

THE CASE FOR MNRS

JULY 2016

BetaShares Global Gold Miners ETF - Currency Hedged (ASX: MNRS)



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Make your portfolio shine: The case for gaining gold exposure through the BetaShares Global Gold Miners ETF – Currency Hedged (ASX Code: MNRS).

The gold price has enjoyed highs and lows in recent years but gold's value as a handy "port in the storm" during bouts of global financial market volatility has been proven time and time again. As such, many investors now see merit in having some gold exposure as part of a well-diversified portfolio. But how should investors obtain such exposure?

Although investors have a number of options by which to obtain exposure to gold, this paper argues that on broad diversification grounds, and especially if investing with a longer-term perspective, there is a strong case for obtaining gold exposure through share ownership of a cross section of the world's major gold mining companies on a currency hedged basis. It's now quite easy for Australian investors to gain such an investment exposure through the BetaShares Global Gold Miners ETF - Currency Hedged (ASX Code: MNRS).

The Case for Gold Investment Exposure

Gold prices enjoyed a particularly strong run-up during the China driven commodity price boom over the decade to 2011. Indeed, from this longer-term perspective, the global financial crisis of 2008 only provided a short-term disruption to the upward march in the price of gold. In more recent years, gold prices have retreated somewhat due to a slowdown in the Chinese economy and persistent low global inflation despite extensive central bank policy easing world-wide.

That said, as seen in the chart below, gold prices have enjoyed spikes higher over recent years, usually coinciding with bouts of investor uncertainty and heightened financial market volatility. In fact, gold enjoyed a resurgence in mid-2016, as exceptionally low (and in some cases negative) global interest rates and ongoing financial markets jitters have added to gold's allure as a "safe-haven" asset.

If global interest rates stay low and equity market volatility continues, gold prices could well remain supported.

SPOT GOLD PRICE (US\$) – JANUARY 2000 – JUNE 2016

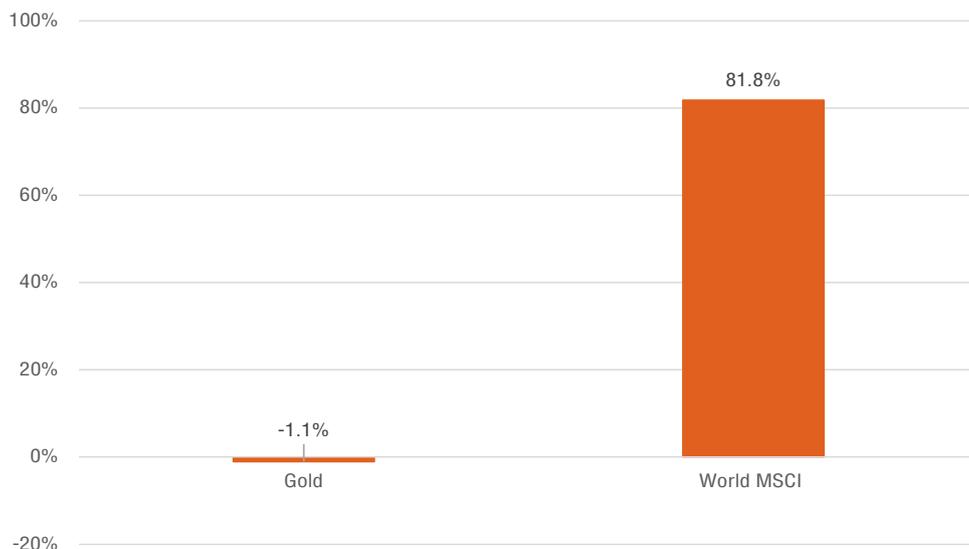


Source: Bloomberg. Past performance is not an indicator of future performance.



Irrespective of shorter-run price trends, moreover, part of gold's allure is the diversification advantages it can bring to an investment portfolio. As seen in the chart below, while movements in the Australian equity market tend to track movements in global equities quite closely, the historical correlation of Australian equities to gold price movements has been virtually zero (and, in fact, slightly negative). Gold dances to the beat of its own drum – sometimes rising when equities markets rise, but also often remaining firm in the face of equity market weakness as investors seek safe-haven protection.

CORRELATION OF GOLD (SPOT) AND GLOBAL EQUITIES (MSCI WORLD INDEX) TO AUSTRALIAN EQUITIES (S&P/ASX 200 INDEX):
12 MONTH RETURNS FROM JANUARY 1995- JUNE 2016



Source: Bloomberg. Past performance is not an indication of future performance of the Index or the ETF.

