betashares

Betashares Wealth Builder ETFs

Practical Applications & Investor Case Studies for using gearing in Australian Investment Portfolios

About this booklet

This booklet sets out some case studies of various geared investment strategies that could be implemented using the Betashares Wealth Builder ETFs.

These ETFs provide investors and their advisers with a simple way to obtain cost effective exposure to global, Australian and US shares utilising a 'moderate' amount of gearing.

The case studies have been developed to assist financial advisers with some implementation ideas for their investors and include a range of strategies that vary based upon illustrative examples. Their aim is to provide examples of how such strategies might help investors achieve their financial and lifestyle goals.

Please note, the content of this booklet, including case studies, is general information only. It is not in any way personal financial advice and does not take into account any person's personal or financial circumstances. All examples and scenarios provided are illustrative only and should not be considered as a recommendation to invest or adopt any investment strategy.

Introduction

What is gearing?

Many Australians would be familiar with the concept of gearing, for example the use of a mortgage to buy a house or margin loan to buy shares.

> 'Gearing' or 'using leverage' is an investment strategy whereby an investor combines their own capital together with borrowed money to invest in an underlying asset like a share portfolio or a residential property.

Purpose

Why use leverage to invest in the share market?

Gearing enables you to make a larger investment in the share market than your available capital would otherwise allow, and in doing so, take advantage of compounding from an earlier point in time. A concern for many investors is the risk of not building up enough capital to buy a house or retire comfortably. Gearing can be a highly effective wealth creation tool, providing the potential to overcome this challenge.

In addition, gearing can be a tax efficient approach, with the potential to generate more income and franking credits than would be available without the use of gearing.

However, while gearing increases potential investment gains, it can also magnify losses. As such any use of geared investments should only be utilised by investors who are comfortable with the use of gearing and can tolerate higher levels of investment volatility when compared to investing in the share market without any leverage.

Gearing in itself is not bad, but the inappropriate use of gearing that doesn't align with an investor's risk tolerance or investment strategy can adversely impact long term investment outcomes.

When used appropriately, in a cost-efficient manner, gearing can help to increase an investor's capacity to build their wealth over the long run. Gearing is not for every investor, but may be a strategy suited to more circumstances than you might think. And as this brochure will show, a geared investment strategy can be used to address specific investor challenges.

> Gearing can be a highly effective wealth creation tool

Introducing Betashares Wealth Builder ETFs

The case studies in this booklet demonstrate the use of a diversified approach to investing in the share market using a moderate level of gearing, typically between 30-40%.

There are currently three 'moderately geared' ETFs in the Betashares Wealth Builder range:

ASX: G200

Betashares Wealth Builder Australia 200 Geared (30-40% LVR) Complex ETF

ASX: GHHF

Betashares Wealth Builder Diversified All Growth Geared (30-40% LVR) Complex ETF

ASX: GNDQ

Betashares Wealth Builder Nasdaq 100 Geared (30-40% LVR) Complex ETF

These ETFs provide a simple, cost-effective way of gaining moderately geared exposure to the returns of the Australian, global and US share markets respectively.

Why Betashares Wealth Builder ETFs?

While gearing has clear benefits as a wealth creation tool, there are practical considerations which may limit the attractiveness of existing geared investment solutions, namely:

- Applying for an investment loan in your own name (or on behalf of a trust or SMSF) can be an arduous process;
- The additional costs of some geared solutions, for example the typical interest costs charged on a margin loan, can be a significant drag on your overall return; and
- Gearing increases the risk or volatility of an investment, and more highly geared investment solutions may not be appropriate for certain investors.

The 'moderately' geared Betashares Wealth Builder ETFs were designed with these considerations in mind. These ETFs provide convenient, diversified exposure to a geared share portfolio via a single trade on the ASX.

- The gearing is internally managed within the ETFs, meaning all loan obligations are met by the fund. **No loan applications, no credit checks and no possibility of margin calls** for investors.
- **Institutional interest rates on the loan are considerably lower** than those available to individual investors, meaning the threshold to achieve positive returns is lower.
- Whilst gearing does magnify gains and losses, a 'moderate' level of gearing (30-40% for these ETFs), together with a diversified portfolio, could be considered for many **investors with a long investment timeframe seeking to accelerate their growth potential.**

In addition, by investing in a Wealth Builder ETF that provides exposure to Australian shares, you may be entitled to more franking credits than if you had invested in an equivalent ungeared portfolio.[1]

[1] Not all Australian investors will be able to receive the full value of franking credits.

