



# POSITION YOUR PORTFOLIO FOR 2018

CHIEF ECONOMIST, DAVID BASSANESE



**BetaShares**  
Exchange Traded Funds

# Welcome

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**Ilan Israelstam**  
**BetaShares Co-Founder and Head of Strategy**





# Overview

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ETF Industry & BetaShares update



Lessons learned in 2017



Key predictions for 2018



Investment themes to consider



# Important Information

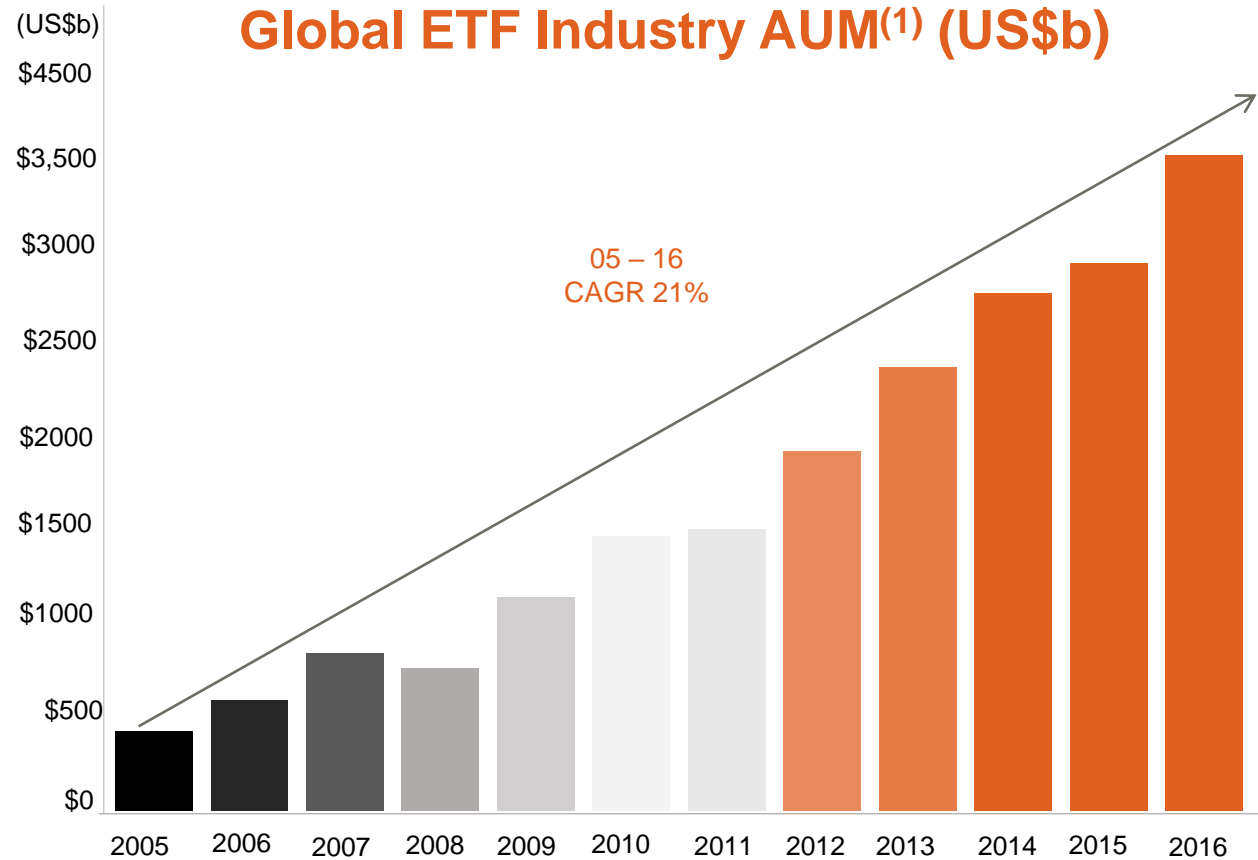
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Future outcomes are inherently uncertain. Actual outcomes may differ materially from those contemplated in any opinions, estimates or other forward-looking statements given in this presentation.



# Growth of the global ETF industry



Source: BlackRock <sup>1</sup> Includes all exchange traded products (e.g. exchange-traded funds, exchange-traded commodities and exchange-traded notes)

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# One of the world's fastest growing investment products

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- Over **US\$ 4.4 trillion** in ETFs globally
- Represent **~25-30%** of trading on the New York Stock Exchange (NYSE)
- The largest ETF globally trades **4 x the value of Apple** every day
- **52%** of U.S. Investors intend to invest in ETFs in next 12 months

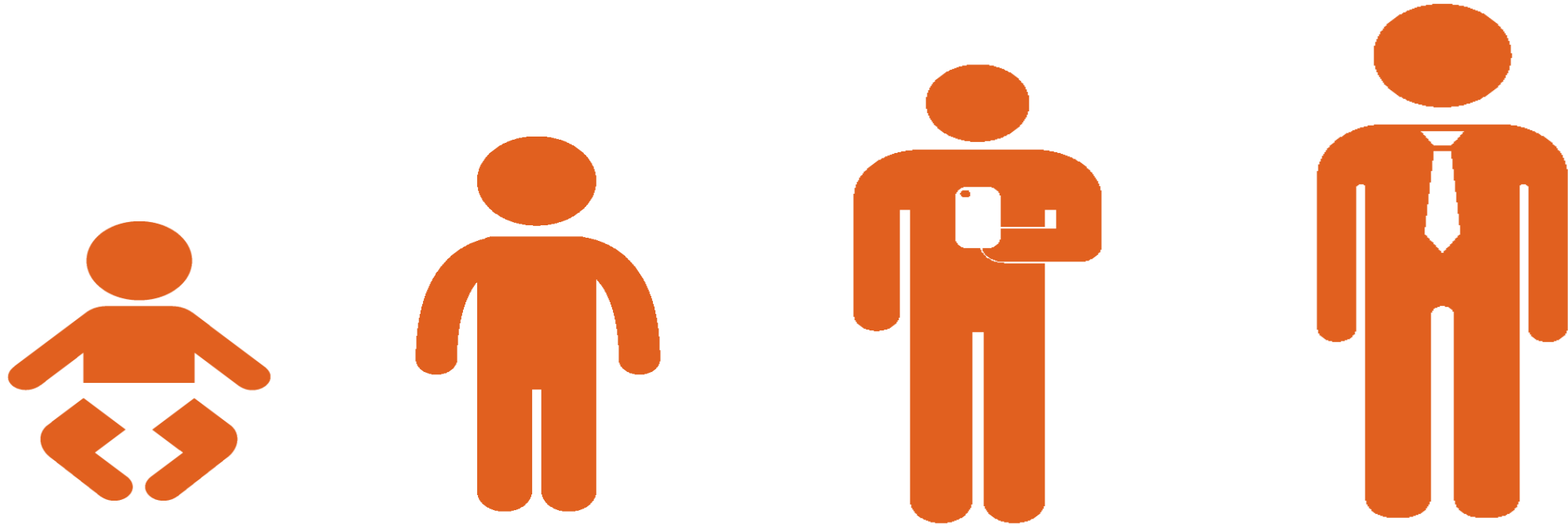


Source: EY ETF Report 2017, Marketwatch. Blackrock



# Coming of age...

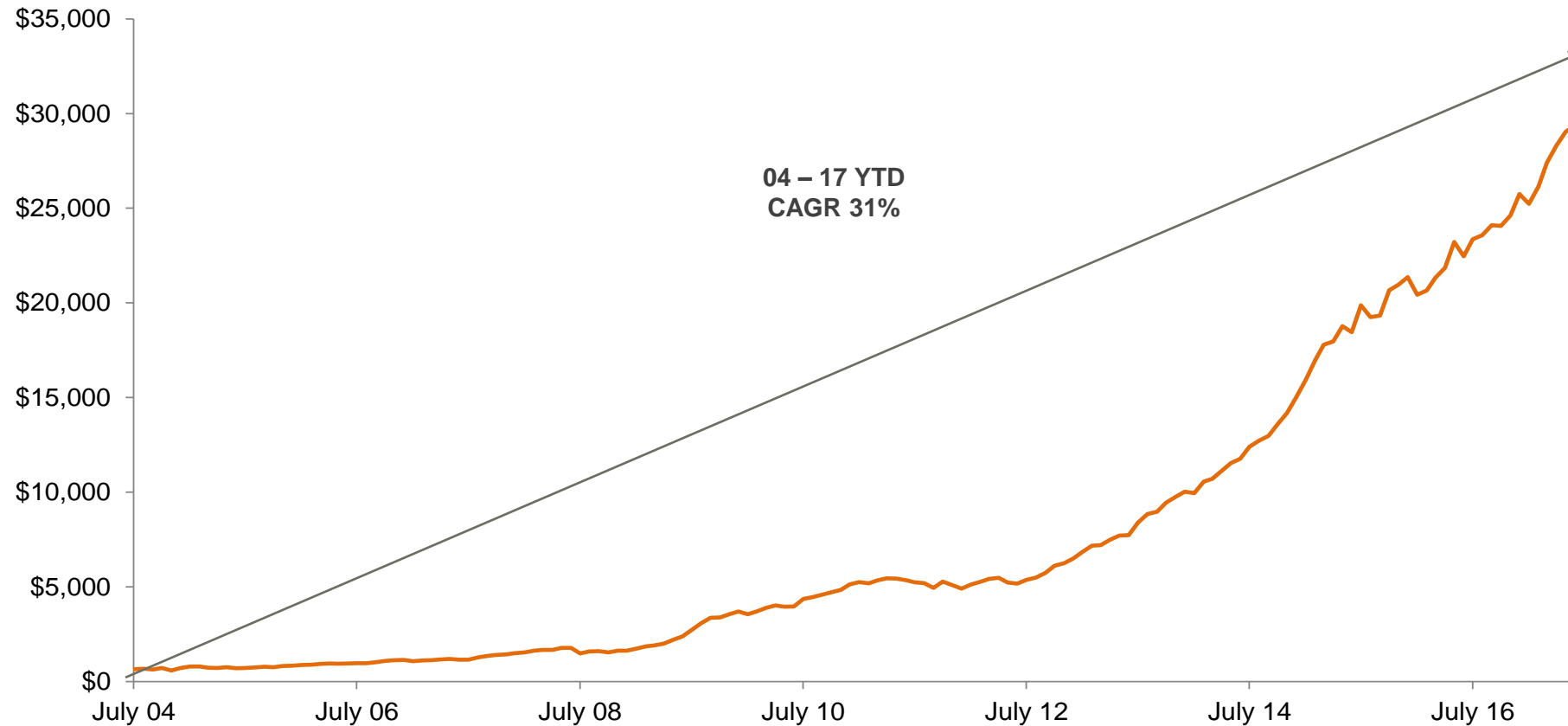
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# Growth of the Australian ETF industry

