BetaShares
Exchange Traded Funds

ASX: F100

ACCESS TO 100 BLUE-CHIP COMPANIES LISTED IN THE U.K.

July 2019

As the 5th largest economy in the world with long historical ties to Australia, the United Kingdom offers a useful diversification opportunity for Australian investors, providing access to a number of leading businesses, which are listed on the one of the world's largest stock exchanges, the London Stock Exchange.

Due to lingering uncertainties surrounding the U.K.'s decision to leave the European Union, or "Brexit", moreover, the U.K. market in recent times also arguably represents a value opportunity, especially if its post-EU transition is reasonably smooth.

As in Australia, U.K. companies also tend to offer relatively attractive dividend returns – meaning Australian investors can achieve an element of global diversification without unduly sacrificing income returns.

In order to provide access to these opportunities, BetaShares has launched the **BetaShares FTSE 100 ETF (ASX Code: F100)** - the first U.K. specific ETF on the ASX. By tracking the U.K.'s well-known FTSE-100 Index, F100 is designed to provide cost-effective exposure to the 100 largest companies by market capitalisation traded on the London Stock Exchange.

Global leaders

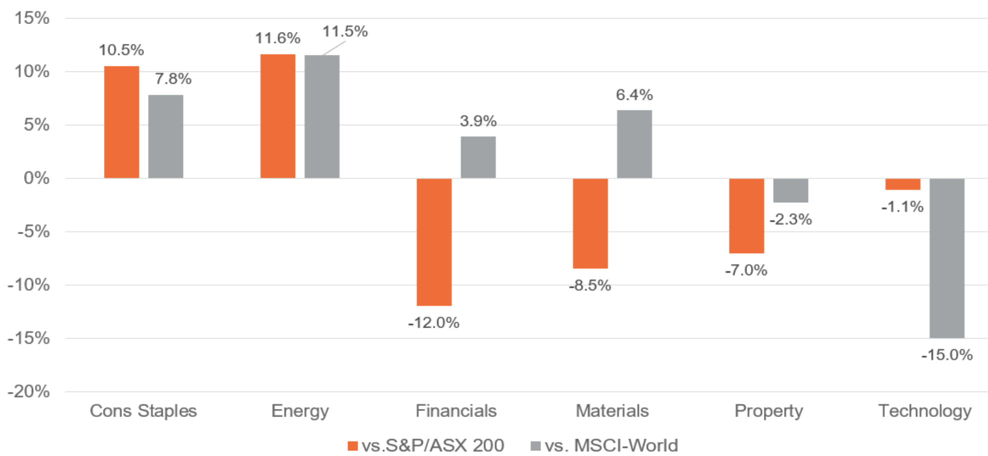
First and foremost, F100 offers Australian investors an attractive source of global diversification via access to a portfolio of market leading businesses, many of which can only be accessed via the U.K. sharemarket.

F100's holdings comprise 100 blue-chip companies listed in the U.K., including global household names such as the world's largest energy company, Royal Dutch Shell; one of the world's largest financial institutions, HSBC; multi-national pharmaceutical company and owner of many of the world's leading pharmaceutical and consumer healthcare products, GlaxoSmithKline; and global beverage brand, Diageo, owner of brands such as Johnnie Walker and Guinness.

As evident in the chart below, moreover, the U.K. market offers useful elements of sector diversification. Compared to the Australian and broader global market, the U.K. market tends to have a relatively higher exposure to companies in the consumer staples and energy sectors.

In the case of Australia, this is offset by lower U.K. exposure to the financials, materials and property sectors – and lower exposure to the technology sector when the U.K. is compared to the broader global market.

INDUSTRY SECTOR WEIGHT DIFFERENCES: FTSE 100 INDEX VS S&P/ASX 200 INDEX AND MSCI DEVELOPED WORLD INDEX: AS AT 10 JULY 2019



Source: Bloomberg

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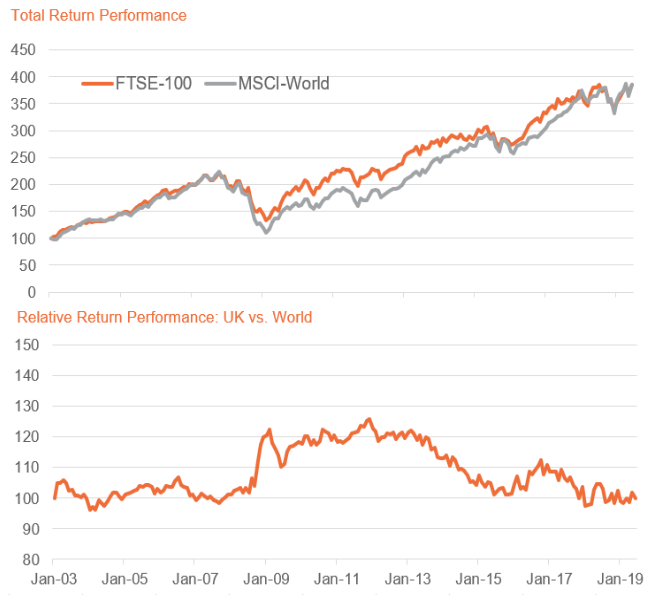
Value opportunity

As seen in the chart below, the U.K. market has broadly matched global equity performance over the past decade or so, though with an earlier period of outperformance giving way to a period of under performance in more recent years. Part of this recent performance reflects the decline in energy prices earlier this decade, along with the strong growth in the global technology sector. Since early 2018, however, the U.K.'s relative performance has levelled out against that of global equities, even as concerns related to U.K.'s "Brexit" decision have continued to linger.

