Global
Market Outlook

BetaShares
Exchange Traded Funds

AUGUST 2016

ASSET CLASS PERFORMANCE: THE POST-BREXIT "TINA" TRADE

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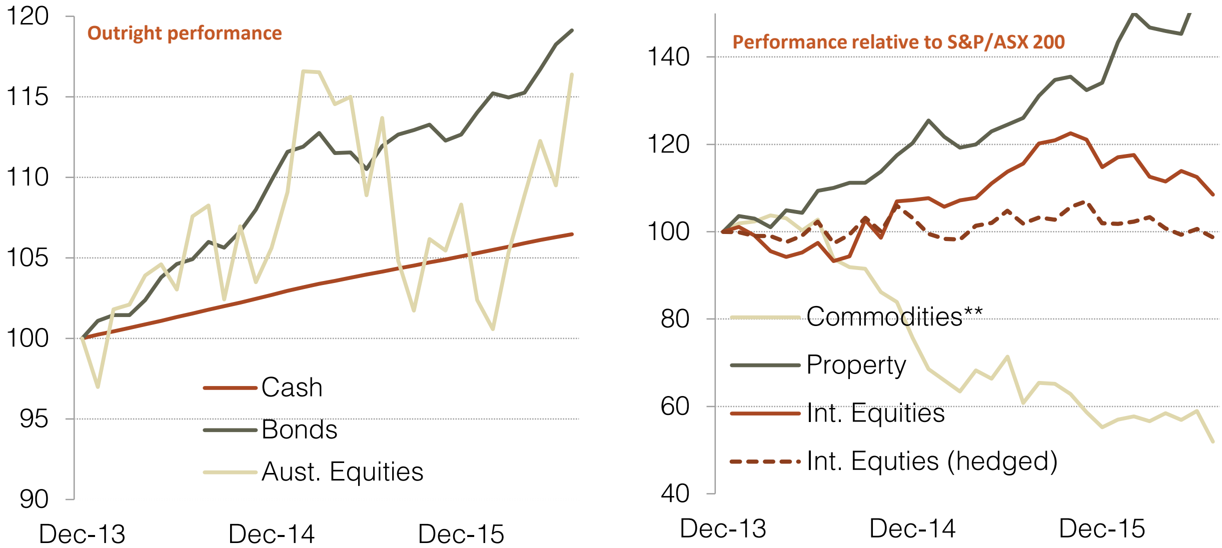
Return Performance*	Month	3-mth	6-mth	12-mth	Performance Rank Month	3-mth	6-mth	12-mth
Cash	0.2%	0.5%	1.1%	2.2%	5	5	6	4
Aust. Bonds	0.7%	3.4%	4.5%	6.4%	4	4	4	2
Aust. Property	5.4%	12.0%	21.3%	24.2%	2	1	1	1
Aust. Equities	6.3%	6.9%	13.7%	2.4%	1	2	2	3
Int. Equities*	2.5%	4.0%	5.3%	-3.9%	3	3	3	5
Commodities**	-6.4%	-5.0%	3.5%	-12.5%	6	6	5	6
Int. Equities**	4.3%	4.7%	10.3%	-0.8%				
World currencies vs $A	-1.7%	-0.7%	-4.5%	-3.2%				

*Unhedged **Hedged Total returns for the month Source: Bloomberg

- Optimism related to post-Brexit central bank stimulus continued to buoy global equities in July, even though oil prices slumped and initial central bank actions proved disappointing. Other supportive factors were a reassuring bounce-back in US employment growth, a relatively benign US earnings reporting season to date, and continued cautiousness from the Fed over when it might next raise interest rates. With sovereign bond yields plumbing new lows in the post-Brexit environment, the "TINA" trade – There Is No Alternative to equities – is now in vogue.
- Australian equities outperformed global equities last month, further supported by the ongoing strength in iron ore prices, and prospects for a local interest rate cut following the benign Q2 CPI result. Listed property posted another good month, though marginally underperformed the broader market.
- Listed property remains the best performing asset class over the past 12 months, followed by Australian bonds and then Australian equities. Commodities remain the worst performing asset class on a 12-month basis.

Asset Class Performance*: Index=100 at 31-Dec-13



*$A, total gross returns **$US

Source: Betashares, S&P,MSCI, Bloomberg

MARKET VIEW: REMAIN DEFENSIVE

Asset Class Tactical Views: August 2016

	Underweight	Neutral	Overweight
Growth vs. Defensive			
Aust. Equities vs. Bonds	✓		
Defensive			
Cash vs. Bonds		✓	
Growth			
Aust. Property vs. Aust. Equities			✓
Int. Equities vs. Aust. Equities*			✓
*Commodities** vs. Aust. Equities*	✓		

