



**BetaShares**

Exchange Traded Funds

# BetaShares Academy

Building better portfolios with asset allocation

**Blair Modica**

**Director – Adviser Services**



# Important information

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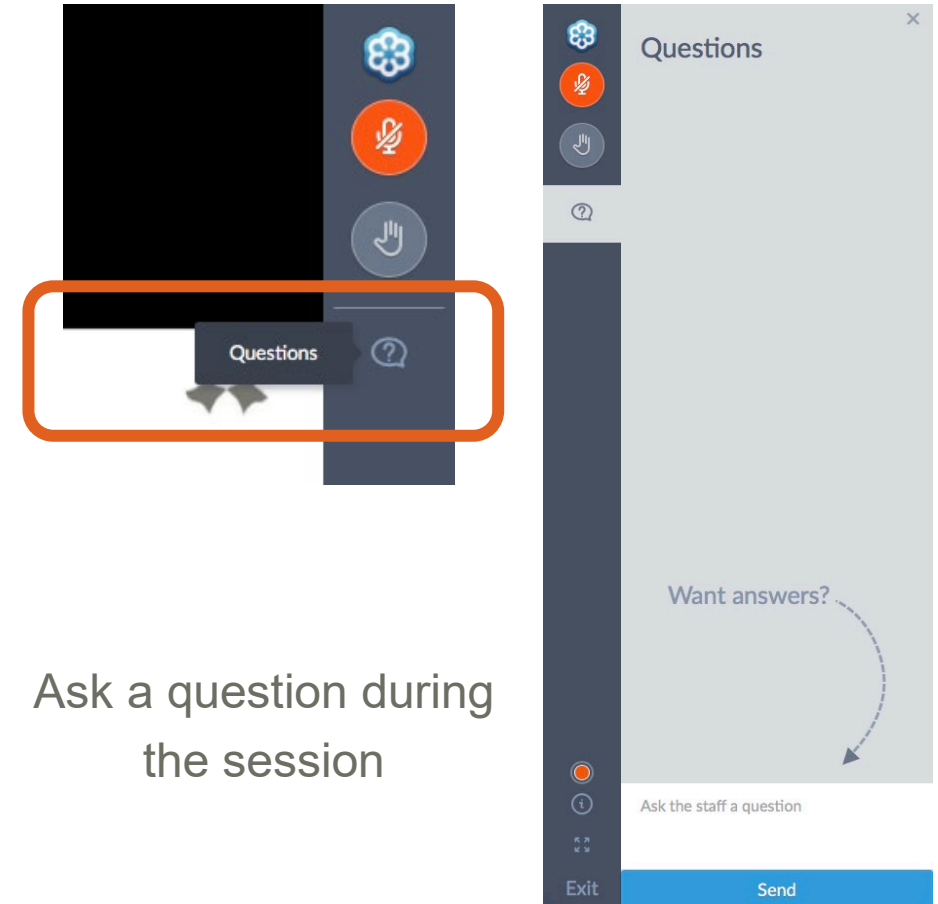
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# Before we start...



A recording of the session will be sent to all attendees at the end of the webinar



Ask a question during the session

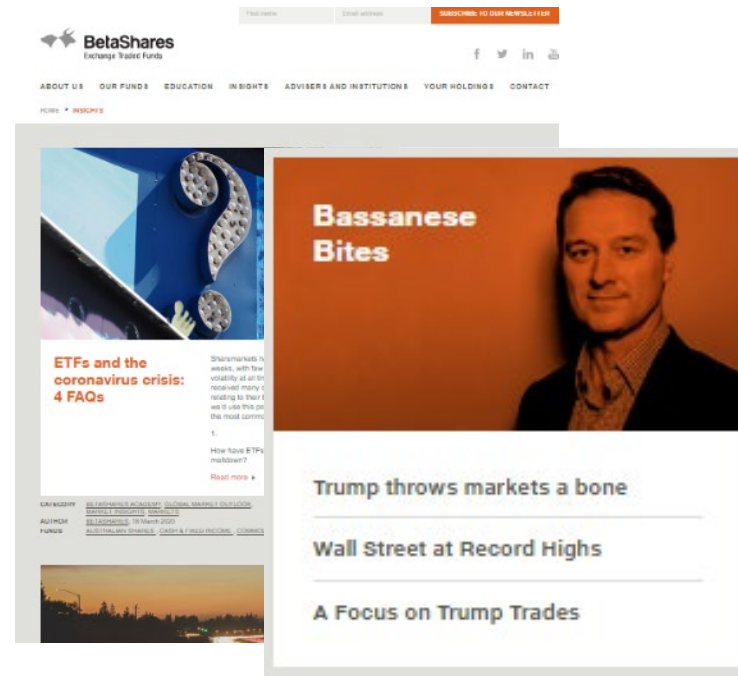
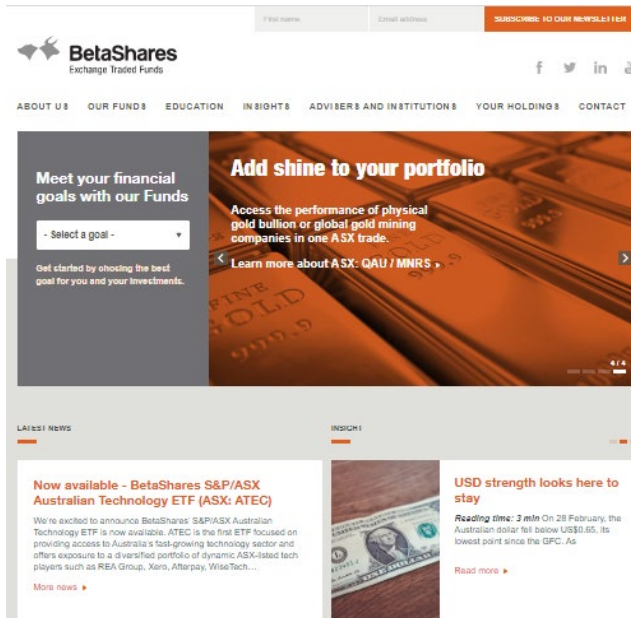


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# Blair Modica

## Director – Adviser Services

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Responsible for:

- ▶ Supporting the distribution of BetaShares funds to advisers across the Victoria & Tasmanian regions.
  - ▶ Prior to his role at BetaShares, Blair previously worked at Macquarie Bank in Distribution and Key Account roles within the Specialised Investments team. He has also held roles within NAB Wholesale Banking.
  - ▶ Blair holds a Bachelor of Arts (Politics & History) and a Master of Management (Finance) from Melbourne University.
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# About BetaShares

**61**

Widest range  
of exchange trade  
products traded on  
the ASX

**Over  
\$10B**

in assets under  
management

## OBJECTIVE

Provide intelligent investment solutions,  
which help Australian investors meet their  
financial objectives.

Products designed with  
Australian investors in mind

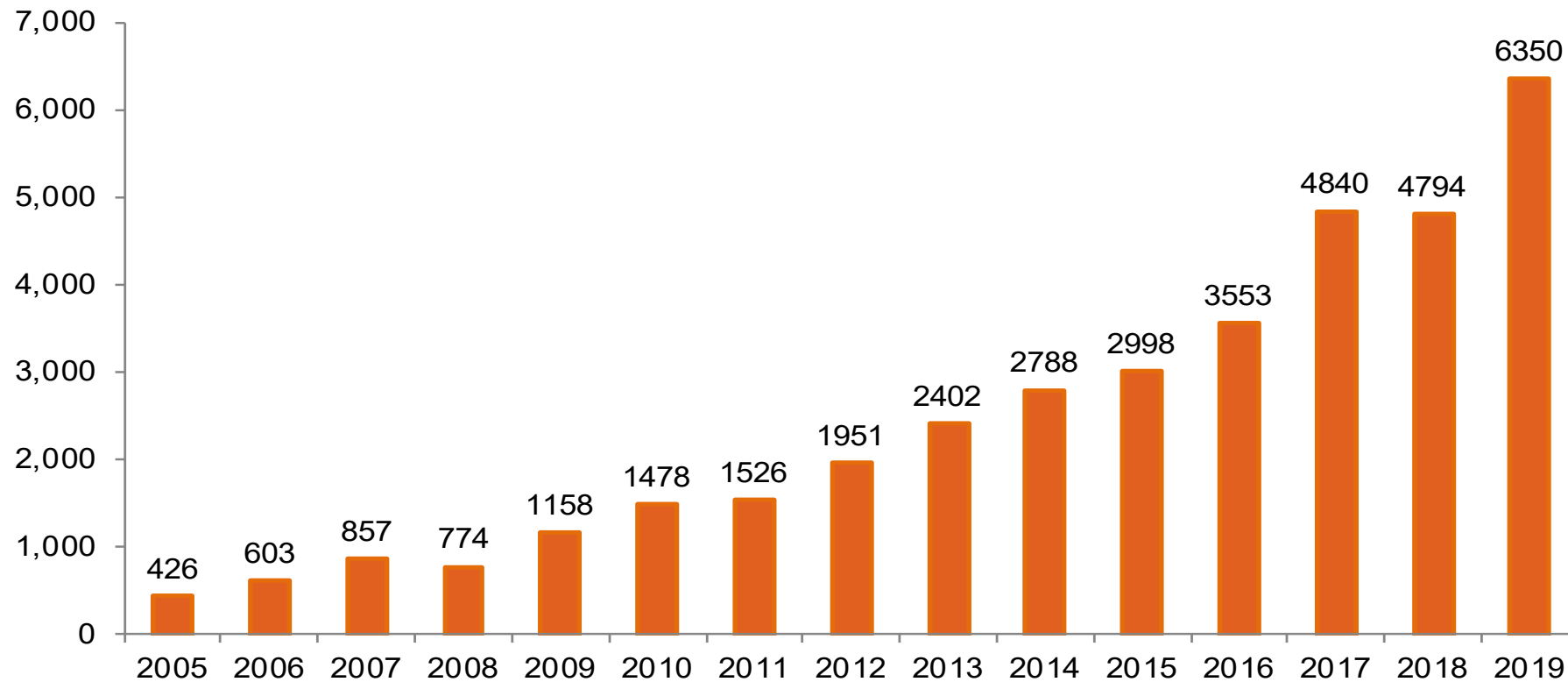
Owned and managed by its  
Australian based management  
team along with a strategic  
shareholding from Mirae Asset  
Global Investment Group