Australian ETP Market Cap: July 2004 – October 2017 (A\$m)



CAGR: Compound Annual Growth Rate Source: ASX, BetaShares





# BetaShares update

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BetaShares is currently  
**number #2 for net inflows** for the  
Australian ETF Industry

\*YTD. As at end of October 2017

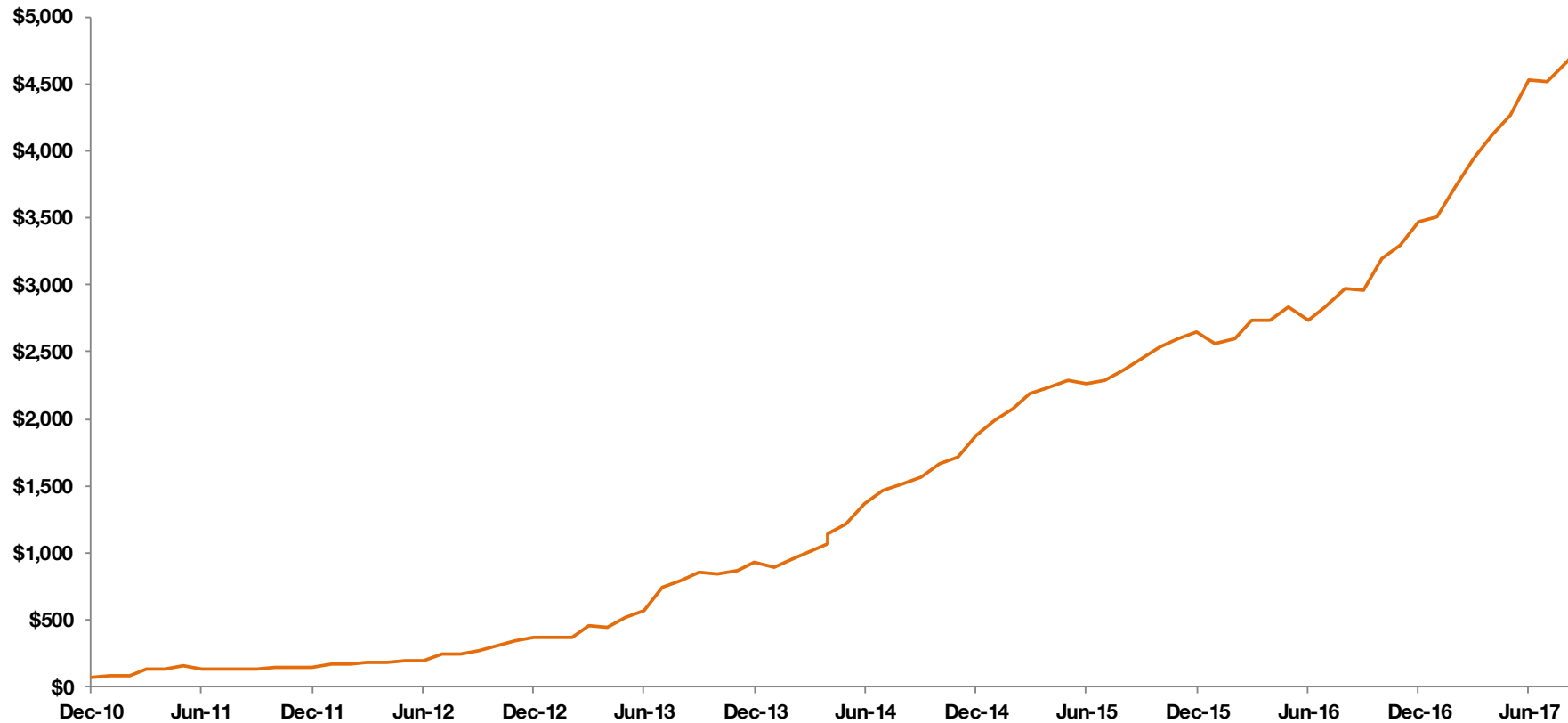


Source: ASX

# FuM growth



**BetaShares FuM as at 30 November 2017: \$5,230 m**





# BetaShares update: funds launched this year



## Australian Shares

**Australian Small Companies Select Fund (managed fund) (ASX: SMLL)**

*Exposure to a select portfolio of **high quality Australian small companies.***



## Sustainability Solutions

**Global Sustainability Leaders ETF (ASX: ETHI)**

*Exposure to 100 **large global stocks** (excluding Australia) which are climate change leaders*

**Australian Sustainability Leaders ETF (ASX: FAIR)**

*Exposure to **Australian companies** screened to preference companies engaged in sustainable business activities*



## Fixed Income

**Australian Bank Senior Floating Rate Bond ETF (ASX: QPON)**

*Exposure to a portfolio of some of the largest and most liquid **senior floating rate bonds** issued by Australian banks.*



## Hybrids

**Active Australian Hybrids Fund (managed fund) (ASX: HBRD)**

*Access to a **professionally managed, diversified portfolio of hybrid securities***



## Currency

**Strong Australian Dollar Fund (hedge fund) (ASX: AUDS)**

*Cost-effective geared exposure to the change in value of the **Australian Dollar relative to the U.S. Dollar.***

**Strong U.S. Dollar Fund (hedge fund) (ASX: YANK)**

*Cost-effective geared exposure to the change in value of the **U.S. Dollar relative to the Australian Dollar.***





# 42 funds now available on the ASX



## Australian Equities

QOZ  
QFN  
QRE  
EX20  
SMLL  
FAIR



## Global Equities

NDQ      WRLD  
UMAX      HEUR  
QUS      HJPN  
FUEL      MNRS  
DRUG      FOOD  
BNKS      ETHI  
HACK



## Equity Income

HVST  
YMAX  
UMAX



## Managed Risk/ Defensive Equity

AUST  
WRLD  
HVST



## Cash & Fixed Income

AAA  
QPON



## Hybrids

HBRD



## Short

BEAR  
BBOZ  
BBUS



## Geared

GEAR  
GGUS



## Currency

USD      AUDS  
POU      YANK  
EEU



## Commodities

QAU  
OOO  
QCB



## Active

GLIN  
RENT  
DMKT



# Top 5 Products: Inflows and Performance

## Top 5: Inflows

	ASX Code	Name	Net Flows (YTD)
1	AAA	BetaShares Australian High Interest Cash ETF	\$282 m
2	QPON	BetaShares Australian Bank Senior Floating Rate Bond ETF	\$171 m
3	NDQ	BetaShares NASDAQ 100 ETF	\$134 m
4	QOZ	BetaShares FTSE RAFI Australia 200 ETF	\$117 m
5	ETHI	BetaShares Global Sustainability Leaders ETF	\$105 m

## Top 5: Performance

	ASX Code	Name	Performance (YTD)
1	GGUS	BetaShares Geared U.S. Equity Fund - Currency Hedged (hedge fund)	42.37%
2	NDQ	BetaShares NASDAQ 100 ETF	25.41%
3	HJPN	BetaShares WisdomTree Japan ETF – Currency Hedged	20.55%
4	DRUG	BetaShares Global Healthcare ETF - Currency Hedged	17.80%
5	GEAR	BetaShares Geared Australian Equity Fund (hedge fund)	17.45%

As at 30 November 2017. Source: Bloomberg. Past performance is not an indicator of future performance.



# The ETF Industry in 2018

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**Product innovation will continue in various categories**

*Fixed income, smart beta as example*

**ETFs to become more mainstream**

*A move toward ETF model portfolios*



**Active ETFs will grow in popularity**

*More opportunity to diversify portfolios alongside passive ETF investments*



# The ETF Industry in 2018

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Across all predictions, growth remains the consistent theme



“We are expecting the Australian ETF industry to end 2018 at \$40-\$45B”



# Stay informed

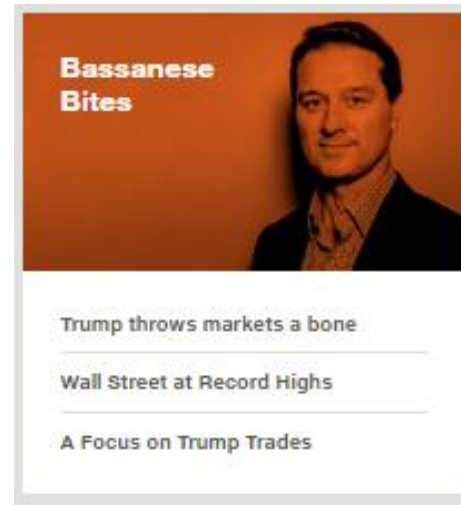
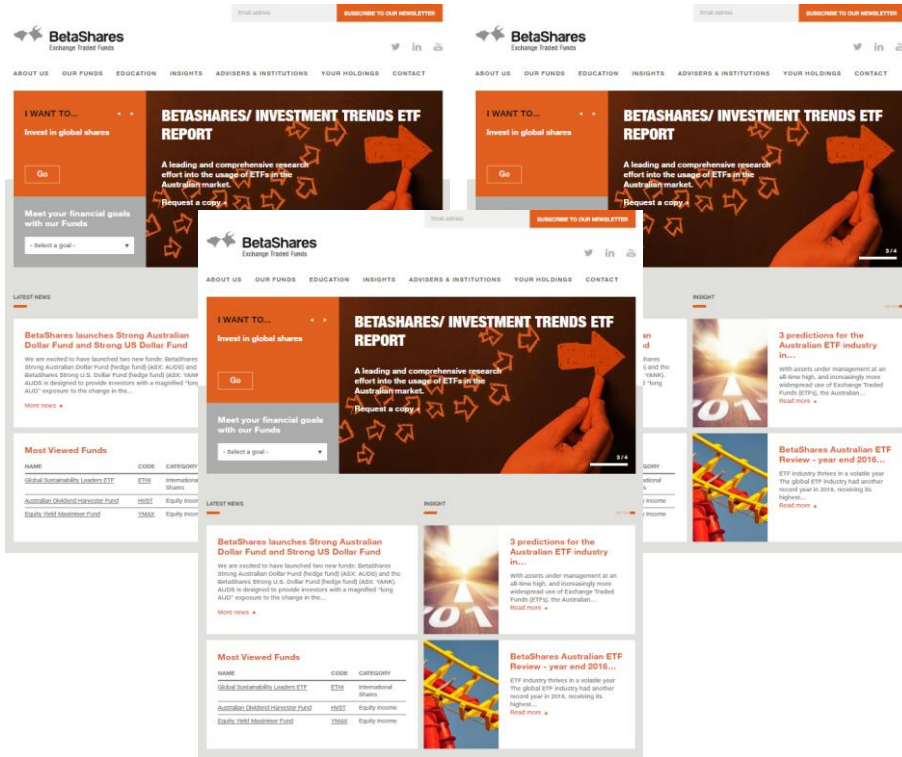
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# Chief Economist, David Bassanese