*Unhedged *Hedged

- Equity markets continued their post-Brexit rebound last month even the in face of increasingly stretched price-to-earnings valuations. America's S&P 500 Index ended July on a forward PE of 17.1, from 16.8 at end June. Our S&P/ASX 200 Index ended the month on a forward PE ratio of 16.9.
- **Despite rich valuations, the news flow is providing no catalyst as yet for a market retreat**. Federal Reserve rhetoric remains lukewarm over the need to raise interest rates in September, and the current US earnings reporting season has not presented major negative surprises. And despite the lack of immediate major policy stimulus, central banks in the Eurozone, United Kingdom and Japan have reassured markets through the retention of strong policy easing biases.
- China's economy, meanwhile, continues to muddle through, though growth is ever more reliant on "old school" government backed infrastructure packages, rather than private investment. Europe is also expected to eventually wrangle a deal to keep wobbly Italian banks solvent.
- In Australia, two added features are prominent. For starters, **iron ore prices are showing remarkable resilience** even in face of broader commodity market weakness, particularly oil prices. And confirmation that annual underlying inflation held at no more than 1.5% in the June quarter has (**rightly in our view) raised expectations that the RBA will cut interest rates further**.
- All that said, however, it remains the case that overall global economic growth remains modest and earnings are still at best moving sideways. Contrary to expectations, for example, the US economy only grew at a modest 1.2% annualised pace in the June quarter – not much stronger than the March quarter.
- In the absence of a decent earnings recovery, which still seems unlikely, **equity markets can only continue to push higher by pushing valuations ever higher.** While higher equity valuations are supported by very low bonds yields, **the "TINA" trade is at risk of becoming a self-perpetuating bubble which could end badly.**
- We are resistant to chase the market higher given high valuations. Accordingly, we again leave our asset allocation preferences unchanged this month, with an underweight to growth assets relative to bonds and, within equity markets, an overweight to the defensive property sector and an overweight to unhedged international equities due to our negative view on the Australian dollar.

ASSET BENCHMARKS

Cash: UBS Bank Bill Index; **Australian Equities**: S&P/ASX 200 Index; **Australia Bonds:** Bloomberg Composite Bond Index; **Australian Property:** S&P/ASX 200 A-REITs; **International Equities:** MSCI World (developed market) Index, unhedged $A terms; **Commodities:** S&P GSCI Light Energy Index, $US terms

SERIES	FUND NAME	ASX TICKER	MGT COSTS (%)	EXPOSURE
CASH & FIXED INCOME	Australian High Interest Cash ETF	AAA	0.18%	Australian Cash
CURRENCY	U.S. Dollar ETF	USD	0.45%	U.S. Dollars
	Euro ETF	EEU	0.45%	Euro
	British Pound ETF	POU	0.45%	British Pounds
COMMODITIES	Gold Bullion ETF - Currency Hedged	QAU	0.59%	Gold Bullion (US$)
	Crude Oil Index ETF – Currency Hedged (synthetic)	OOO	0.69%	S&P GSCI Crude Oil Index
	Commodities Basket ETF – Currency Hedged (synthetic)	QCB	0.69%	S&P GSCI Index (Light Energy)
	Agriculture ETF – Currency Hedged (synthetic)	QAG	0.69%	S&P Agriculture Enhanced Select Index
AUSTRALIAN EQUITY	FTSE RAFI Australia 200 ETF	QOZ	0.40%	Largest 200 Australian companies by economic size
	S&P/ASX 200 Financials Sector ETF	QFN	0.39%	Financials Sector excluding A-REITS
	S&P/ASX 200 Resources Sector ETF	QRE	0.39%	Resources Sector
EQUITY INCOME	Australian Dividend Harvester Fund (managed fund)	HVST	0.90%	Large cap Australian Shares + monthly distributions + risk management strategy
	Equity Yield Maximiser Fund (managed fund)	YMAX	0.79%	S&P/ASX 20 + equity income strategy
GEARED	Geared Australian Equity Fund (hedge fund)	GEAR	0.80%	Geared exposure to diversified portfolio of Australian equities
	Geared U.S. Equity Fund - Currency Hedged (hedge fund)	GGUS	0.74%	Geared exposure to a diversified portfolio of U.S equities
INTERNATIONAL	FTSE RAFI U.S. 1000 ETF	QUS	0.40%	Largest 1000 US companies by economic size
	Nasdaq 100 ETF	NDQ	0.48%	Nasdaq 100 Index
	S&P 500 Yield Maximiser Fund (managed fund)	UMAX	0.79%	S&P 500 + equity income strategy
	Global Energy Companies ETF – Currency Hedged	FUEL	0.57%	Largest global energy companies
	Global Gold Miners ETF – Currency Hedged	MNRS	0.57%	Largest global gold mining companies
	Global Banks ETF – Currency Hedged	BNKS	0.57%	Largest global banking companies
	WisdomTree Europe ETF – Currency Hedged	HEUR	0.58%	Largest dividend paying European companies
	WisdomTree Japan ETF – Currency Hedged	HJPN	0.58%	Largest dividend paying Japanese companies
MANAGED RISK	Managed Risk Australian Share Fund (managed fund)	AUST	0.49%	Largest 200 shares by market capitalisation + risk management strategy
	Managed Risk Global Share Fund (managed fund)	WRLD	0.54%	At least 1500 of the largest companies by market capitalisation on global exchanges + risk management strategy
SHORT	Australian Equities Bear Hedge Fund	BEAR	1.38%	Short Australian equities
	Australian Equities Strong Bear Hedge Fund	BBOZ	1.38%	Magnified Short Australian equities (2x-2.75x short)
	U.S. Equities Strong Bear Hedge Fund - Currency Hedged	BBUS	1.38%	Magnified Short U.S. equities (2x-2.75x short)
ACTIVE	AMP Capital Global Property Securities Fund (Unhedged) (Managed Fund)	RENT	0.99%	Actively managed portfolio of global property securities
	AMP Capital Global Infrastructure Securities Fund (Unhedged) (Managed Fund)	GLIN	0.85%	Actively managed portfolio of global infrastructure securities

ABOUT BETASHARES

BetaShares Capital Ltd ("BetaShares") is a leading manager of exchange traded products ("ETPs") which are traded on the Australian Securities Exchange. BetaShares offers a range of ETPs which cover Australian and international equities, cash, currencies, commodities and alternative strategies. BetaShares currently has approximately $3.0 billion in assets under management.

BetaShares is a member of the Mirae Asset Global Investments Group, one of Asia's largest asset management firms. Mirae currently manages in excess of US$90B.