As at 31 March 2020



# Growth of global ETF industry

## Global ETF industry AUM (U.S.\$B): 2005 - 2019

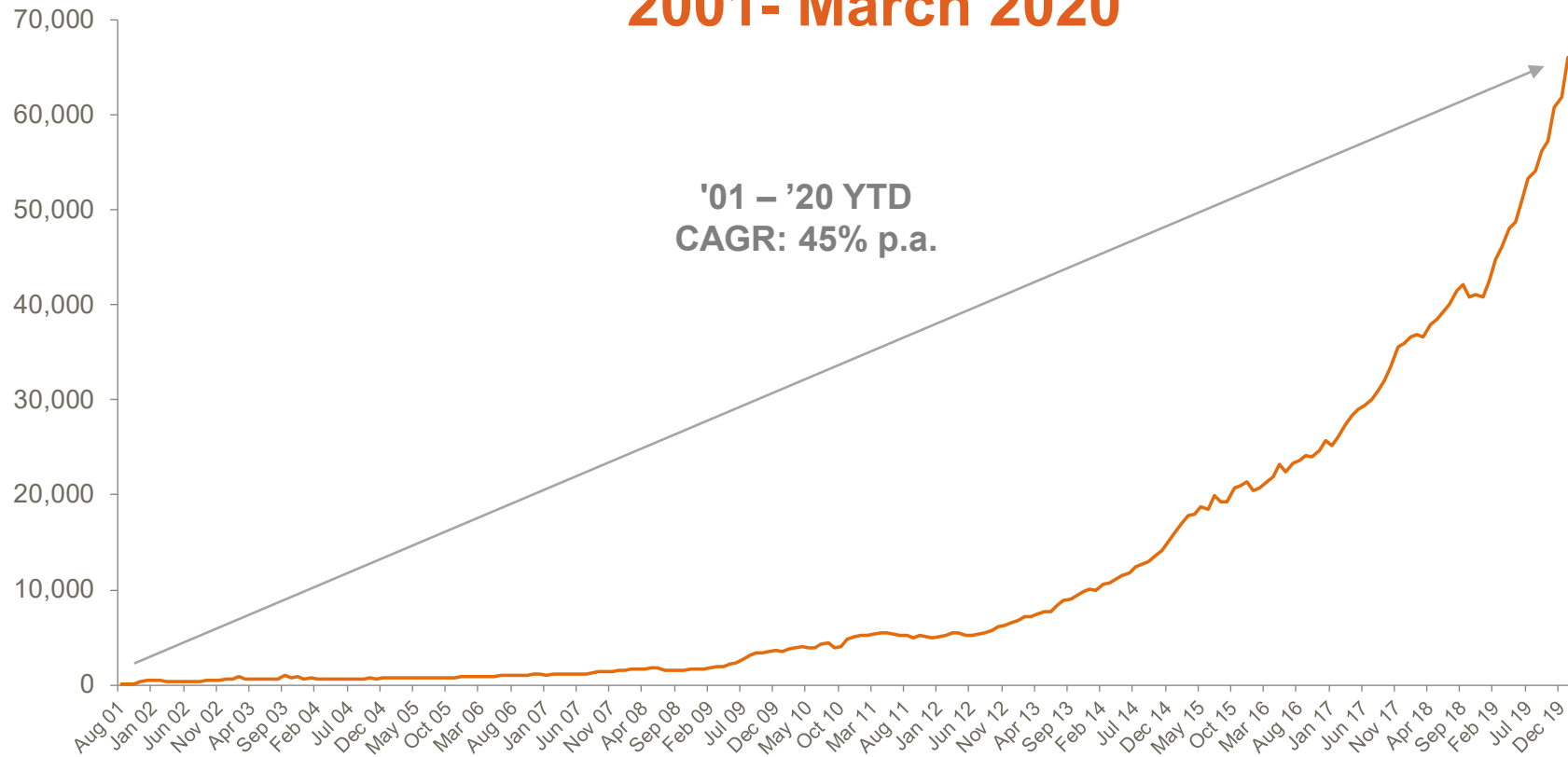


Source: ETFGI. Includes all exchange traded products.



# Growth of the Australian ETF industry

## Australian ETF Industry – Funds Under Management: April 2001- March 2020



CAGR: Compound Annual Growth Rate  
Source: ASX, BetaShares





# Agenda

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**What is an ETF?**



**Asset allocation – ingredients that can be used to optimise portfolios**



**Ways to calibrate portfolios using asset allocation**



# Agenda

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**What is an ETF?**



Asset allocation – ingredients that can be used to optimise portfolios



Ways to calibrate portfolios using asset allocation



# What are exchange traded funds?

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## Investment funds

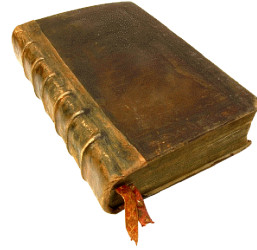
- ▶ Are open-ended
- ▶ Exchange traded
- ▶ Typically track an index or employ “rules based” strategies
- ▶ Can be passive or active
- ▶ Bought and sold on the ASX





# ETPs: An evolution in technology

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Spotify®





# Advantages of ETFs

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## **Cost effective**

ETFs generally aim to track the performance of an index or asset class, so there are no in-built 'active management' fees to worry about



## **Diversification**

In a single trade, investors can introduce a range of international exposures, asset classes or strategies to their portfolio



## **Ease of access**

ETFs are traded on the Australian Securities Exchange (ASX), so can be bought and sold just like shares during trading hours



## **Transparency**

Information relating to ETFs, including underlying portfolio holdings and fees, can be accessed at any time via the fund manager's website



## **Lots of choice!**

Wide range of investments strategies that can cater to varying investment objectives



# The exchange-traded product evolution

ETP 1.0	ETP 1.5	ETP 2.0	ETP 3.0
Aim to track an index weighted by market capitalisation	Aim to track an index that is <b>not</b> weighted by market capitalisation	Rules-based strategies	Actively-managed portfolio of investments
31 BetaShares funds	9 BetaShares funds	12 BetaShares funds	9 BetaShares funds
<i>Examples:</i> A200 EX20 QFN	<i>Examples:</i> QOZ QUS CRED	<i>Examples:</i> BEAR GEAR YMAX	<i>Examples:</i> HBRD BNDS RINC



# What are exchange traded products?

Product features	Unlisted active fund	Unlisted managed fund	Active LIC	ETP
Lower cost	x	✓	x	✓
Trades near NAV	✓	✓	x	✓
Traded on the ASX	x	x	✓	✓



# Agenda

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What is an ETF?



**Asset allocation – ingredients that can be used to optimise portfolios**



ETF asset class building blocks





## The expert's view

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“You should have a strategic asset allocation mix that assumes that you don't know what the future is going to hold.”

**Ray Dalio**

American billionaire investor, hedge fund manager and founder of investment firm Bridgewater Associates, one of the world's largest hedge funds.



# What is an 'asset class'?

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Investments that have similar characteristics across the marketplace are expected to:

- ▶ have similar risks and returns
- ▶ perform in a similar manner in particular market conditions

Each different asset class is expected to:

- ▶ reflect different risk and return characteristics
- ▶ perform differently in different market conditions



Source: Australian Investors Association.