Case studies included in this booklet

01 Utilising the power of compounding to build long-term wealth

02 Using dollar cost averaging to save for a house deposit

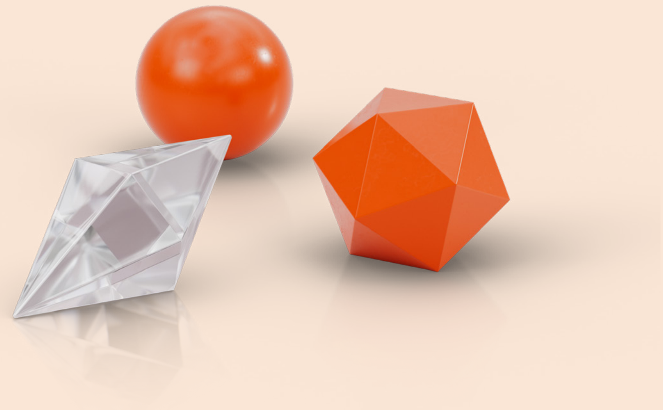
03 Regular contribution strategy for a superannuation investor

04 Increasing franking credits

05 Boosting concessional contributions in superannuation

06 Gearing as an efficient use of capital

07 Optimising outcomes in pension



Important information about simulated historical performance used in these case studies

In order to demonstrate how a geared investment strategy may be implemented, we have used numerical examples in the case studies.

Case studies 1, 2 and 3 include simulated performance of a geared strategy for each of the following portfolios compared to their corresponding ungeared strategies for the period from September 2010 to September 2024:

- a diversified 'all growth' Australian and global equities portfolio (see below for further information); and
- a US equities portfolio (as measured by the Nasdaq 100 Index).

Unless otherwise stated, these simulations are based on historical equity market returns and the following key assumptions:

- **Simulated strategy performance is shown net of management fee and costs, being:**
  - 0.35% p.a. of gross asset value for the geared Australian and global shares strategy (being the management fee and costs for Betashares Wealth Builder Diversified All Growth Geared (30-40% LVR) Complex ETF), and 0.07% p.a. of net asset value for the ungeared strategy (being the weighted average management fee and costs of the underlying ETFs that seek to track the relevant indices used to simulate the ungeared strategy performance).
  - 0.48% p.a. of net asset value for the ungeared Nasdaq 100 Index strategy (being the management fee and costs for Betashares Nasdaq 100 ETF) and 0.50% p.a. of gross asset value for the geared strategy (being the management fee and costs for Betashares Wealth Builder Nasdaq 100 Geared (30-40% LVR) Complex ETF).
- **The geared Australian and global shares exposure is based on the following SAA weights:**

Underlying exposure	Strategic asset allocation (SAA)
Australian equities: Solactive Australia 200 Index	37.0%
International equities: Solactive GBS Developed Markets ex Australia Large & Mid Cap Index / MCSI Emerging Markets IMI NTR Index	44.1%
International equities (currency hedged): Solactive GBS Developed Markets ex Australia Large & Mid Cap Hedged AUD Index	18.9%

  - The underlying exposures are rebalanced on a quarterly basis back to the relevant SAA weightings if market movements or other circumstances cause the allocation to deviate from the SAA by more than 2% at the end of each calendar quarter.
- A gearing ratio of 30-40% is applied, with the ratio brought back to the midpoint (35%) at end of day if the ratio moves outside of this range.
- Borrowing costs are based on the rates/margins agreed with the prime broker.

All simulated performance information is provided for illustrative purposes only and is not representative of actual fund performance. Actual outcomes may differ materially. You cannot invest directly in an index. The information provided is not a recommendation or offer to make any investment or to adopt any particular investment strategy.

Any information regarding taxation in this document should not be construed as tax advice and separate tax advice should be sought before making an investment decision.

Simulated past performance is not indicative of future performance for any fund or strategy.

There are risks associated with an investment in each Fund, including market risk, underlying ETF risk, gearing risk, rebalancing and compounding risk and lender risk, as well as (for GHHF and GNDQ) currency risk. Investment value can go up and down. An investment in each Fund should only be made after considering your particular circumstances, including your tolerance for risk. For more information on risks and other features of each Fund, please see the applicable Product Disclosure Statement and Target Market Determination at **www.betashares.com.au**.

