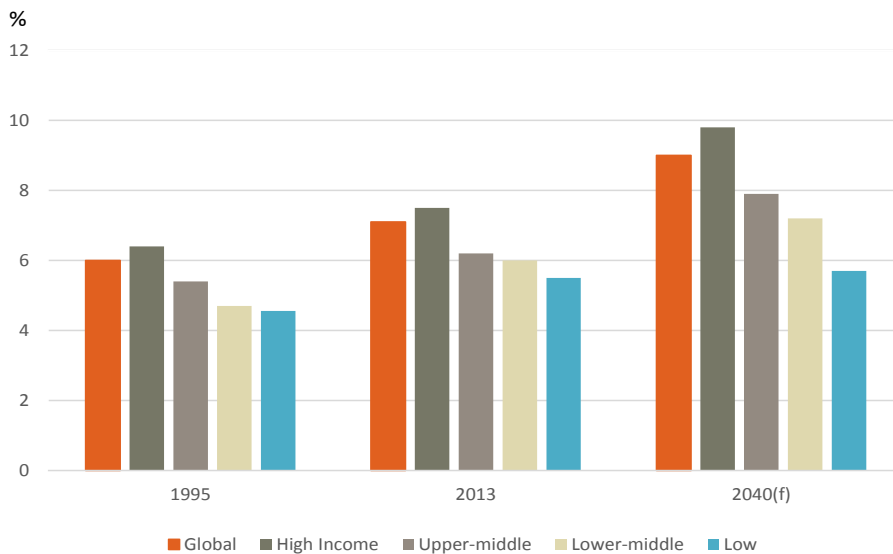


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At the same time, as the elderly tend to be more heavy users of healthcare services, population ageing in both developed and emerging markets in coming decades is likely to add to healthcare spending. Last, but not least, ongoing scientific advancements from healthcare research should add to health spending demands by improving the sector's ability to diagnose and treat a wide range of illnesses.

According to recent projections¹ by the World Bank Group and the Institute for Health Metrics and Evaluation (IHME), spending on healthcare is expected to rise from 7.1% of global GDP in 2013 to 9.0% by 2040, representing just over a 25% increase in the health sector's share of the global economy. Again, in the United States alone, healthcare spending is projected to rise to 23% of GDP by 2040.

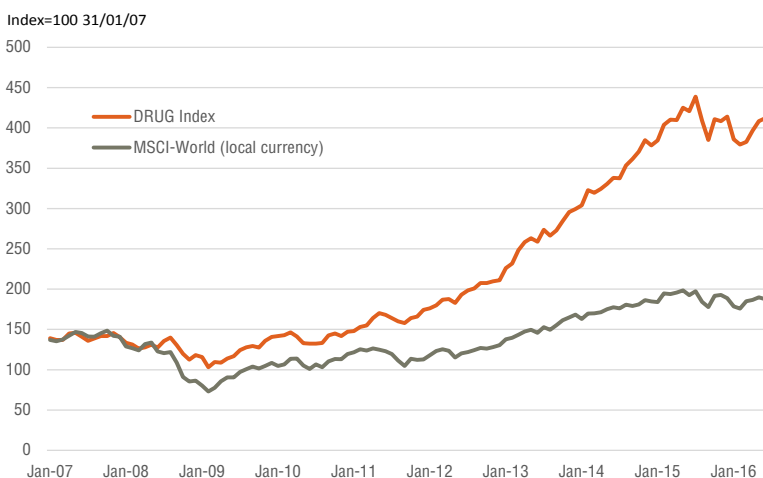
TOTAL HEALTHCARE SPENDING (% OF GDP) BY COUNTRY INCOME LEVEL: PROJECTIONS TO 2040



Source: World Bank and Institute for Health Metrics.

Given the rise in healthcare spending, it's no surprise the healthcare sector has been a strong performer across global equity markets in recent years. Since the recovery in global markets from the global financial crisis in early 2009, for example, the Index that DRUG aims to track has produced total annualised returns of 20.8% to end-June 2016, compared with 13.7% for the MSCI World Index.

EQUITY TOTAL RETURN PERFORMANCE: FEBRUARY 2009 – JUNE 2016



Source: Bloomberg. The Index which DRUG aims to track is the Nasdaq Global ex-Australia Healthcare Hedged AUD Index. You cannot invest directly in an index. Performance excludes the impact of ETF fees and expenses. Past performance is not an indication of future performance of the Index or the ETF.

¹ National spending on Health by source for 184 countries between 2013 and 2040. The Lancet, June 2016.



How to gain investment exposure to Healthcare

Investors interested in gaining investment exposure to healthcare have a number of options at their disposal.