# Different types of asset classes and investment exposures



Properties



Australian Equities



Global Equities



Equity Income



Ethical



Cash and Fixed Income



Currency



Technology



Short



Hybrids



Geared



Commodities



Active



Managed Risk

# Asset class and investment exposure return comparisons



	Cash	Aust. Bonds	Global Bonds	A-REITs	Aust. Equities	World Equities	Gold (\$US)
2003	4.9%	3.0%	6.6%	8.8%	14.6%	0.2%	19.4%
2004	5.6%	7.0%	8.9%	32.0%	28.0%	10.1%	5.5%
2005	5.7%	5.8%	6.6%	12.5%	22.8%	18.4%	17.9%
2006	6.0%	3.1%	4.4%	34.0%	24.2%	12.6%	23.2%
2007	6.7%	3.5%	6.6%	-8.4%	16.1%	0.2%	30.9%
2008	7.6%	14.9%	9.2%	-54.0%	-38.4%	-27.2%	5.8%
2009	3.5%	1.7%	8.0%	7.9%	37.0%	4.4%	24.4%
2010	4.7%	6.0%	9.3%	-0.4%	1.6%	-1.1%	29.6%
2011	5.0%	11.4%	10.5%	-1.5%	-10.5%	-7.4%	10.1%
2012	4.0%	7.7%	9.7%	33.0%	20.3%	14.7%	7.1%
2013	2.9%	2.0%	2.3%	7.1%	20.2%	42.5%	-28.3%
2014	2.7%	9.8%	10.4%	27.0%	5.6%	13.9%	-1.4%
2015	2.3%	2.6%	3.3%	14.3%	2.6%	9.8%	-10.4%
2016	2.1%	2.9%	5.2%	13.2%	11.8%	8.4%	8.1%
2017	1.7%	3.7%	3.7%	5.7%	11.8%	14.8%	13.5%
2018	1.9%	4.5%	1.6%	2.9%	-2.8%	0.6%	-1.6%
2019	1.7%	7.3%	7.2%	19.5%	25.0%	26.8%	18.3%
# neg yrs	0	0	0	4	3	3	4
Min	1.7%	1.7%	1.6%	-54.0%	-38.4%	-27.2%	-28.3%
Max	7.6%	14.9%	10.5%	34.0%	37.0%	42.5%	30.9%
Stdev	1.9%	3.7%	2.8%	20.5%	17.6%	14.9%	15.1%
Correlation to Aust. Equities	-0.23	-0.67	-0.15	0.75	1.00	0.69	0.20

Graded colour scale



Source: Bloomberg. Does not compare all asset classes and investment exposures. **Past performance is not an indicator of future performance.**



# What is asset allocation?

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**Blending exposure** to different investments (or “asset classes”) with either

- ▶ different risk/return profiles
- ▶ and/or low return correlation

**Calibration** of an investor’s portfolio risk/return profile to their specific needs and “comfort” level

**Enhanced risk-adjusted returns** through diversification of a “free lunch”



# Asset allocation is like...

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**Wine:** Blending two wines with different characteristics can allow a broader range of wine styles

- ▶ For example: Blending sweeter merlot with drier cabernet sauvignon grapes can result in a better-balanced wine flavour that can be adjusted for different tastes.

**A seasonal business:** investing in a business that caters for tastes at different times of the year – For example: hot soup vs ice cream sellers.

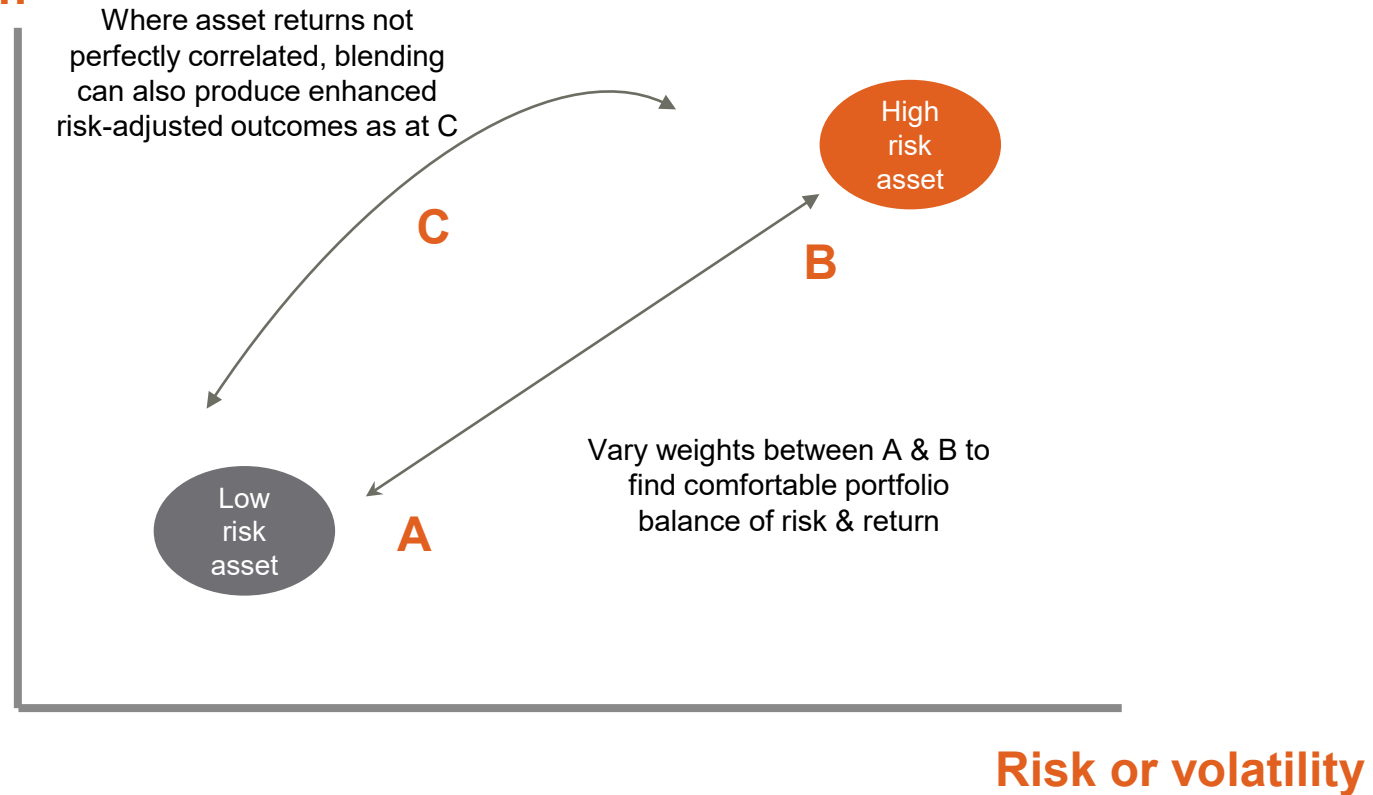
- ▶ Investing in two businesses that do well at different times of the year can smooth out overall revenues over the year.



# Asset allocation – choose level of preferred risk & benefit from diversification



Expected return





# Investment examples

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**Equities vs. bonds:** Bonds have generally tended to do well when equities perform poorly as interest rates tend to drop during market sell-offs (which boosts the value of fixed-rate bonds).

**Australian vs. international equities:** Australia is top heavy in resource & financial stocks and low in exposure to technology