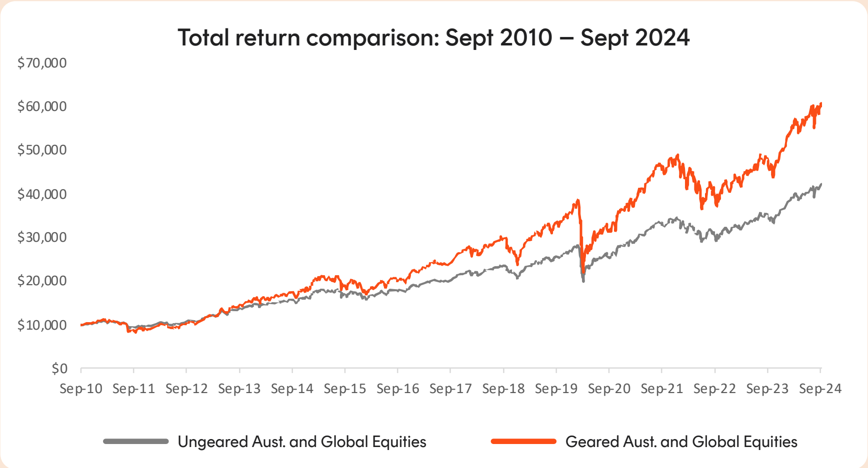
Case study 1

Utilising the power of compounding to build long-term wealth

For an investor who has a long investment time horizon and is willing to accept higher levels of volatility, gearing can be an effective tool to accelerate the capital accumulation process and bring investors one step closer to their individual goals.

For example, a hypothetical $10,000 investment in a moderately geared Australian and global equities strategy in September 2010 grew to an ending capital balance of over $61,000 in September 2024.

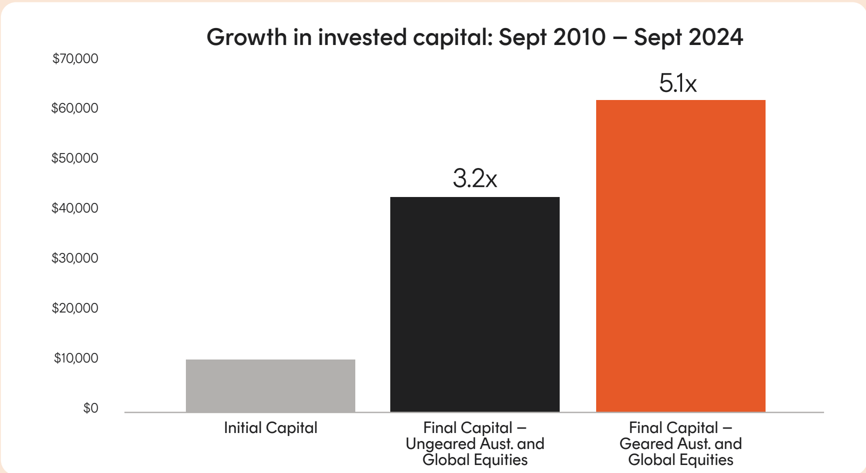
However, this final capital amount would be just $42,000 if the $10,000 was instead invested in a corresponding ungeared strategy over the same period.



> Investing in the geared strategy throughout this period resulted in an uplift in capital of over 5x the original amount, compared to just 3.2x for the corresponding ungeared strategy.

During periods where the market is generally rising, like the comparison period in this example, this meaningful uplift in capital could make a material difference to an individual striving to reach their goals – whether that be a young accumulator saving up for a house deposit or a member in accumulation phase seeking to build up sufficient savings to enjoy a comfortable lifestyle in retirement.

Of course, the ability of the geared strategy being able to generate positive returns will depend on the underlying investment(s) generating total returns in excess of funding costs. In a declining market, the geared strategy would be expected to underperform, with magnified losses, compared to an ungeared strategy.



Source for the charts above: Bloomberg, Betashares. Refer to the "Important Information" section on page 6 for further information and key assumptions. This information is provided for illustrative purposes only and is not representative of actual fund performance. Actual outcomes may differ materially. The information is not a recommendation or offer to make any investment or to adopt any particular investment strategy. **Simulated past performance is not indicative of future performance of any fund or strategy.**