Formerly with:

- ▶ AFR
- ▶ Macquarie Bank
- ▶ OECD
- ▶ Treasury
- ▶ Author of *“The Australian ETF Guide”*



# Overview

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BetaShares update



Lessons learned in 2017



Key predictions for 2018



Investment themes to consider



# Lesson One

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“Trump did not improve...  
but it has not mattered (at least not yet)”



# The President of the United States

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**Donald J. Trump** 

@realDonaldTrump

Follow



Why would Kim Jong-un insult me by calling me "old," when I would NEVER call him "short and fat?" Oh well, I try so hard to be his friend - and maybe someday that will happen!

1:48 PM - 11 Nov 2017 from [Vietnam](#)



# The global economy is humming!

### Global PMI & economic growth



### Developed v emerging market output



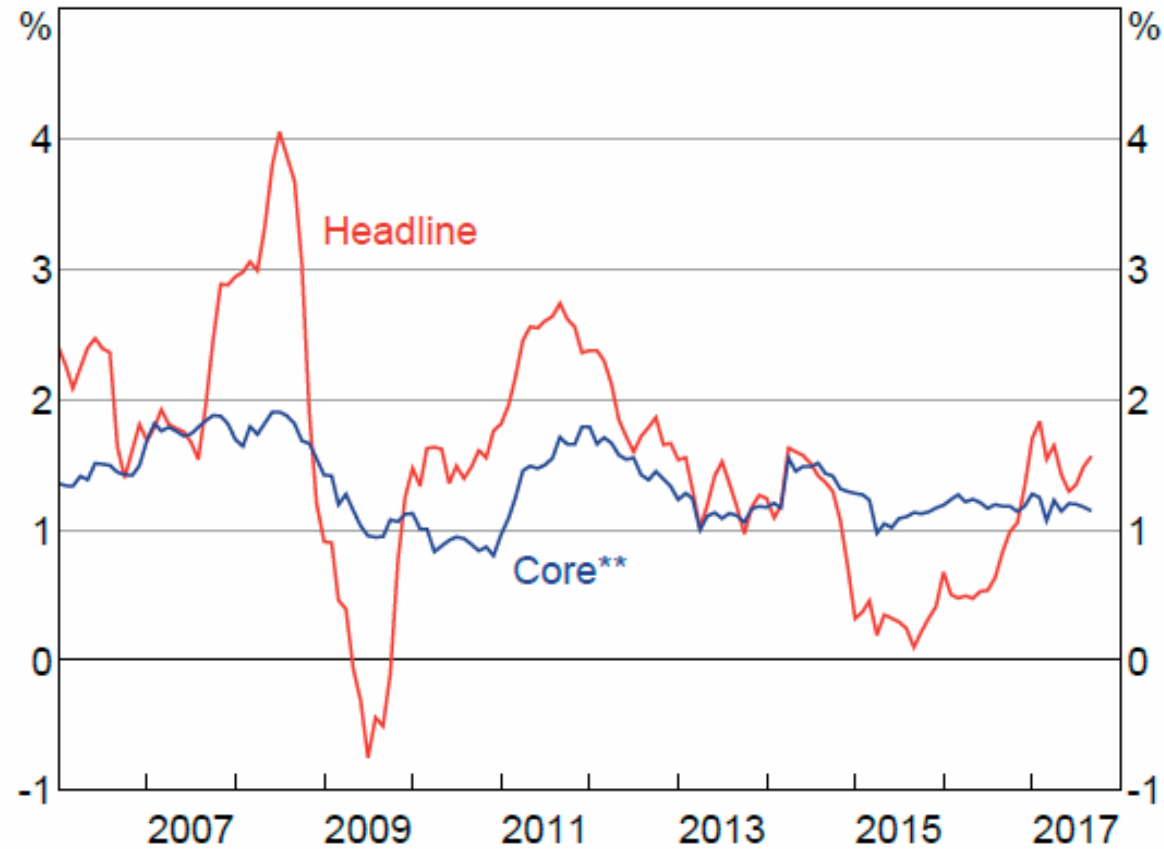
Source: Markit

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# Global inflation remains low

## Inflation – Advanced Economies\* Year-ended

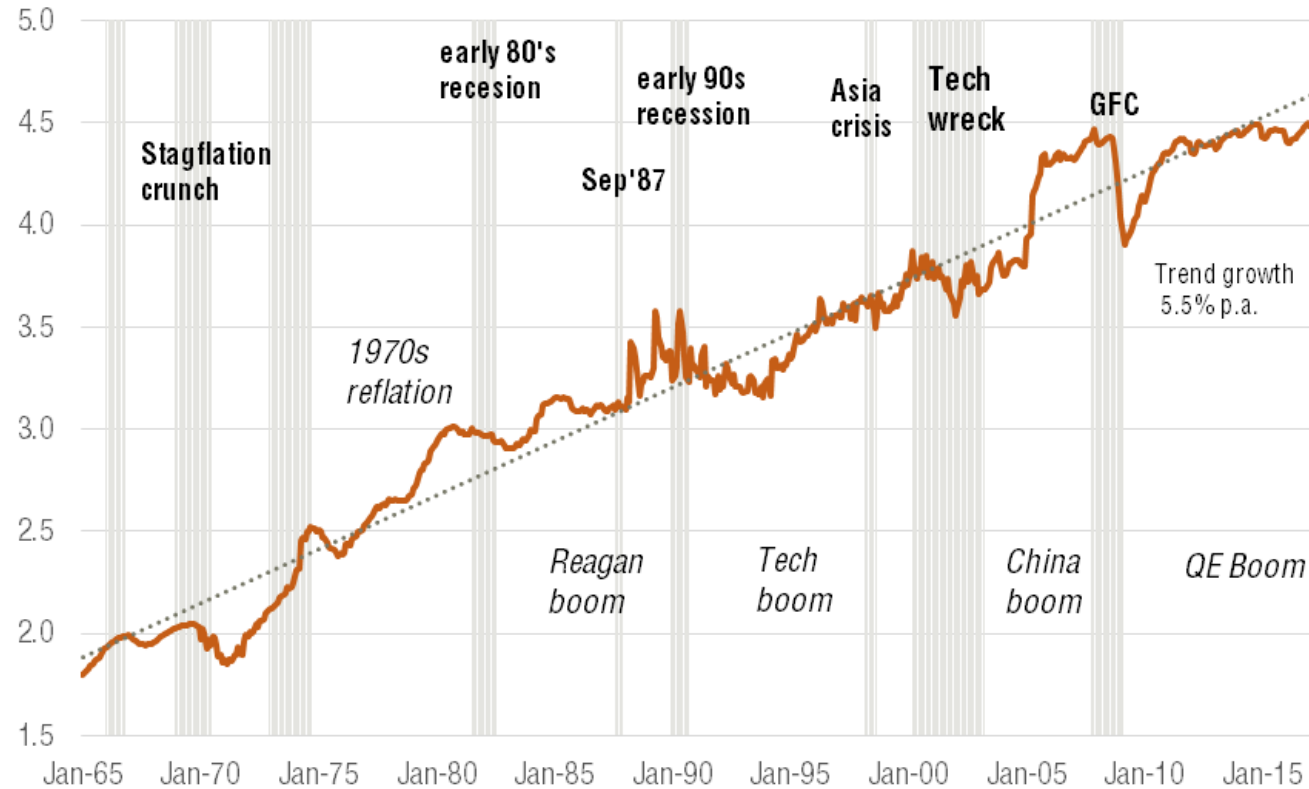


\*PPP-weighted  
\*\*\* Excluding food and fuel  
Sources: IMF, RBA, Thomson Reuters



# Corporate earnings rising nicely

## World MSCI Forward Earnings



Source: MSCI, Bloomberg



# Lesson Two

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“Europe and Japan  
are **not the basket cases** we  
feared...”