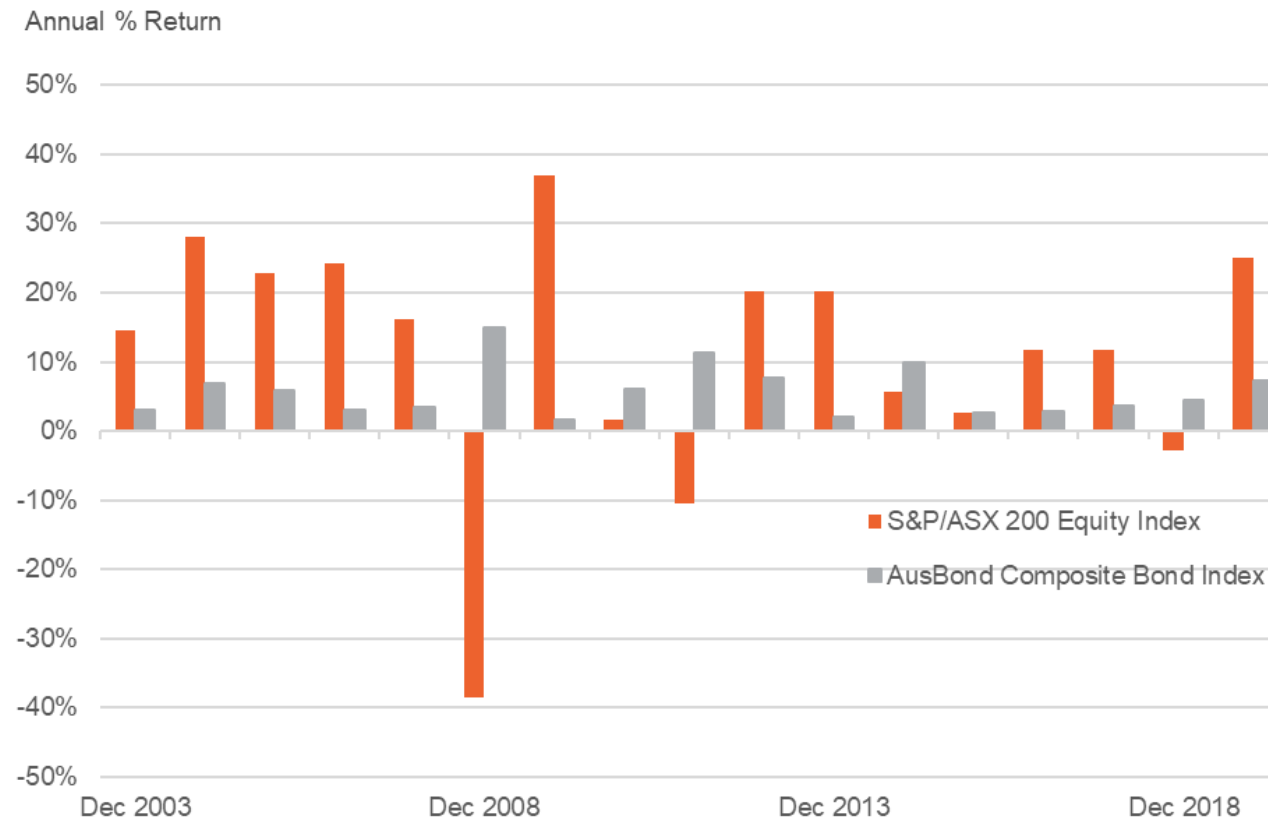




# Australian fixed-rate bonds: Handy negative correlation



## Australian equity vs bond returns



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

# Australia – top heavy resources & financials, light exposure to technology



## Industry breakdown by index: 31 December 2019

SECTOR	NASDAQ100	S&P500	ASX200
Consumer Discretionary	14.7%	9.8%	6.7%
Consumer Staples	6.0%	7.2%	5.7%
Energy	0.0%	4.4%	5.4%
Financials	0.3%	12.9%	29.8%
Health Care	7.2%	14.2%	10.4%
Industrials	2.7%	9.0%	8.4%
Information Technology	47.4%	23.2%	2.5%
Materials	0.0%	2.7%	18.1%
Real Estate	0.0%	2.9%	7.4%
Communication Services	20.9%	10.4%	3.6%
Utilities	0.9%	3.3%	1.8%

Source: Bloomberg

Technology sector includes GICS sector "Information Technology" plus for Nasdaq-100 and S&P 500 includes GICS Industry "Internet & Catalog Retail"; for S&P/ASX 200 includes Seek Ltd, REA Ltd, Trade Me Ltd & Ozforex Group



# Agenda

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What is an ETF?



Asset allocation – ingredients that can be used to optimise portfolios



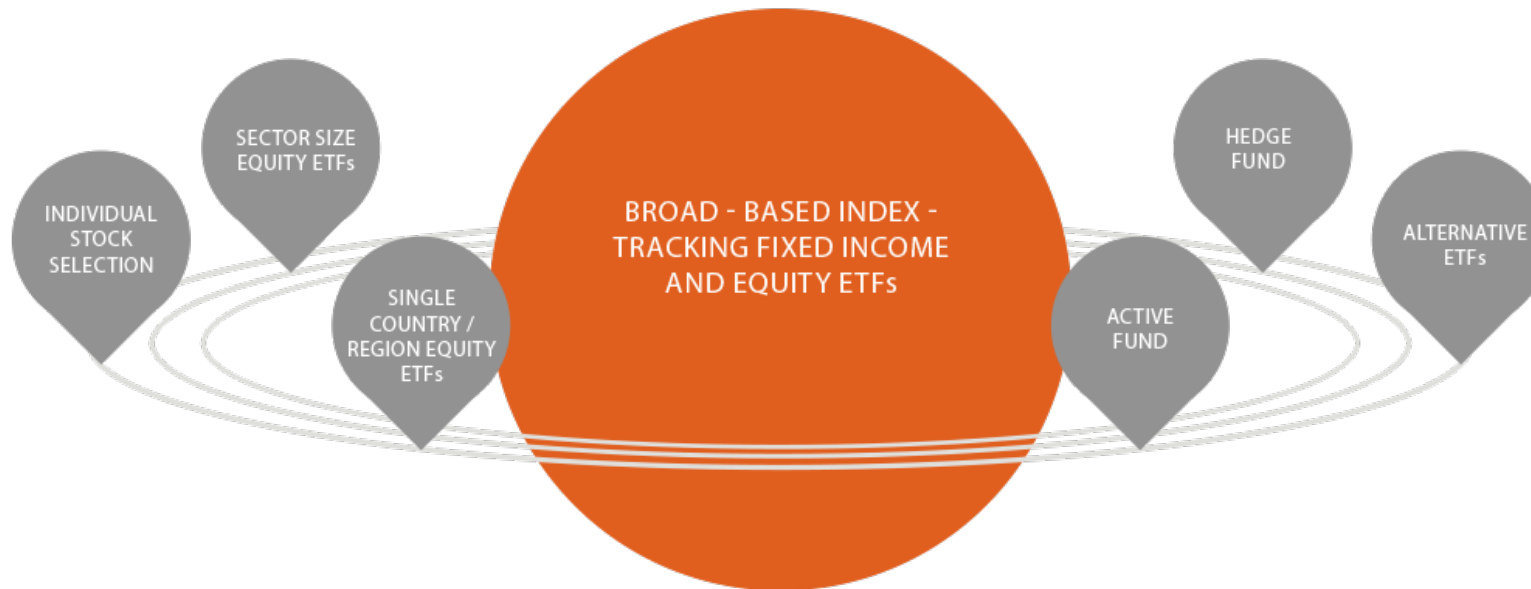
Ways to calibrate portfolios using asset allocation



# How ETPs may be used in your portfolio

## Core-satellite strategy

Build a large “core” of diversified, broad investments, and then invest in smaller numbers of stocks that interest you as “satellites.”





# A building block approach with individual ETPs

	<b>ETPs</b>	<b>MER (p.a.)</b>	<b>Weight</b>
Cash	AAA	0.18%	5.0%
Floating-rate bonds	QPON	0.22%	15.0%
Fixed-rate government bonds	AGVT	0.25%	15.0%
Fixed-rate corporate bonds	CRED	0.22%	5.0%
Hybrids	HBRD	0.55%	5.0%
Property/Real Assets	RINC	0.85%	10.0%
Australian Equities	QOZ	0.40%	10.0%
	A200	0.07%	10.0%
International Equities	QLTY	0.35%	10.0%
	NDQ	0.48%	10.0%
Commodities/Diversifier	QAU	0.59%	5.0%
Hypothetical Portfolio (average weighted)		0.36%	100.0%

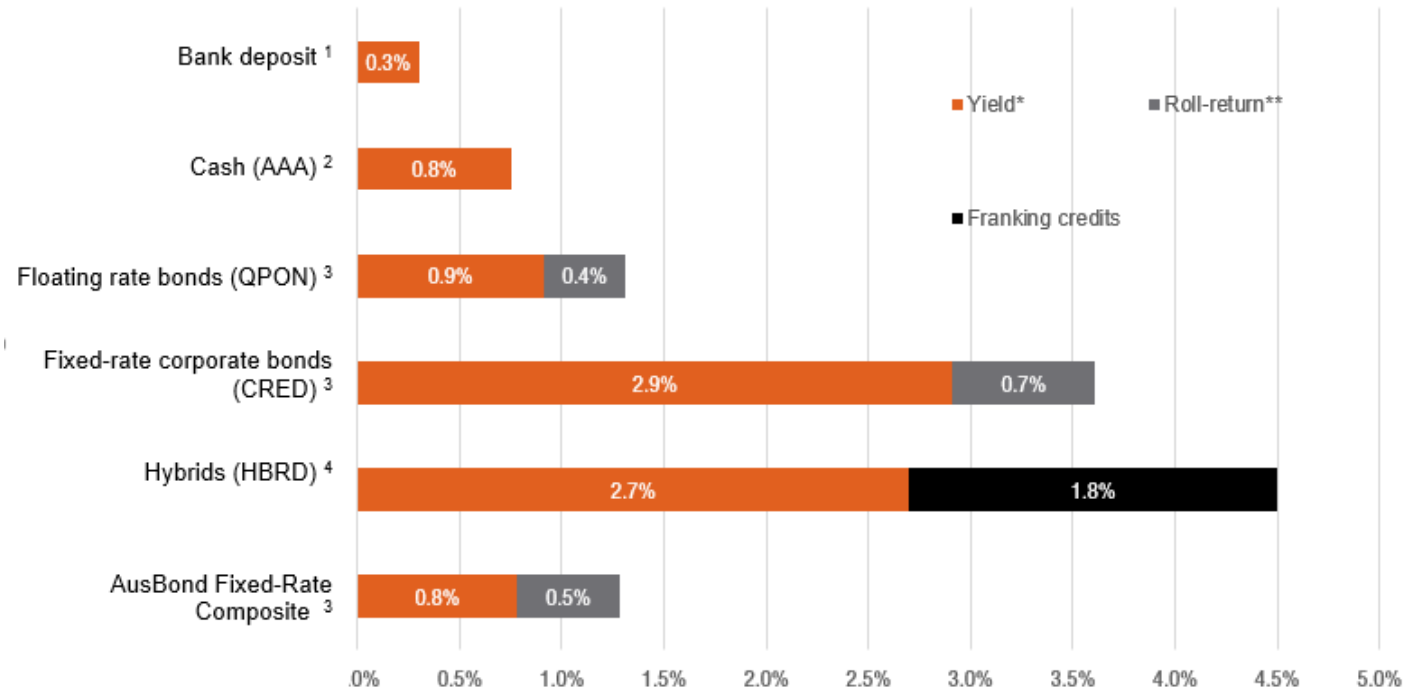
Cash/Bonds/Hybrids	40.0%
Equities/Property	50.0%
Gold	5.0%