For starters, investors can already readily invest in one or more of a handful of Australian-listed healthcare stocks, such as ResMed or CSL. The problem with this approach, however, is that it can expose investors to undue country and stock-specific risk given the highly competitive and dynamic nature of the global healthcare industry.

Handling investments across a number of stocks just to gain broad industry exposure also adds to an investor's administrative burden, due to the need to deal with regular multiple corporate actions such as income distributions.

With these challenges in mind, the BetaShares Global Healthcare ETF – Currency Hedged (ASX Code: DRUG) has been created to provide investors, within a single investment, diversified exposure to leading healthcare firms across the globe, and which is structured to reduce both the added currency risks and tax and administrative burdens that can be associated with certain international investments.

The BetaShares Global Healthcare ETF - Currency Hedged (ASX Code: DRUG)

From the perspective of an Australian investor seeking investment exposure to healthcare, the BetaShares Global Healthcare ETF (DRUG) offers a number of important advantages.

Global Diversification

DRUG invests in around 60 of the world's largest global healthcare firms outside of Australia, which at end-June 2016 had an average market capitalisation of \$76 billion. That compares, for example, with market capitalisation of \$52 billion and \$12 billion for CSL and ResMed respectively.

TOP 10 HOLDINGS OF BETASHARES GLOBAL HEALTHCARE ETF - CURRENCY HEDGED'S UNDERLYING INDEX (DRUG): 30TH JUNE 2016

Top 10 Exposures	Country	Weight %
Johnson & Johnson	UNITED STATES	8.5
Novartis AG	SWITZERLAND	7.2
Roche Holding AG	SWITZERLAND	6.1
Merck & Co Inc	UNITED STATES	5.2
Bristol-Myers Squibb Co	UNITED STATES	4.0
UnitedHealth Group Inc	UNITED STATES	3.9
Medtronic PLC	IRELAND	3.6
Gilead Sciences Inc	UNITED STATES	3.6
Novo Nordisk A/S	DENMARK	3.4
Amgen Inc	UNITED STATES	3.3

Source: Bloomberg

Currency Hedging

Another useful feature of DRUG, moreover, is that it provides currency hedged exposure to global healthcare companies. That means the investment performance of DRUG will be more directly correlated with the performance of the global healthcare stocks in which it invests, and less so by the often erratic shifts in the Australian dollar exchange rate against other currencies.

Another advantage of currency hedging is that it actually offers investors a performance pick-up over time to the extent that Australian interest rates remain relatively high by global standards. That's because hedging is effectively equivalent to borrowing foreign currencies (to offset the foreign currency exposure from investment on global share markets) and using the proceeds to invest in Australian dollars, often at a higher rate than the cost of borrowing. As at mid-2016, this income pick-up was worth around 0.16% per year for the DRUG portfolio. This return benefit can vary over time with changes in relative interest rates.

Reduced administrative and international tax obligations

Like all BetaShares Funds, DRUG is an Australian domiciled fund. Therefore, investors in DRUG do not need to fill out W-8 BEN forms, or risk any potential U.S. estate tax issues. These risks do arise, for example, where investments are made in "cross listed" international investment funds.

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Conclusion

Due to the combination of population ageing, rising living standards and advancements in scientific research, healthcare is anticipated to remain one of the global economy's leading sectors for some time to come.

The BetaShares Global Healthcare ETF – Currency Hedged (DRUG) offers Australian investors an easy and transparent way to gain exposure to this dynamic global sector without taking undue stock-specific or exchange-rate risk, and while also avoiding the added tax and administrative burdens that can otherwise arise from certain international investments.

Trading Information

BetaShares ETFs can be bought or sold during the trading day on the ASX, and trade like shares.

EXCHANGE	ASX
ASX CODE	DRUG
CURRENCY	AUD
TRADING	10:00-16:00 (AEST)
BLOOMBERG CODE	DRUG AU
IRESS CODE	DRUG.AXW

Index Information

INDEX	Nasdaq Global ex-Australia Healthcare Hedged AUD Index
BLOOMBERG INDEX CODE	NQXAUHHN INDEX

Fund Information

ISSUER	BetaShares Capital Ltd
ADMINISTRATOR	RBC Investor Services
CUSTODIAN	RBC Investor Services
REGISTRAR	Link Market Services
AUDITOR	KPMG
DISTRIBUTIONS	Semi-Annual
MANAGEMENT FEE	0.47% p.a
EXPENSES	estimated at 0.10% p.a
FUND INCEPTION	4 August 2016

Available at betashares.com.au

- Net asset value
- Product disclosure statement
- Portfolio holdings
- Distribution details

Contacts for Institutional Clients

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There are risks associated with an investment in the Fund, including market risk, healthcare sector risk and concentration risk. For more information on risks and other features of the Fund please see the Product Disclosure Statement

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