# Scared by the Brexit debacle, Europe avoided a lurch to populism



# Earnings in Europe and Japan have lifted nicely



## Forward Earnings



Source: Bloomberg

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# Lesson Three

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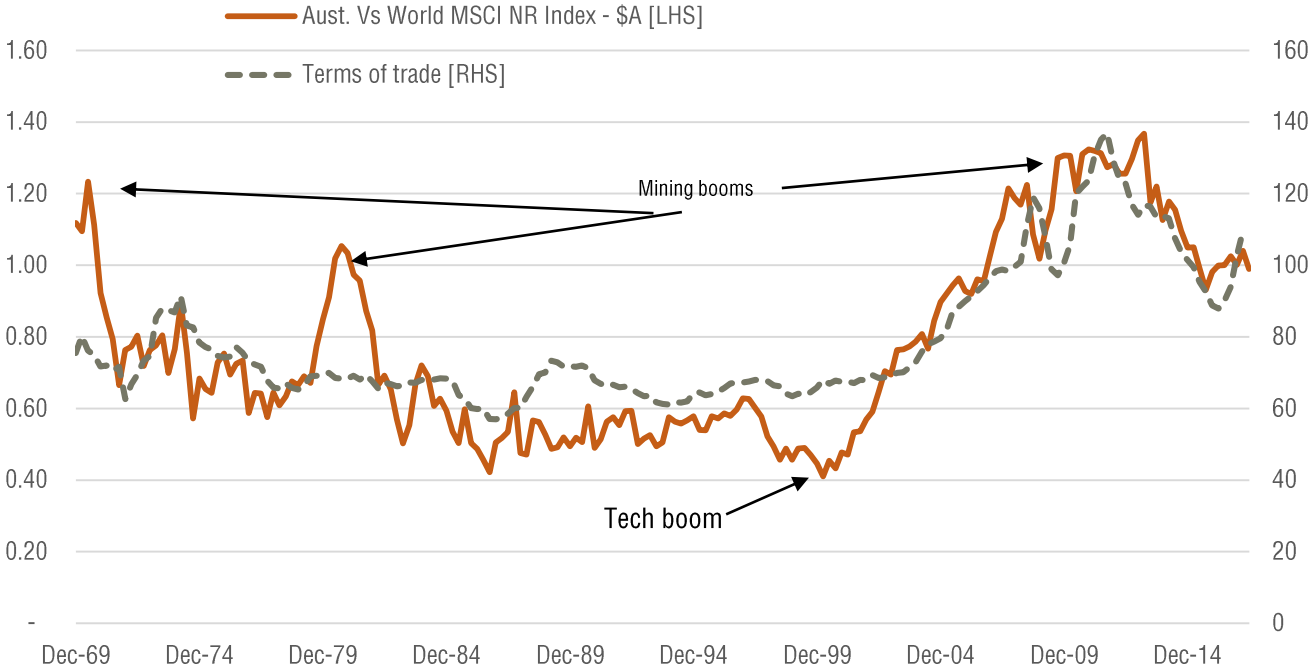
“Australians are  
great technology users...  
***but not producers.***”



# Resource and technology cycles seem to drive Australian relative performance vs. the World



## Australian vs. Global Equity Net Return Performance – A\$ Terms



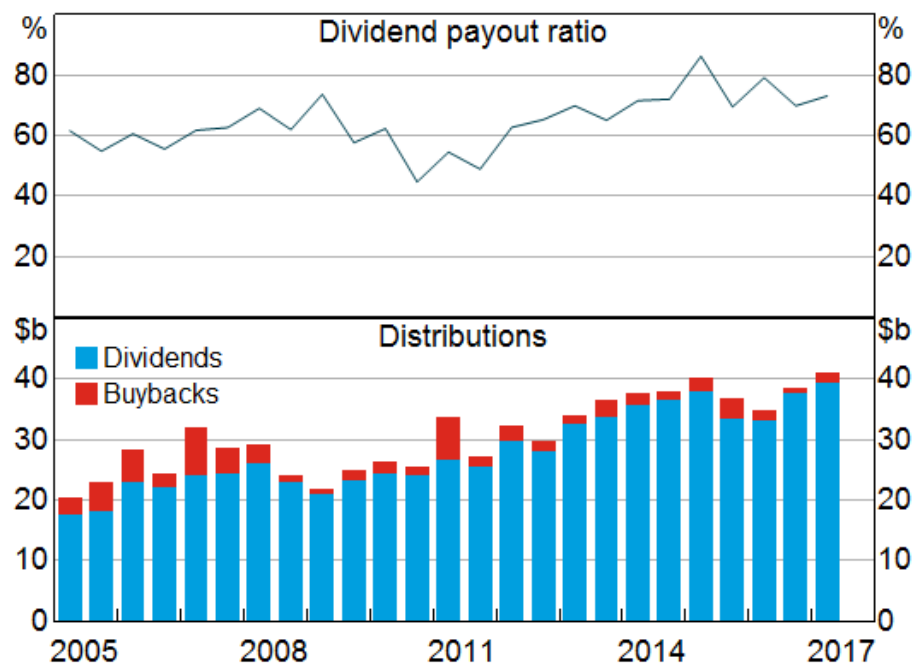
Source: Bloomberg

Source: MSCI, Bloomberg

# Some companies' dividends have come under pressure



## ASX 200 Shareholder Distributions Semiannual



\* Shareholder dividends are attributed to the reporting period in which they are accounted for rather than the period in which they are paid, dividends and payout data are estimated for the latest period based on companies that have reported to date. Sources: ASX; Morningstar; RBA



# Overview

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BetaShares update



Lessons learned in 2017



**Key predictions for 2018**



Investment themes to consider

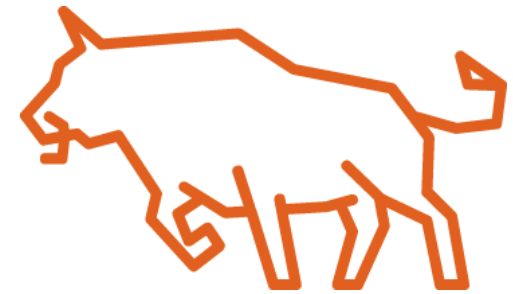


# Prediction One

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**The global bull market  
will survive at least another year.**