Illustration only. Not a recommendation to adopt any particular investment strategy.



# Cash & bond portfolio exposures

## Cash/income-related ETPs: 14 April 2020



Source: Bloomberg, BetaShares, RBA. Past performance is not indicative of future performance. Yield will vary and may be lower at time of investment. Bonds & hybrids have relatively higher risk compared to cash deposits.

1. Average of 5-largest banks as per RBA website.
2. 12-month distribution yield.
3. Yield-to-maturity.
4. Running yield, plus franking. Not all investors will be able to obtain the full benefit of franking credits.

\*Roll return is an estimate only, assuming no change in yield curve over the next 12 months. Roll returns are extra income generated over time through the process of maintaining a bond portfolio at relatively steady target average term-to-maturity. This process requires selling bonds over time as their term to maturity shortens and replacing them with bonds at a longer desired term-to-maturity. As shorter duration bonds typically trade at a price premium to longer duration bonds (as the prices of the former tend to be less volatile as they are less sensitive to interest rates changes), this trading activity may result in extra income or “roll return” over time. Roll return is not assured and may in certain circumstances be zero or negative.

# BetaShares Australian High Interest Cash ETF (ASX: AAA) – Interest rate comparison



**(based on a \$100,000 balance/investment)  
– as at 23 March 2020 (p.a.)**

<b>BetaShares High Interest Cash ETF (AAA)</b>	<b>Avg. 1 year term deposit<sup>(1)</sup></b>	<b>Avg. 1 month term deposit<sup>(1)</sup></b>	<b>RBA Cash Rate/ 11AM Accounts</b>	<b>Wrap – Cash Savings Account<sup>(2)</sup></b>	<b>Avg. Online Savings Account Rate<sup>(1)</sup></b>	<b>Avg. Online Broker Cash Account<sup>(3)</sup></b>
<b>0.75% (net)</b>	<b>0.99%</b>	<b>0.34%</b>	<b>0.25%</b>	<b>0.40%</b>	<b>0.14%</b>	<b>0.01%</b>

Source: Relevant bank, wrap and online broking websites. For AAA interest rate is the rate earned on AAA's bank account deposits and includes AAA's management costs. Current rate (which is variable) is available at [www.betashares.com.au](http://www.betashares.com.au).

(1) Average rate offered by major Australian banks.

(2) Average of current rates offered by five major providers.

(3) Average of effective interest rates paid to an individual investor with a \$100,000 cash account balance linked to their Commsec and E\*Trade trading account.

# A200: With management costs of 0.07% p.a.<sup>1</sup>, the lowest cost Australian equity ETF in the world<sup>2</sup>



## Investment portfolio over time comparison<sup>2</sup>

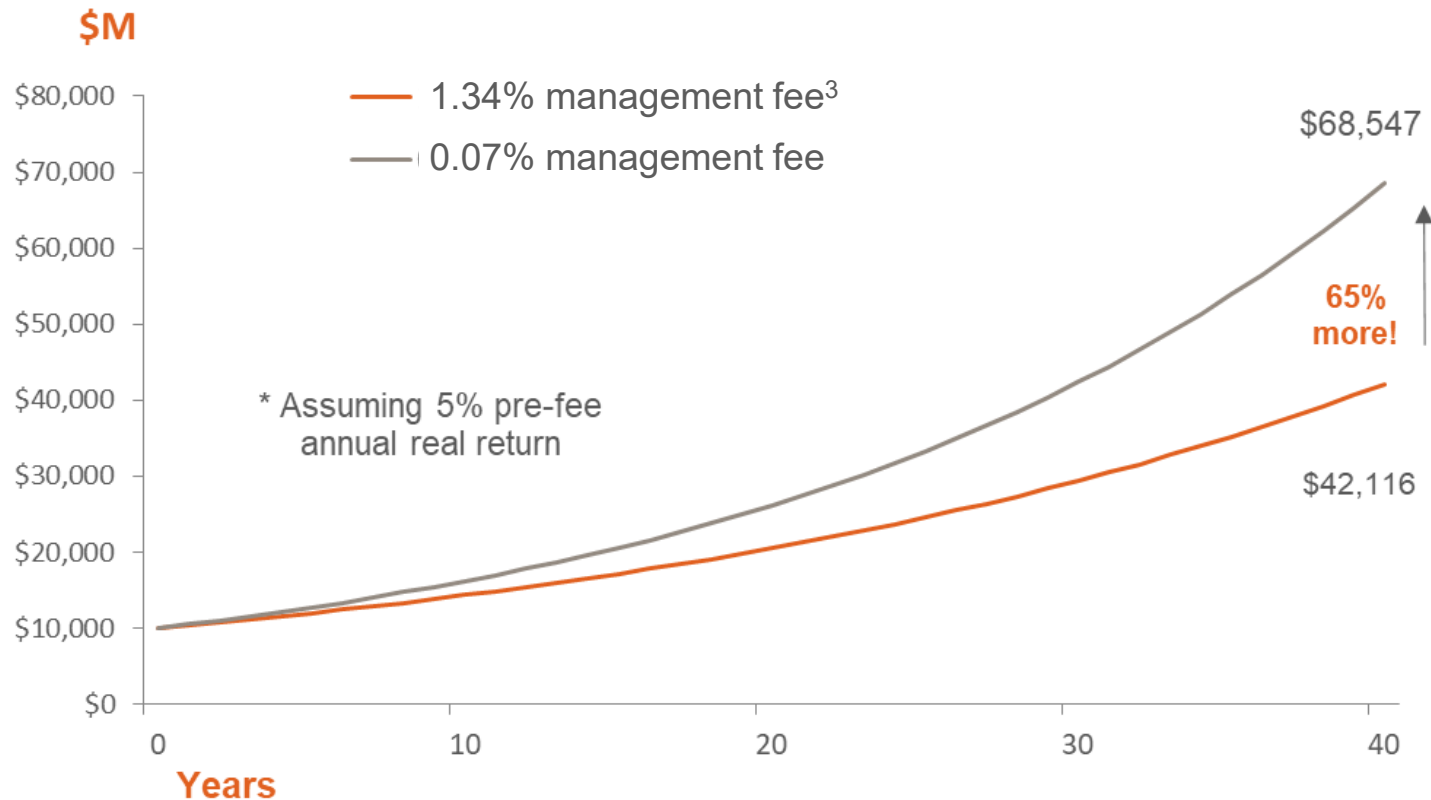


Illustration only. Actual investment results may differ from assumed results.

1. Other fees and costs may apply, such as transactional and operational costs. 2. Source: Bloomberg. Based on expense ratios of Australian shares ETFs traded in Australia or on overseas exchanges.