Case study 2

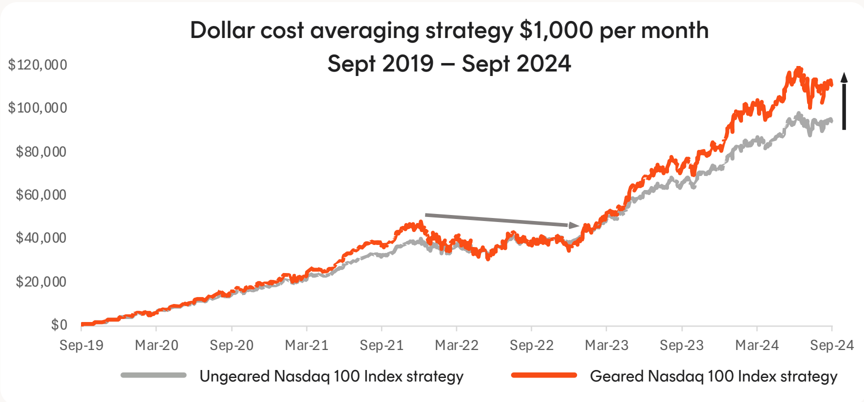
Using dollar cost averaging to save for a house deposit

Dollar cost averaging (DCA) can provide an easy way for young accumulators with limited initial investable capital to build long-term wealth.

Provided you invest consistently no matter where market levels are at, and assuming over the long run the market generally appreciates by more than your cost of borrowing, using a moderate amount of gearing together with a DCA approach could allow an investor to take advantage of the power of compounding.

Consider the affordability challenges facing many first time home buyers. As house prices have risen considerably over the years, so too has the required deposit amount which has priced out many Australians from the property market.

Let's look at a hypothetical example which seeks to illustrate the potential benefits of dollar cost averaging into the share market using a geared Nasdaq 100 Index strategy. This example looks at simulated historical returns over a 5-year period ending 30 September 2024.



As we can see from the black arrow in the chart above, dollar cost averaging in the geared Nasdaq 100 Index strategy increased the ending capital value by over $16,000 compared to the corresponding ungeared Nasdaq 100 Index strategy over the simulation period.

> Adopting a DCA strategy can also help reduce the impact of bad market timing and 'smooth out' a large drawdown in capital, as shown by the grey arrow above.

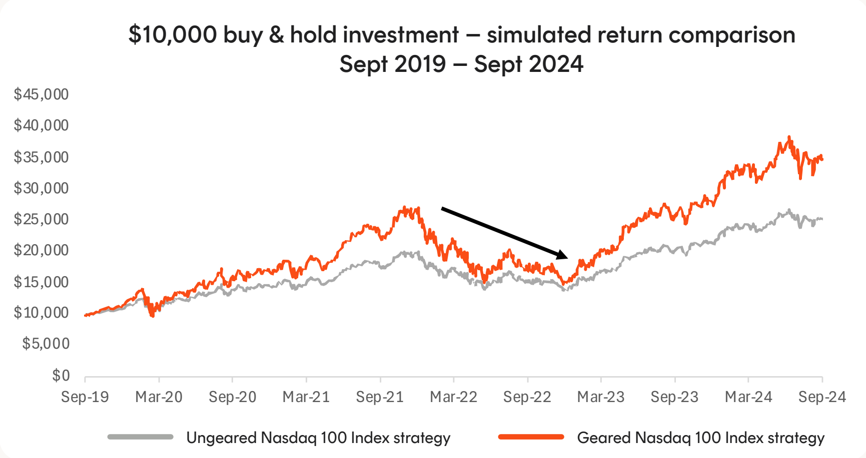
For example, during 2022, when growth equities sold off aggressively as central banks raised interest rates at the fastest pace in history, a DCA approach using a geared Nasdaq 100 Index portfolio helped mitigate the overall drawdown to around -25% throughout that year.

Source for the chart above: Bloomberg, Betashares. Refer to the "Important Information" section on page 6 for further information and key assumptions. This information is provided for illustrative purposes only and is not representative of actual fund performance. Actual outcomes may differ materially. The information is not a recommendation or offer to make any investment or to adopt any particular investment strategy. **Simulated past performance is not indicative of future performance of any fund or strategy.**