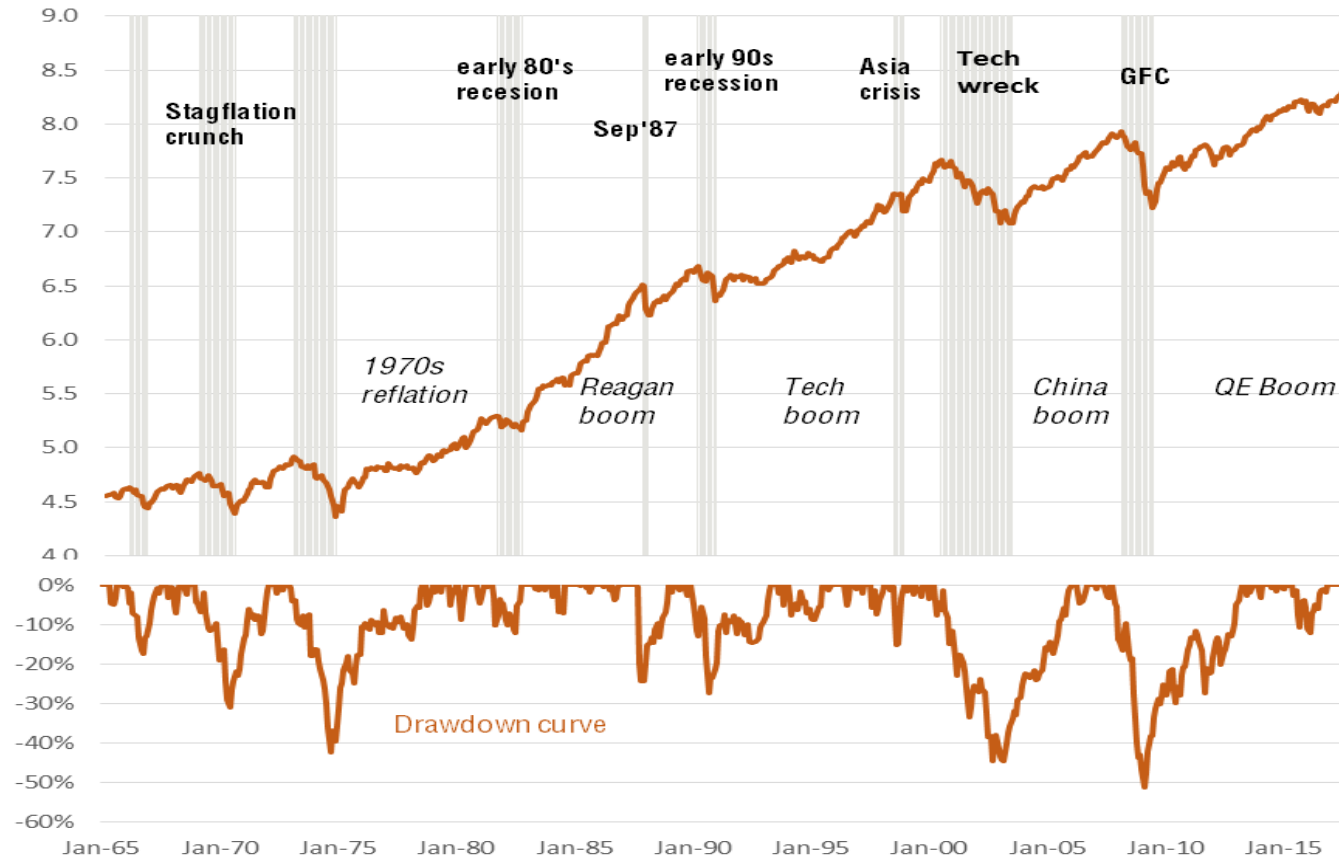




# Prediction One



## World MSCI Net Return



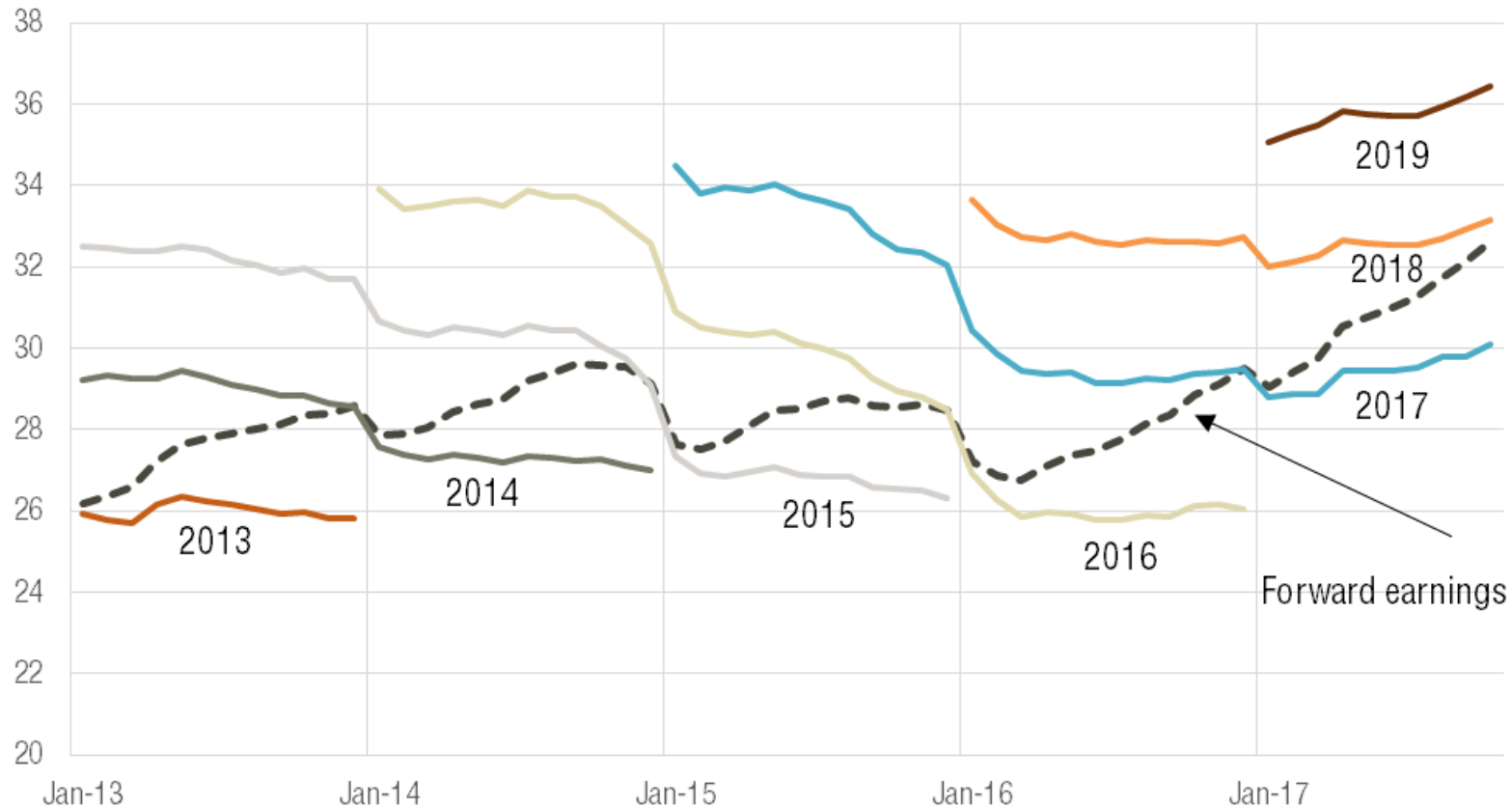
Source: Bloomberg





# Corporate profits should rise further

## MSCI All-Country Index Earnings Expectations

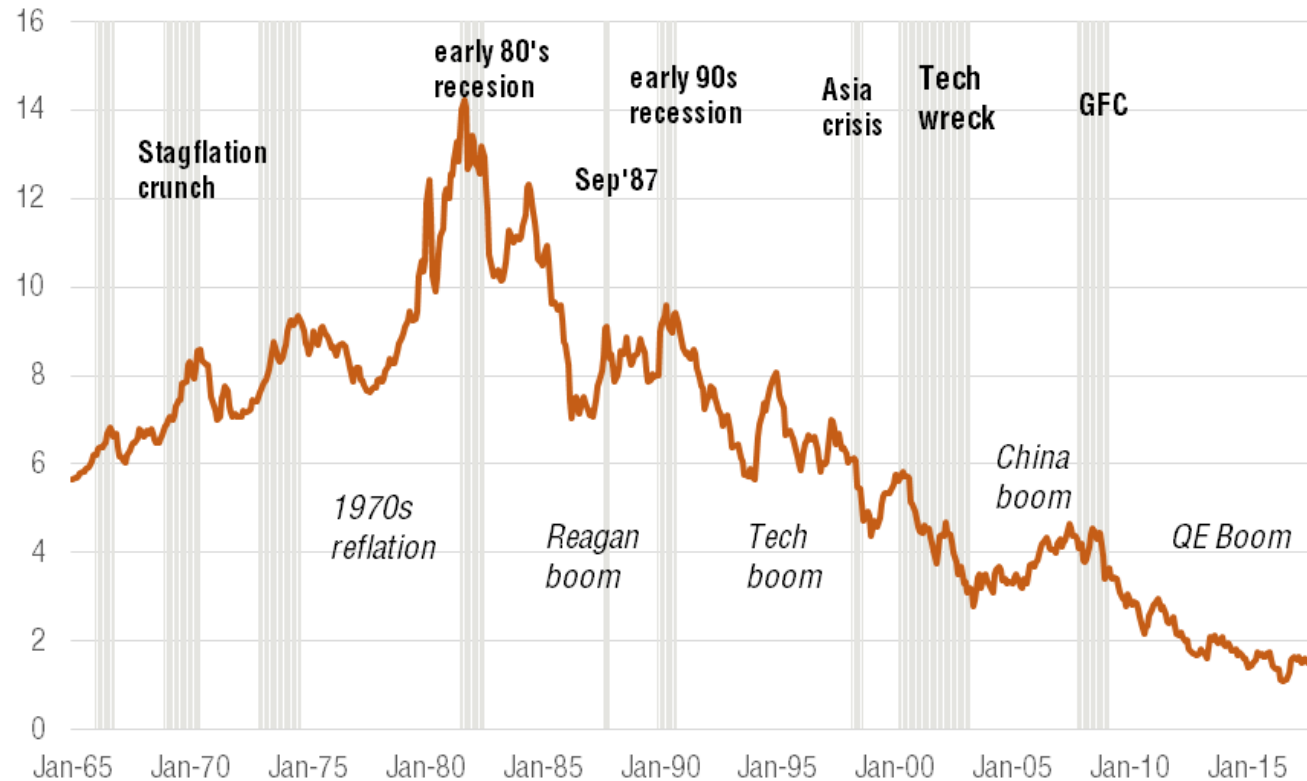


Source: Bloomberg



# Bond yields should rise, but not by much

## Global Benchmark Bond Index – Yield



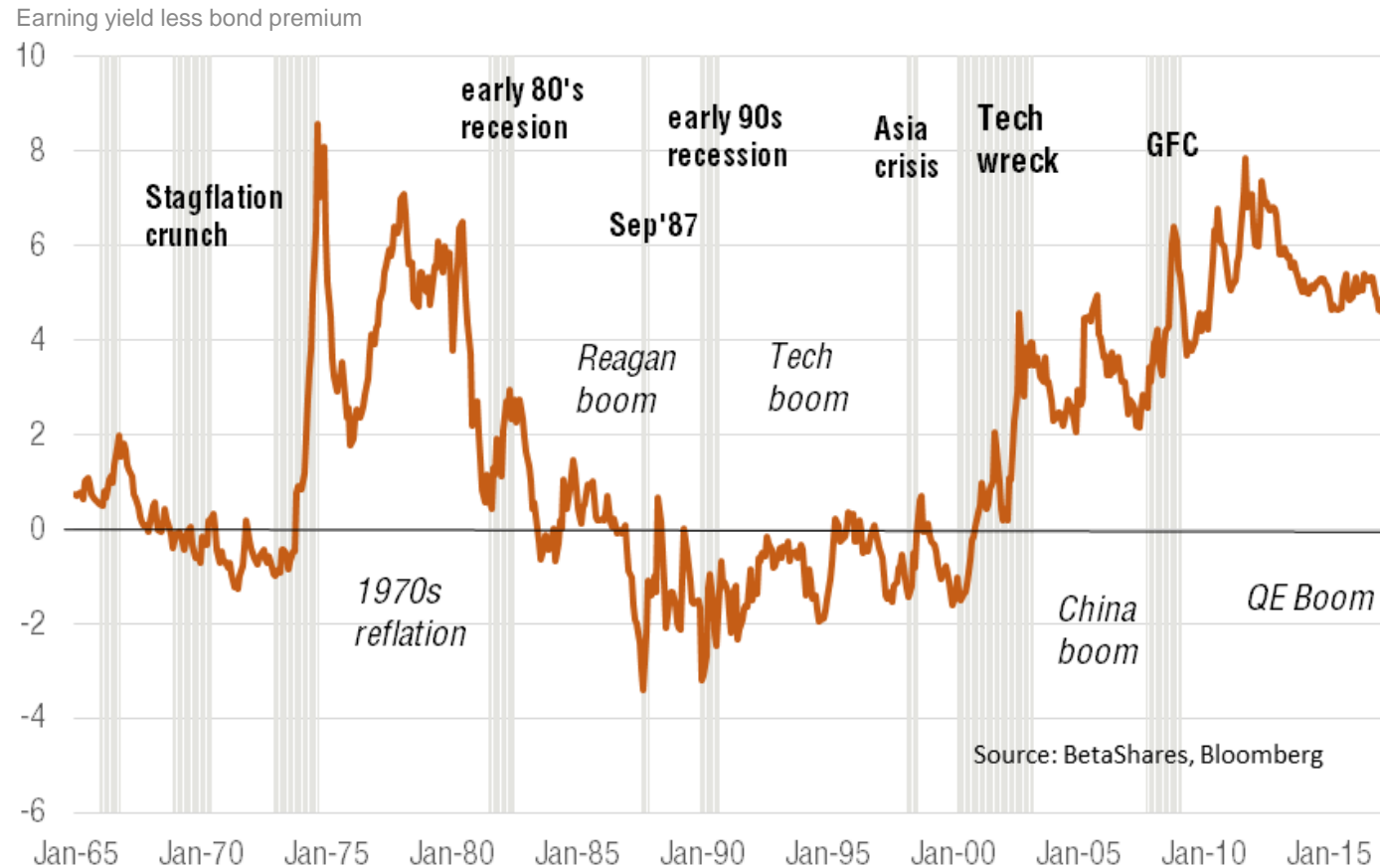
Source: Bloomberg

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# Valuations should limit decline in PE ratio

## World MSCI Equity Risk Premium

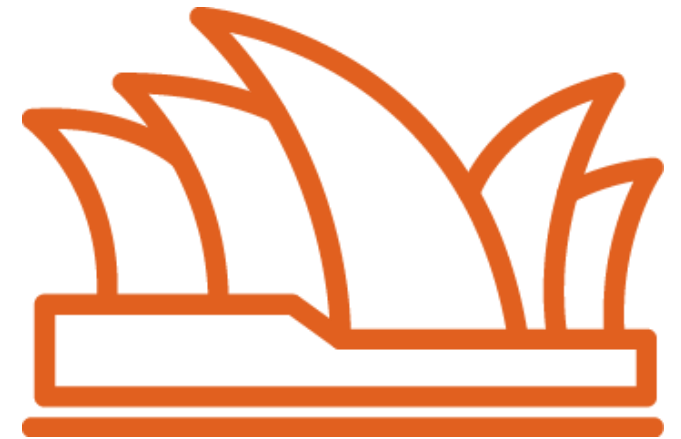


Source: Bloomberg

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**Sydney property prices  
will stop rising...but not crash.**