3. Source: Morningstar. Average Australian equity active management fee as at 31 December 2019.





# QOZ: Australian equities - smarter indexing

## QOZ's index v S&P/ASX 200 Index: May 1992 – 31 March 2020



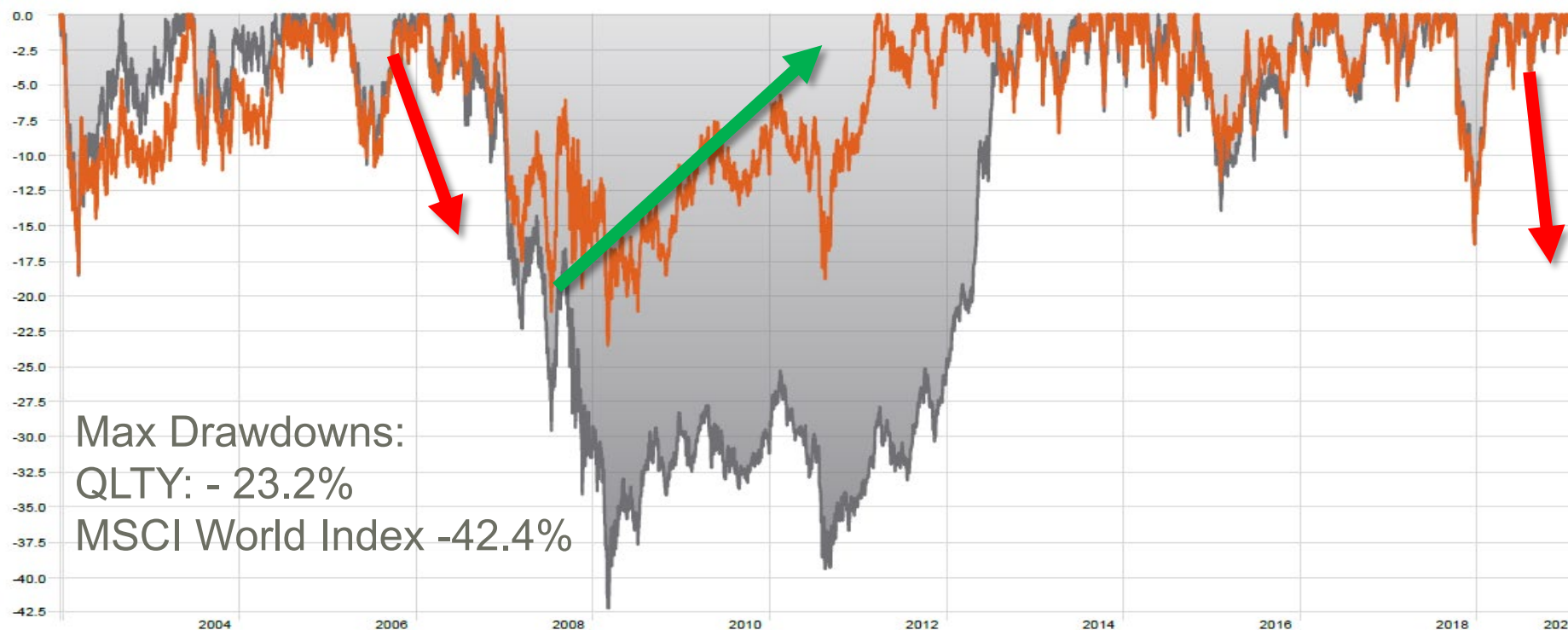
**QOZ's index, being the FTSE RAFI Australia 200 Index, has outperformed S&P/ASX 200 Index since inception**

Source: Bloomberg, FTSE. Graph shows performance of the index that QOZ seeks to track relative to S&P/ASX 200 index, not QOZ's performance. It does not take into account QOZ's fees and costs. You cannot invest directly in an index. Past performance of the index is not an indicator of future performance of the index or ETF. QOZ's inception date is 10 July 2013. The FTSE RAFI Australia 200 Index was launched on 10 August 2009. Index returns prior to launch are simulated based on Research Affiliates' patented non-capitalisation weighted indexing system, method and computer program product. Actual investment results may differ from simulated results.

# QLTY: Smarter indexing of global equities: “quality” companies have tended to perform well over time



## Drawdown: QLTY v MSCI World (AUD): January 2003 – March 2020



QLTY tracks an index that has historically displayed defensive characteristics during market declines

Source: Morningstar Direct, BetaShares. The graph shows drawdowns of QLTY (using QLTY’s index data for the period prior to inception, taking into account QLTY fees and costs) against the drawdowns of the MSCI World Index (both in AUD). The index which QLTY aims to track is the iSTOXX MUTB Global Ex-Australia Quality Leaders Index. You cannot invest directly in an index. **Past performance is not an indicator of future performance of the index or the ETF.**