RELATIVE RETURN PERFORMANCE: FTSE 100 INDEX VS MSCI DEVELOPED WORLD INDEX: JAN-03 TO JUN-19*



Source: Bloomberg. *Indices = 100 as at 31-Jan-2003. Shows performance of index, not ETF, and does not take into account ETF's fees and costs.
Past performance is not indicative of future performance. You cannot invest directly in an index.

One reason for this levelling out in performance could reflect the emergence of an apparent "valuation gap" between the U.K. and global peers. As seen in the chart below, the FTSE 100's price-to-book value by end-June 2019 was trading at a substantial 28% discount to developed world equities – compared with an average discount since early-2003 of only 9%.

PRICE-TO-BOOK VALUE: FTSE 100 INDEX VS MSCI DEVELOPED WORLD INDEX - JAN-03 TO JUN-19

Source: Bloomberg.

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Brexit – some grounds for optimism

Although concerns related to Brexit continue to linger, moreover, the U.K. economy has benefited from significant exchange rate depreciation in recent years and still reasonably low inflation and interest rates. This should leave U.K. businesses well placed competitively to deal with any immediate challenges in the post-EU transition period.

Indeed, despite Brexit uncertainties, the U.K. economy has continued to grow and the unemployment rate has trended lower to be at multi-decade lows at just under 4%. Unemployment in the U.K. has long been considerably lower than in the Eurozone.

UNEMPLOYMENT RATES: U.K. VS. EUROZONE - JAN-03 TO JUN-19

Source: Bloomberg

Even in the event of a "no deal" exit from the EU, the U.K. may continue to enjoy relatively low trade barriers with the EU as both are signatories to the World Trade Organisation's (WTO) non-discriminatory "most favoured nation" provisions. Under these measures, Europe cannot apply higher trade barriers on the U.K. than generally imposed on other nations such as Japan, China and the United States.

For its part, the U.K. Government is planning to promote freer trade by reducing many of its own tariffs in the event of a "no-deal" Brexit. Under these plans, while protective tariffs would remain in place in some sensitive areas such as car production and agriculture, around 87% of imports would not be subject to tariffs – up from 80% at present.[1]

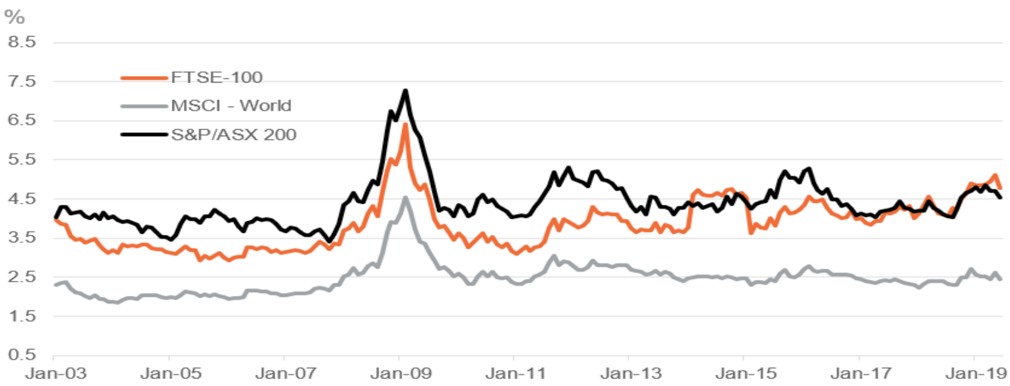
Once outside of the EU, moreover, the U.K. remains well placed to negotiate more extensive trade deals with a range of countries and could potentially develop a competitive advantage over the rest of Europe through greater deregulation and pro-competition policies.

[1] Source: *Temporary rates of custom duty (tariffs) after Brexit*, U.K. Government, 13 March 2019.

Attractive income opportunity

Another notable attraction of the U.K. market, especially for income-seeking Australian investors, has been its relatively high income returns by global standards. As seen in the chart below, the average annual dividend yield for the FTSE 100 Index was 4.8% as at end-June 2019, compared with 4.6% for the S&P/ASX 200 Index and 2.5% for the global MSCI-ACWI benchmark index. The FTSE 100's dividend yield has consistently been above that of the global benchmark index, and in recent years has even been competitive with that of the Australian market (before consideration of franking credits).

NET DIVIDEND YIELDS: U.K., AUSTRALIA AND THE WORLD - JAN-03 TO JUN-19



Source: Bloomberg. Past performance is not indicative of future performance. You cannot invest directly in an index.

Conclusion

BetaShares FTSE 100 ETF (ASX: F100) offers Australian investors an opportunity to add further global diversification to their portfolios, via a blue-chip portfolio of some of the world's leading organisations across a range of sectors.

While the U.K.'s Brexit concerns continue to linger, this has arguably opened up a value opportunity – given there are grounds to believe the U.K.'s post-EU environment will not be as bad as many currently fear.

Last, but not least, investing in the U.K. offers an international diversification opportunity without unduly sacrificing income potential. U.K. dividend yields have been consistently higher than global peers and currently on par with those in Australia.

As the first U.K. specific ETF on the ASX, F100 continues the BetaShares tradition of offering Australian investors innovative and intelligent investment solutions to help them meet their financial objectives.

For more information, visit betashares.com.au.

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