# Prediction Two



## Owner Home Valuations – Sydney



Source: BetaShares, ABS, RBA

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# Prediction Three

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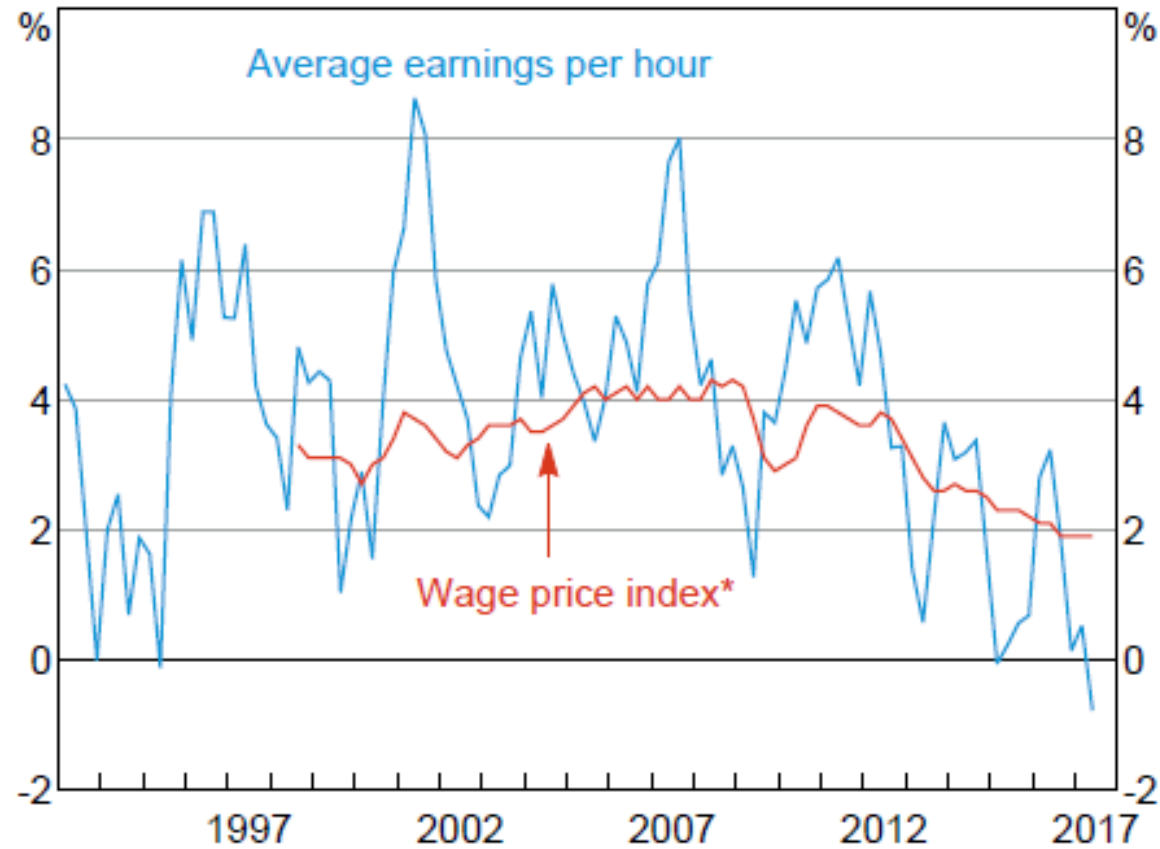
**The Reserve Bank of Australia  
will leave rates on hold.**



# Prediction Three



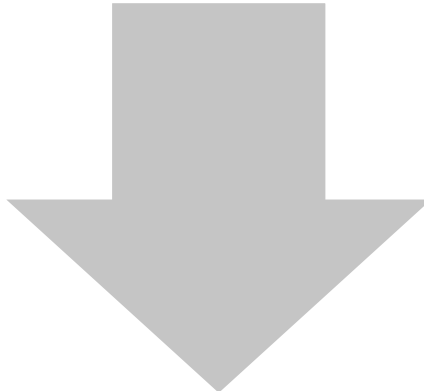
## Labour Costs: year ended growth



\* Total pay excluding bonuses. Source: ABS

# Australian economy: mixed economic forces



- 
- Consumer spending OK but patchy
  - Housing construction high but past its peak
  - Sydney property prices cooling

- 
- +Mining investment bottoming
  - +Non-mining investment lifting
  - +Resource exports rising
  - +Services – health, education, tourism
  - +Infrastructure boom





# Overview

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BetaShares update



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**Investment themes to consider**



# Position your Portfolio for 2018

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**Idea One: Go global for growth**