# NDQ: Global diversification through technology exposure



Google



TESLA

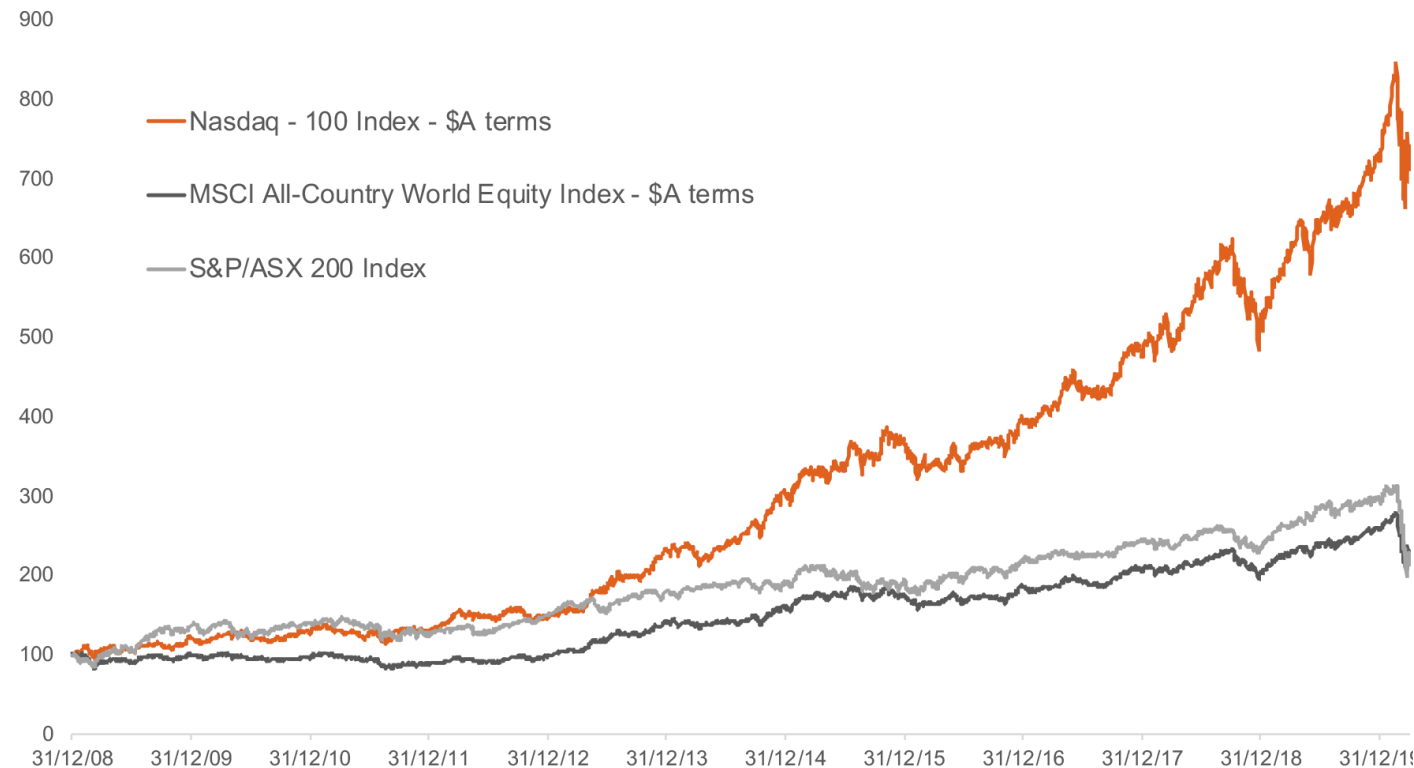
facebook

Microsoft

amazon.com

NETFLIX

## Total Return Index Indices = 100 at 31 December 2008 December 2008 to 31 March 2020

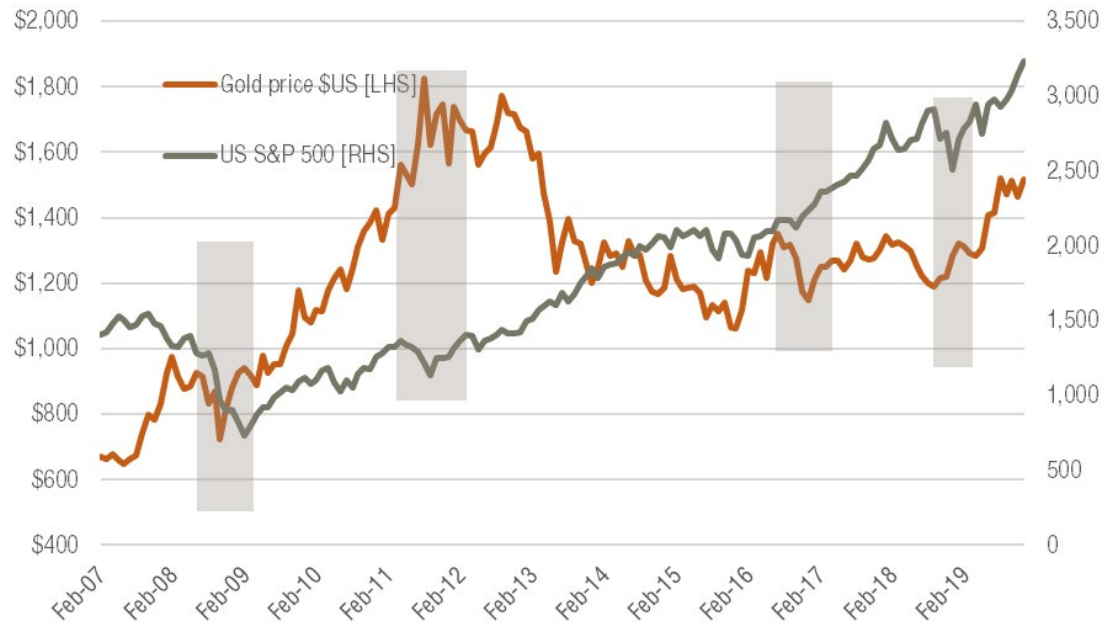


Source: Bloomberg. Past performance of the index is not indicative of future performance of the index or ETF. Graph shows performance of the index that NDQ aims to track (being the Nasdaq-100 Index) relative to the S&P/ASX 200 Index and the MSCI All-Country World Equity Index. It does not show the performance of NDQ and does not take into account NDQ's fees and costs. NDQ's inception date is 26 May 2015. You cannot invest directly in an index. Nasdaq-100 is a registered trademark of Nasdaq, Inc (Nasdaq). NDQ is not issued, endorsed, sold or promoted by Nasdaq and Nasdaq makes no warranties and bears no liability with respect to NDQ.

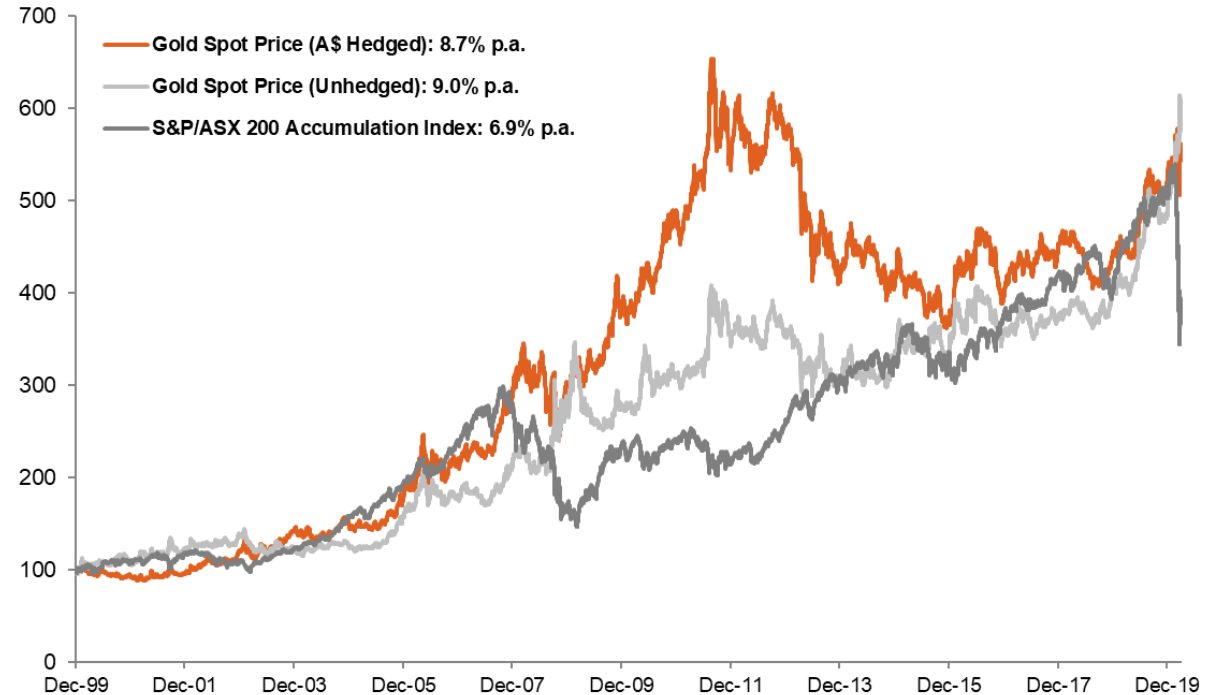


# Gold: can provide further portfolio diversification

## Gold and Wall Street

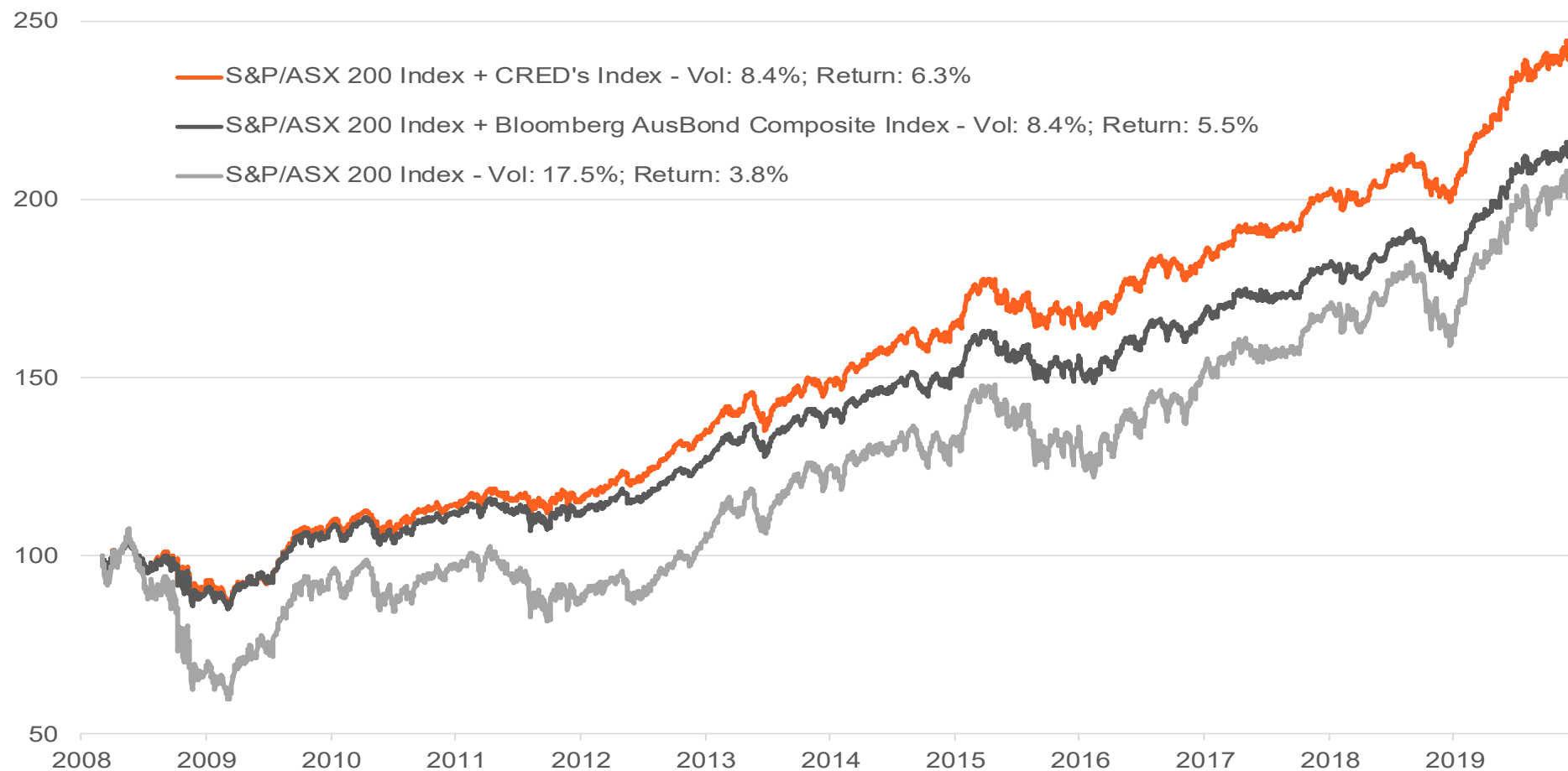


## Gold bullion spot price performance (A\$ hedged v unhedged) v S&P/ASX 200 Accumulation Index performance: December 1999 – March 2020



Source: Bloomberg, BetaShares. As at 31 December 2019. Past performance is not indicative of future performance.