How to Gain Exposure to Gold

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

Investing in gold bars is an obvious option, but storage can be costly and potentially not very secure (especially if kept under your mattress!). Somewhat more conveniently, investors can also gain direct \$US gold exposure through the purchase on the local share market of a physically gold-backed exchange traded fund, hedged for currency movements, as provided by the BetaShares Gold Bullion ETF – Currency Hedged (ASX Code: QAU). Holding a currency-hedged gold ETF is a good option for investors seeking “pure” exposure to gold price movements ie the US\$ gold price.

Another valid option, however, is to invest in gold miners, whose fortunes are naturally closely tied to the gold price. One advantage of investing in gold miners – as distinct from the gold bullion they produce – is that even over periods when the gold price is relatively stable, gold miners may still be able to generate good profits and positive investor returns, provided prices are high enough to cover their production costs. Another advantage is that gold miners' share prices are highly sensitive to gold price movements, and so can provide relatively more magnified returns over the gold price cycle.

Investing in the local gold mining sector alone, however, doesn't really offer much in the way of diversification, as there's only a handful of locally listed companies to choose from, such as Newcrest Mining, Evolution Mining or Regis Resources. With that in mind, the BetaShares Global Gold Miners ETF – Currency Hedged (ASX Code: MNRS) has been created to provide investors with diversified exposure to leading gold miners across the globe, and importantly on a currency-hedged basis.

The BetaShares Global Gold Miners ETF (ASX Code: MNRS)

From the perspective of an Australian investor seeking exposure to gold, the BetaShares Global Gold Miners ETF (MNRS) offers a number of important advantages.

Global Diversification

MNRS seeks to track the performance of an Index comprising approximately 40 of the world's largest global gold miners outside of Australia, which at end-June 2016 had a combined market capitalisation of \$A308 billion. That compares with only six individual Australian gold miners listed on the Australian stock exchange as at June 2016, with a combined market capitalisation of \$A25 billion.

As seen in the chart below, at June 2016 the index which MNRS aims to track covers gold miners across seven different economies, with a 60% weight to the important Canadian market, and around 12% to the US and South African markets.

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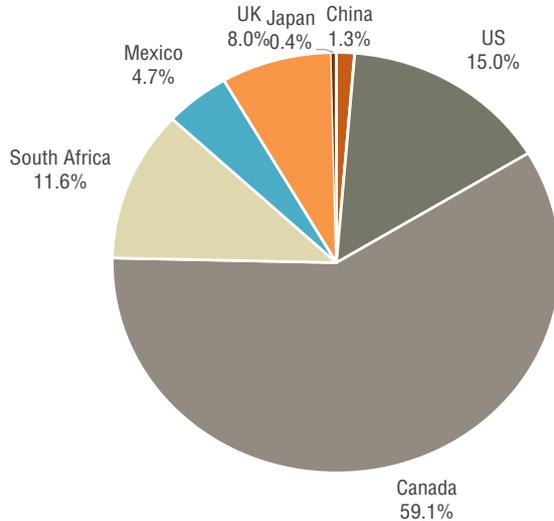


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COUNTRY ALLOCATION OF BETASHARES GLOBAL GOLD MINERS ETF - CURRENCY HEDGED'S UNDERLYING INDEX - 30TH JUNE 2016



Source: Bloomberg. MNRS aims to track the performance of the Nasdaq Global ex-Australia Gold Miners Hedged AUD Index.

Given the various idiosyncratic cost and production issues that can affect individual companies and regions from time to time, investing in only one or two gold miners – especially if originating from the same country such as Australia – naturally exposes investors to a relatively high degree of corporate and country risk. This risk can be greatly ameliorated by investing in a fund that provides diversified exposure to a portfolio of gold companies across several countries.

Gold Price Exposure

As might be expected, the Index which MNRS aims to track has followed the direction of the \$US spot gold price reasonably well, and has enjoyed particularly strong performance in 2016 (to June) even given only a relatively modest rebound in gold prices. As noted above, investment in mining companies is often able to achieve magnified exposure to spot gold price movements (both up and down).

GOLD SPOT PRICE (US\$) V MNRS' INDEX: JANUARY 2006- JUNE 2016



Source: Bloomberg. The Index which MNRS aims to track is the Nasdaq Global ex-Australia Gold Miners 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.