# Global for growth – NASDAQ



## NASDAQ- 100 Index – Prices, earnings & valuation



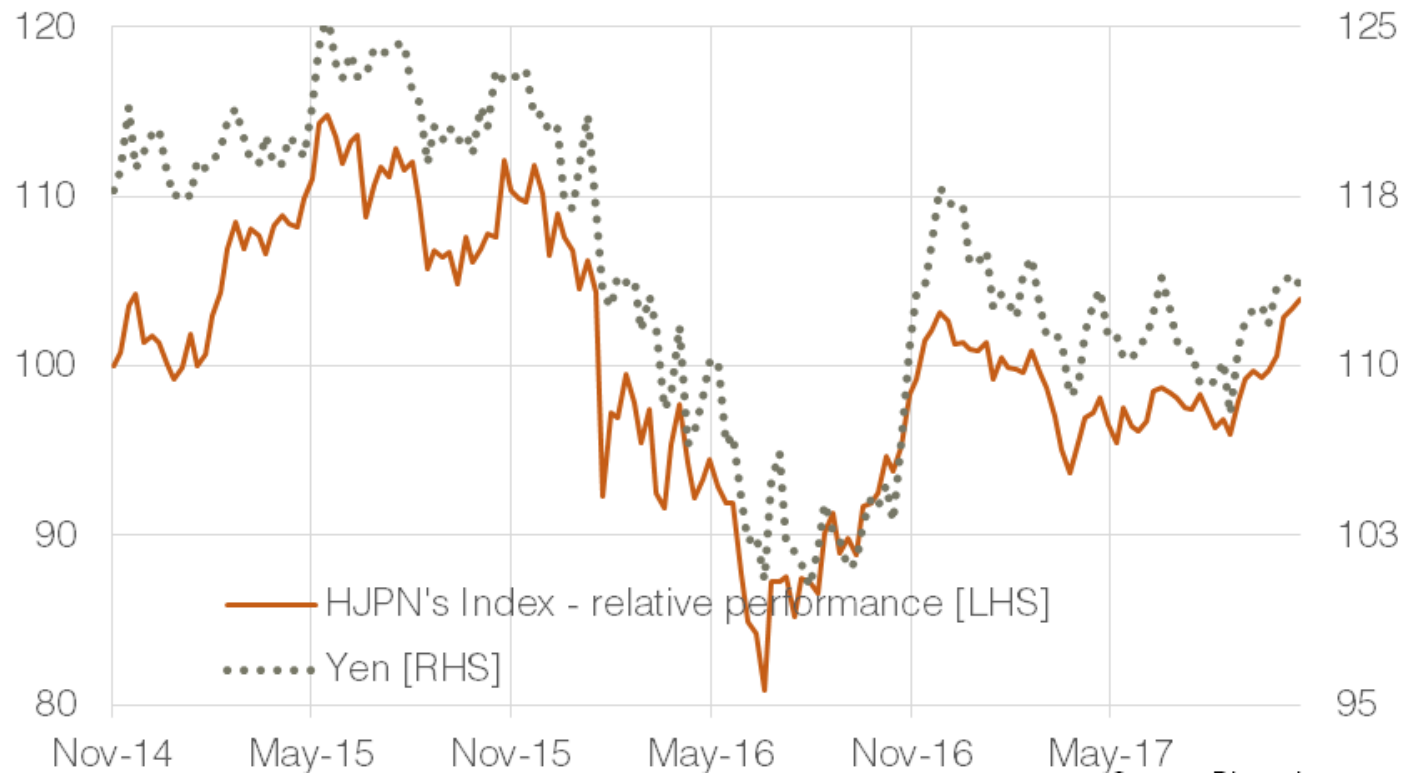
Source: Bloomberg



# Global for growth: Japan *(believe it or not!)*



## Japan Hedged performance vs MSCI All Country World Index



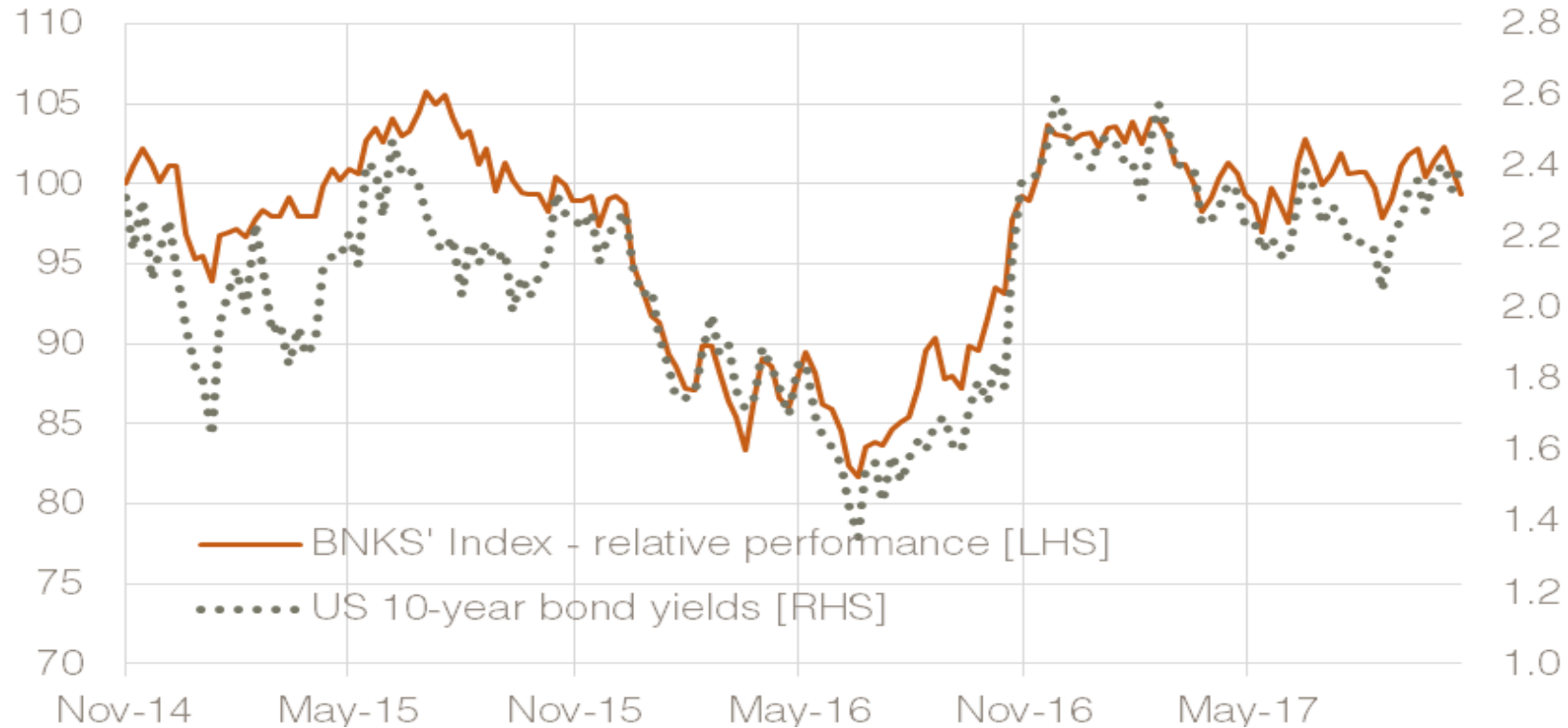
Source: Bloomberg



# Global for growth: BNKS as bond yields rise



## BNKS' Index vs. World MSCI - Hedged



Source: Bloomberg. Past performance not indicative of future performance. Shows performance of the index that BNKS aims to track, and does not include the effect of fees or expenses. You cannot invest directly in an index.



# Position your Portfolio for 2018

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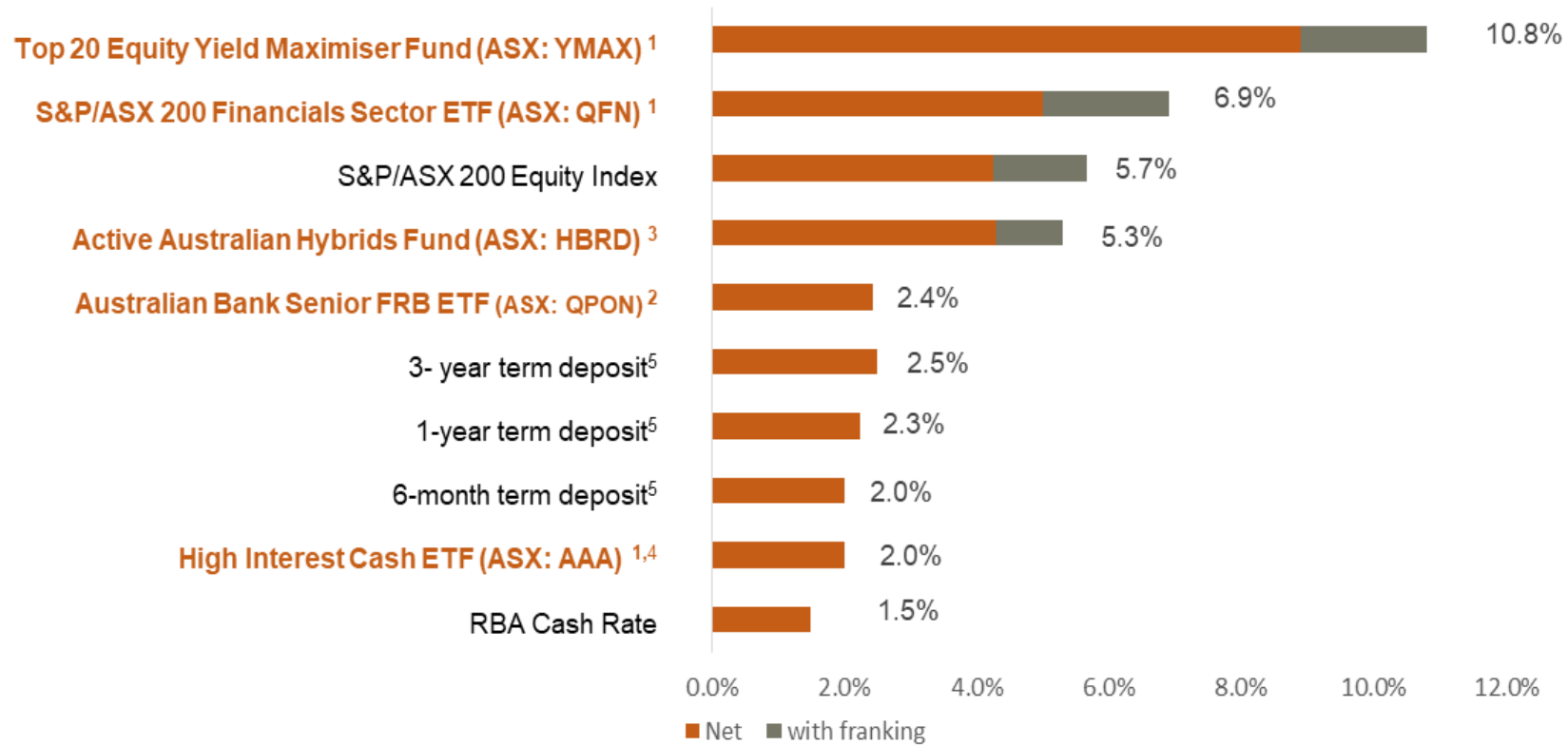
## Idea Two: Australia for income



# Australia for income



## Yield comparisons along the risk spectrum: as at 31 October 2017



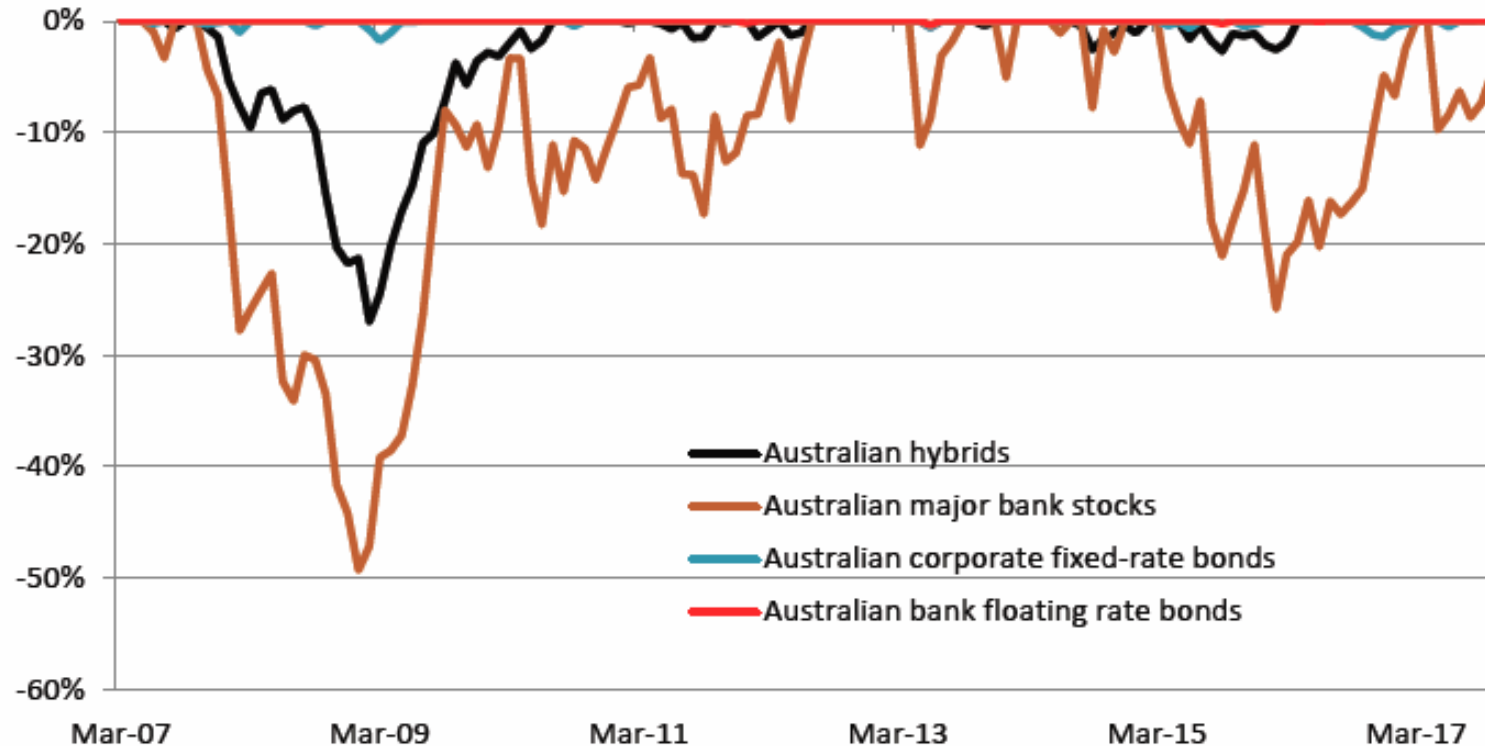
1. 12-month distribution yield 2. Yield-to-maturity 3. Running yield (including franking) as at 31 October 2017 4. After fees 5. Average of the major banks per RBA. Past performance not an indicator of future performance.



# Hybrids: less downside risk (than bank shares) in times of normal equity market volatility



## Peak to trough total return drawdown: March 2007 to October 2017



Source: Bloomberg. For definitions of each series, see footnotes to table above. Past performance is not an indicator of future performance. You cannot invest directly in an index. \* For Australian Hybrids data, a spliced index series used incorporating Evans & Partners All Bonds & Hybrids ASX Index prior to February 2012, Solactive Australian Hybrid Securities Index from February 2012.