# CRED as an equity diversifier; 50:50 equity/bond split with +/- 10% tolerance, Feb-2008 = 100



Source: Bloomberg, BetaShares. As at 31 March 2020. Past performance is not indicative of future returns. You cannot invest directly in an index. Not a recommendation to adopt any particular investment strategy. You cannot invest directly in an index.



# Strategy: Mixing active and passive examples

All Active Portfolio	MER	Weight
Active Fund 1	1.25%	50%
Active Fund 2	1.25%	50%
	1.25%	



Active & Passive Portfolio	MER	Weight
Global. Equities (NDQ)	0.48%	50%
Active Fund 1	1.25%	50%
	0.86%	

The above example has been provided for illustrative purposes only and is not a recommendation to adopt any particular investment strategy or invest in any product.



# Diversified ETFs: the all-in-one core investment solution

Management fee  
**0.26% p.a.\***

 Growth  
 Defensive



**Choose the portfolio to suit your financial circumstances and investment goals**

Growth/Defensive split	25% Growth 75% Defensive	50% Growth 50% Defensive	70% Growth 30% Defensive	90% Growth 10% Defensive
ETF Name	Diversified Conservative Income ETF	Diversified Balanced ETF	Diversified Growth ETF	Diversified High Growth ETF
ASX Code	DZZF	DBBF	DGGF	DHHF
May suit investors with a	Low risk tolerance	Medium risk tolerance	Medium to high risk tolerance	High risk tolerance

\*Other fees and costs, such as transactional and operational costs, may apply. Refer to the PDS for more information.

# “Under the hood” – components of the Diversified Balanced ETF (ASX Code: DBBF)



Ticker	Name	Currency	Weight (%)
AAA	BETASHARES AUSTRALIAN HIGH INT	AUD	11.70%
QPON	BETASHARES AUSTRALIAN BANK SEN	AUD	6.86%
AGVT	BETASHARES AUSTRALIAN GOVERNME	AUD	14.28%
CRED	BETASHARES AUSTRALIAN INVESTME	AUD	6.42%
VBND	VANGUARD GLOBAL AGGREGATE BOND	AUD	16.49%
AUD	AUD - AUSTRALIA DOLLAR	AUD	0.23%
USD	USD - UNITED STATES DOLLAR	USD	0.20%
<b>Defensive</b>			<b>56.18%</b>
A200	BETASHARES AUSTRALIA 200 ETF	AUD	17.90%
VTI	VANGUARD TOTAL STOCK MARKET ET	USD	12.77%
SPDW	SPDR PORTFOLIO DEVELOPED WORLD	USD	7.72%
SPEM	SPDR PORTFOLIO EMERGING MARKET	USD	3.83%
VAP	VANGUARD AUSTRALIAN PROPERTY S	AUD	1.59%
<b>Growth</b>			<b>43.81%</b>

Weights as at 24 March 2020. Total weights may not add up to 100% due to rounding or immateriality. Holdings, weights and values are subject to change. BetaShares makes no representation or warranty of any kind, either express or implied, with respect to the holdings data, its timeliness, the information's use or any other matter. Not a recommendation to adopt any particular investment strategy.





# Diversified ETF's – who might the Fund's suit?

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## Diversified Conservative Income (ASX: DZZF)

- ▶ Income-focused investors
- ▶ Investment timeframe of at least 5 years
- ▶ Low tolerance for risk: willing to accept lower returns for a lower level of risk



## Diversified Balanced ETF (ASX: DBBF)

- ▶ Investment timeframe of at least 5 years
- ▶ Medium tolerance for risk: willing to accept some volatility in their portfolio in order to achieve their long-term objective



## Diversified Growth ETF (ASX: DHHF)

- ▶ Investment timeframe of at least 7 years
- ▶ Medium to high risk tolerance: willing to accept a medium to high degree of volatility in their portfolio in order to achieve their long-term objective.

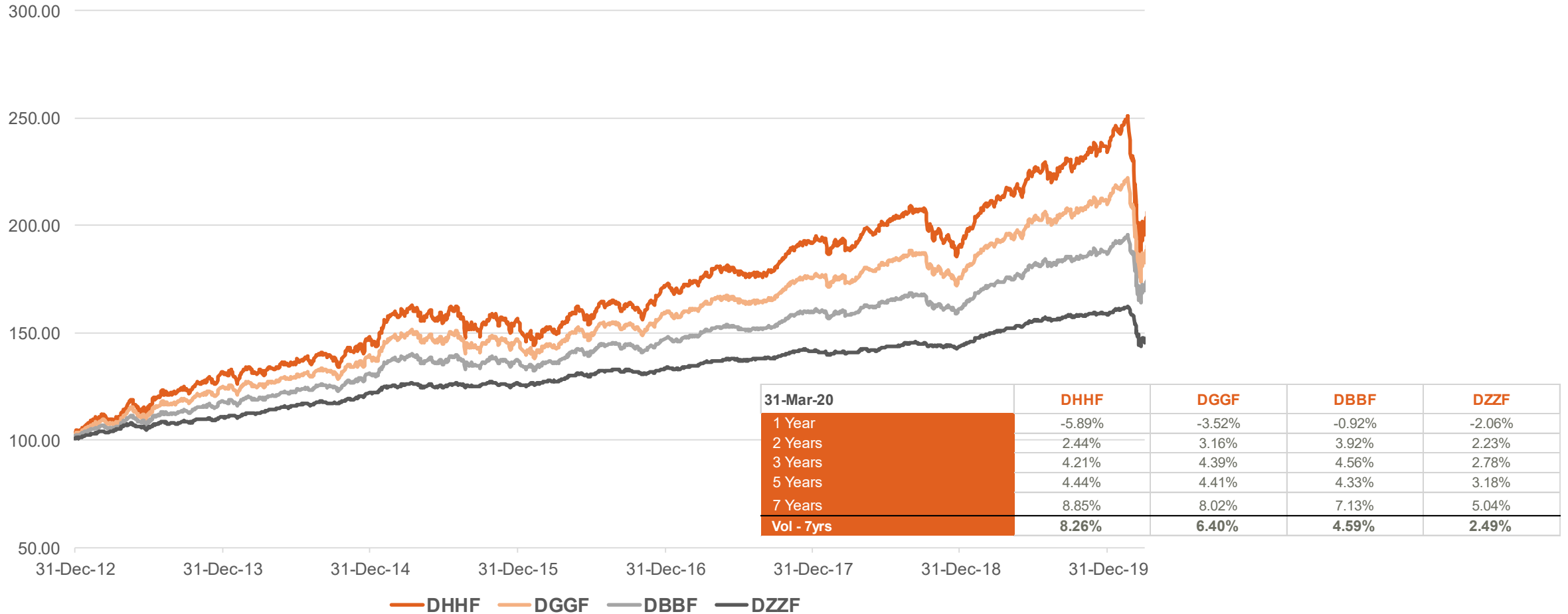


## Diversified High Growth ETF (ASX: DHHF)

- ▶ Investment timeframe of at least 7 years
- ▶ High tolerance for risk: willing to accept a high degree of volatility in their portfolio in order to achieve their long-term objective.



# Diversified ETFs – Simulated historical performance



Source: Bloomberg, BetaShares. Performance is in AUD, using indexes of underlying ETFs. S&P Global BMI NTR Index in AUD is used for international shares. Simulation rebalances back to SAA weights at end of each quarter. Simulated performance is not indicative of future performance. Simulated results have certain inherent limitations, are not based on actual trading, and use assumptions which may not prove to be correct.



# Things to keep in mind

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## Investment Risk

- ▶ Investment returns are uncertain and will be influenced by the fluctuations of the sharemarket as a whole. Risks include:
  - ▶ Market risk with equities
  - ▶ Currency risk with international investments
  - ▶ Instrument complexity and bank sector concentration risk with hybrids
  - ▶ Interest rate and credit risk with bonds and cash

## General information only

Does not take into account any person's individual circumstances and is not personal financial advice.

## No guarantees

Past performance is not an indication of future performance.

## Research

See PDS for more information about risks.

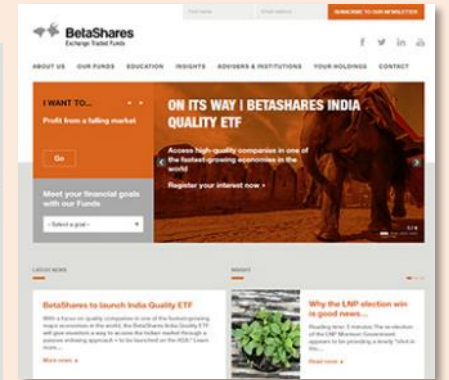
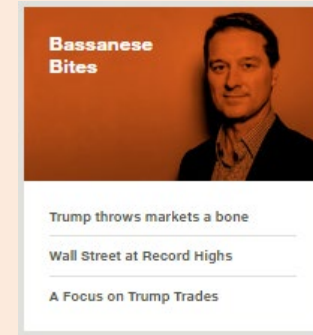




# Questions?



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