Currency Hedging

Another important feature of MNRS, moreover, is that it provides currency hedged exposure to global gold miners. That's important because, as seen in the chart below, there has tended to be a positive correlation between the \$US gold price and the Australian dollar over time: in general, in periods when the gold price has risen, the Australia dollar (as a "commodity currency") has also tended to rise and vice-versa.

GOLD SPOT PRICE (US\$) V \$US PER \$A: JANUARY 2006- JUNE 2016

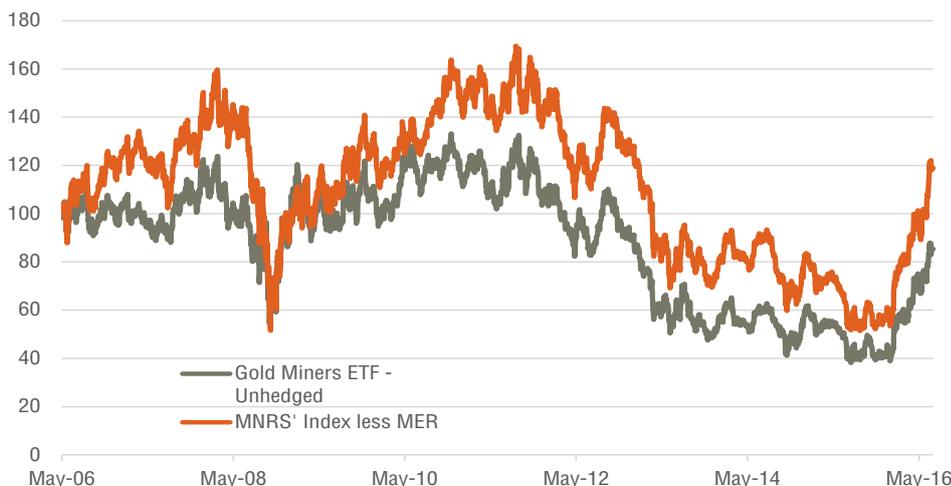


Source: Bloomberg. Past performance is not an indication of future performance of the Index or the ETF.

That means in periods when the gold price is rising, Australian investors in global gold mining companies, without currency hedging, could miss some of the upside potential due to foreign exchange losses from their offshore investment exposure (conversely, currency hedged exposure will tend to weigh on returns in periods when the gold price is falling). As seen in the chart below, the Index which MNRS aims to track has, over the past decade, outperformed a comparable non-currency hedged global gold miners exposure.

MNRS' INDEX (LESS MER) V COMPARABLE UNHEDGED GLOBAL GOLD MINERS ETF (IN AUD): MAY 2006 – JUNE 2016

Index=100 22-May-2006



Source: Bloomberg. The Index which MNRS aims to track is the Nasdaq Global ex-Australia Gold Miners Hedged AUD Index. You cannot invest directly in an index. Performance of MNRS' Index is shown after deducting MNRS' 0.57% p.a. management costs. Chart shows performance of comparable unhedged global gold miners ETF as an AUD investor (ASX: GDJ). Commencement date of chart is May 2006. Past performance is not an indication of future performance of the Index or MNRS.

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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 performance pick-up was worth around 0.25% per year for the MNRS portfolio. This return benefit can vary over time with changes in relative interest rates.

In other words, to the extent Australian interest rates are higher than interest rates applicable in the relevant foreign share markets, Australian investors using MNRS to gain gold exposure are actually paid to reduce their currency risk by hedging exposure to fluctuations in global currencies against the Australian dollar.

Reduced administrative and international tax obligations

Like all BetaShares Funds, MNRS is an Australian domiciled fund. Therefore, investors in MNRS do not need to fill out W-8 BEN forms, or risk any potential U.S. estate tax issues, unlike investors in "cross listed" alternative exposures.

Conclusion

Due to the poor returns presently available on traditional "safe-haven" assets such as cash and bonds, as well as ongoing global financial market volatility, investor interest in gold exposure is naturally on the rise.

That said, Australian investors seeking locally listed exposure to gold companies have typically had to choose from among a handful of Australian miners, which can give rise to relatively higher corporate and country-specific risk. With that in mind, the BetaShares Global Gold Miners ETF – Currency Hedged (MNRS) provides investors with diversified exposure to the world's leading gold miners, while also hedging against foreign exchange rate movements, which have the potential to undermine returns for Australian investors in precisely those periods when gold prices are rising most strongly.

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

Trading Information

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

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

Index Information

INDEX	Nasdaq Global ex-Australia Gold Miners Hedged AUD Index
BLOOMBERG INDEX CODE	NQXAUHGN 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	27 July 2016

Available at betashares.com.au

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

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