# Position your Portfolio for 2018

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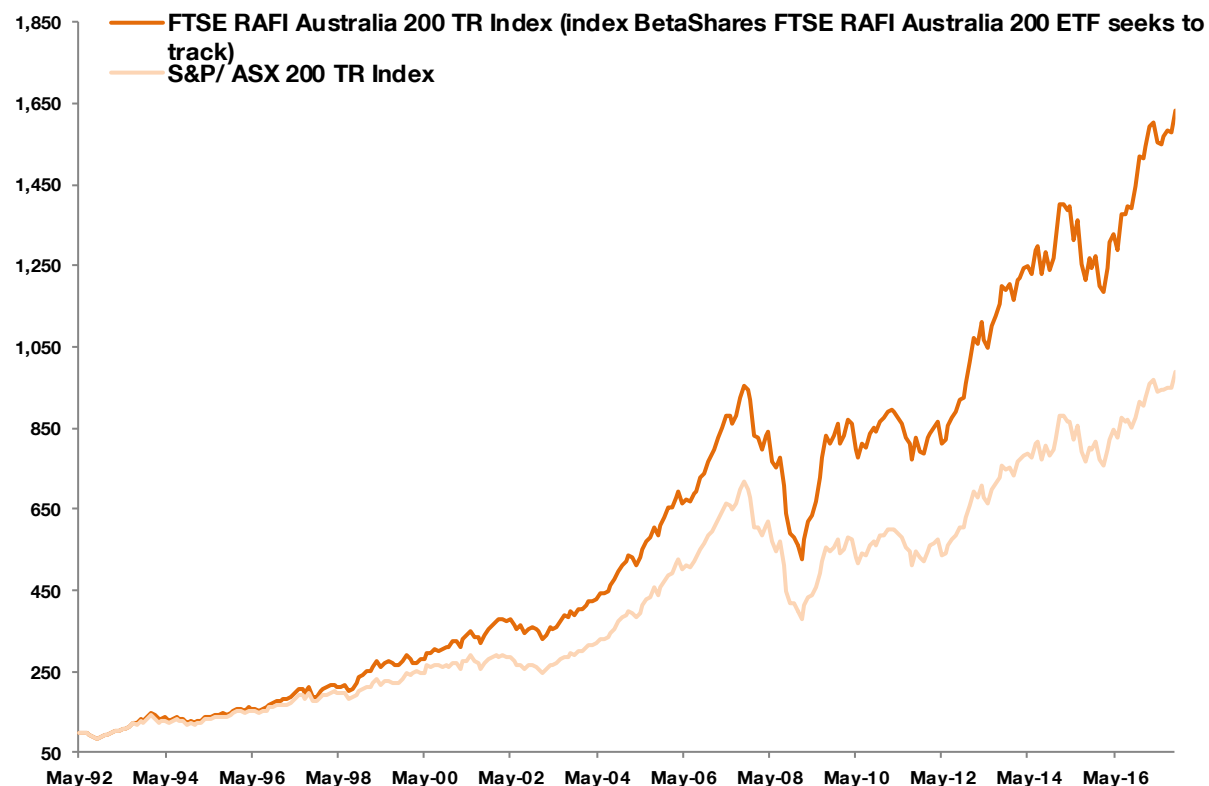
## Idea Three: Smart indexing



# Smart indexing



## FTSE RAFI Australia 200 Index v S&P/ASX 200 Index: May 1992 – 31 October 2017



**FTSE RAFI Australia  
200 Index  
has outperformed  
S&P/ASX 200  
Index since inception**

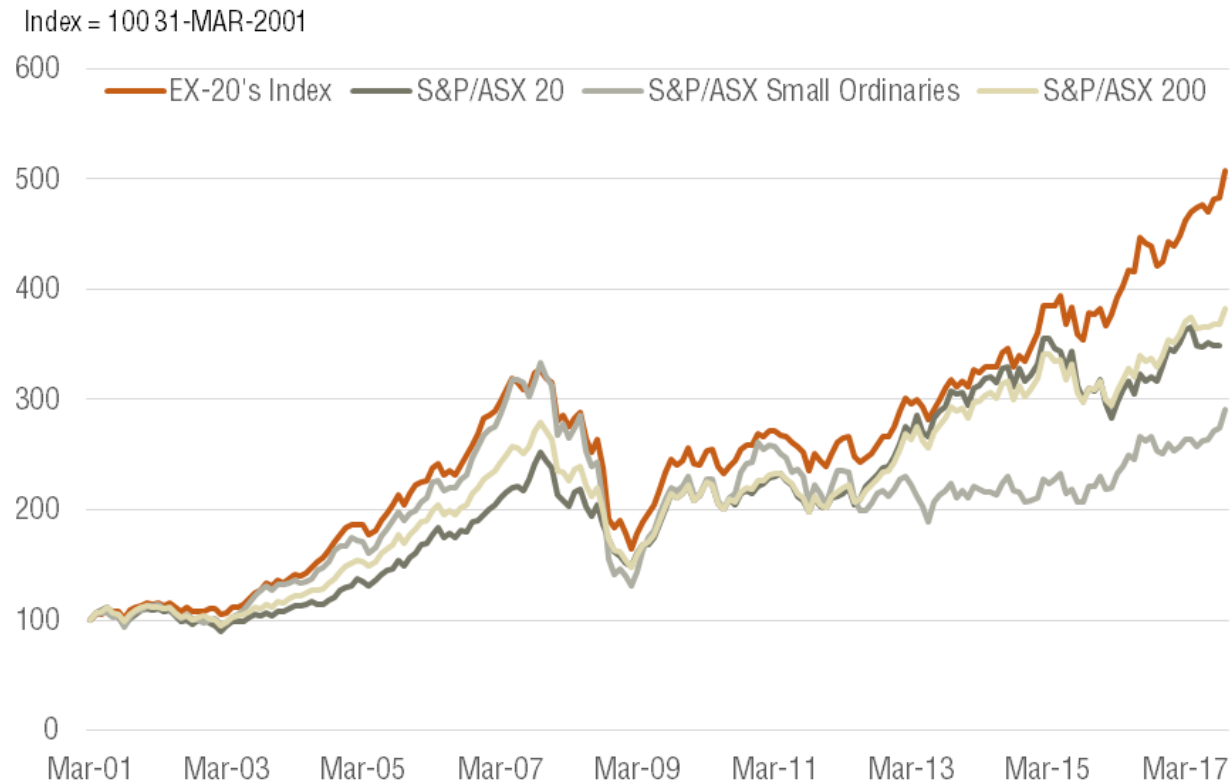
Graph shows performance of underlying index relative to S&P/ASX 200 index, not ETF performance and does not take into account ETF management costs. You cannot invest directly in an index. Past performance is not an indicator of future performance of index or ETF. The FTSE RAFI Australia 200 Index was launched on 10/8/2009. 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. Source: Bloomberg, FTSE



# Smart indexing (ASX: EX20)



## Mid-Caps the “sweet spot” in Australia’s challenged market



Source: Bloomberg. Past performance is not an indicator of future performance. Shows performance of EX20's index, not ETF and does not take into account ETF management costs. You cannot invest directly in an index.



# Things to keep in mind

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- ▶ Investment risk: Investment returns are uncertain and will be influenced by the fluctuations of the markets as a whole and other risks.
- ▶ Investors should seek professional financial advice before investing.
- ▶ Past performance is not an indication of future performance.
- ▶ See relevant PDS for more information about risks.





# Thank you

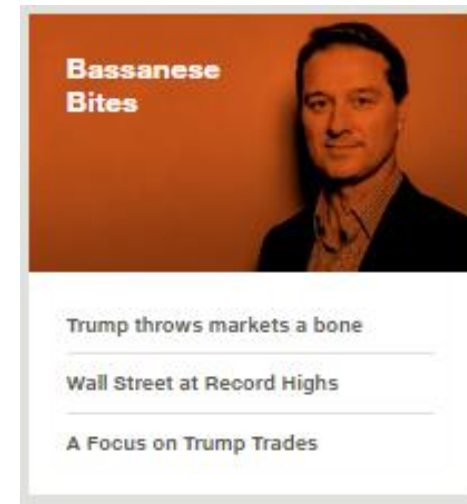
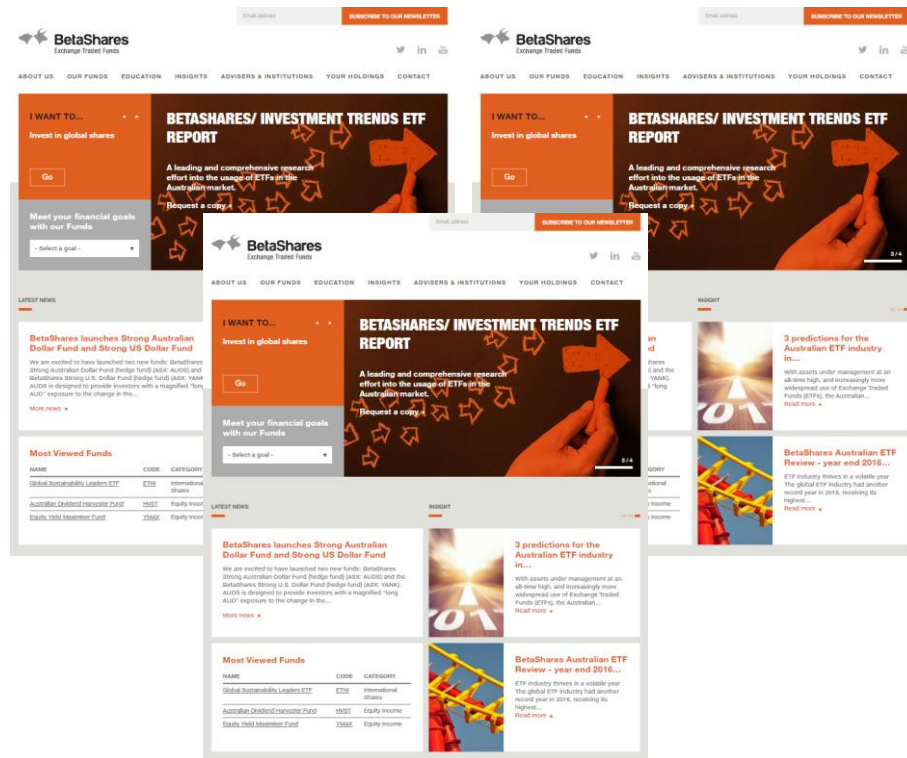
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