Using dollar cost averaging to save for a house deposit

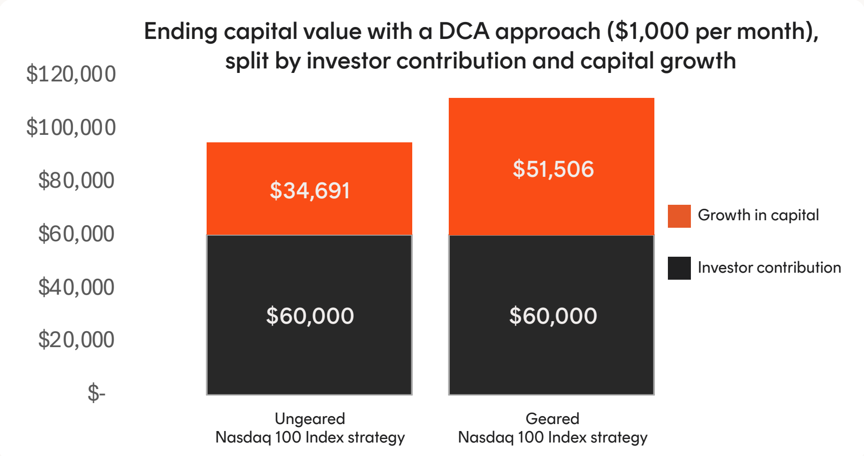
However, if the hypothetical investor had all their capital invested at the start of the period in a 5-year moderately geared "buy and hold" strategy (as shown below), the drawdown impact in 2022 would have been magnified and significantly dented the capital value by around -44% (notice the black arrow shows a deeper drawdown).

These illustrative examples show that consistently investing without having regard to market levels (i.e., a DCA approach) can help to reduce the impact of bad market timing. If you invest regardless of whether markets are down or trending upwards, a DCA approach helps to avoid the difficulty of 'timing the market', which can provide more peace of mind during periods of heightened market volatility. That discipline of continuing to invest during and after a market fall has the potential to accelerate your recovery of capital.



If you invest regardless of whether markets are down or trending upwards, a DCA approach helps to avoid the difficulty of 'timing the market'.

In conclusion, had the hypothetical investor's goal been to save for a $100,000 home deposit over the 5-year simulation period, they would have achieved this with the geared DCA Nasdaq 100 Index strategy. However, reaching their goal would not have been possible using the corresponding ungeared strategy (remembering of course that past performance is not indicative of future performance).



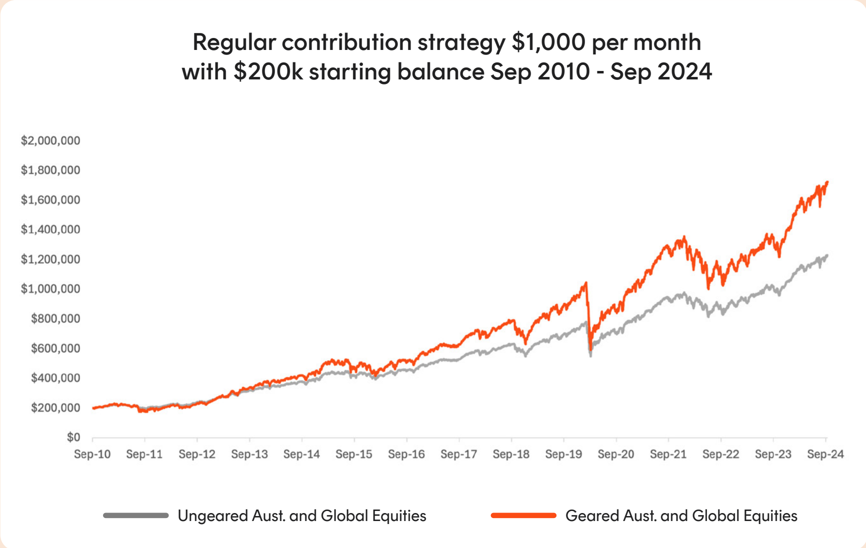
Source for the charts above: Bloomberg, Betashares. Refer to the "Important Information" section on page 6 for further information and key assumptions. This information is provided for illustrative purposes only and is not representative of actual fund performance. Actual outcomes may differ materially. The information is not a recommendation or offer to make any investment or to adopt any particular investment strategy. **Simulated past performance is not indicative of future performance of any fund or strategy.**

Regular contribution strategy for a superannuation investor

A regular contribution into a moderately geared strategy can also be an effective way for superannuation members to accelerate the capital accumulation process into retirement phase.

For an adviser, providing customised advice to a investor where a moderately geared strategy is appropriate may add significant value in comparison to the default options offered by most industry super funds.

To illustrate, consider a member in the mid to late stage of her career seeking to maximise the amount of capital she will have in retirement phase. The benefit of this strategy is that she can eventually sell more of her capital on a tax-free basis once in retirement phase, providing additional flexibility to meet lifestyle outcomes and the minimum pension drawdown rate.



For example, if this member had a $200,000 starting super balance in September 2010 and invested $1,000 every month for 14 years into a moderately geared Australian and global equities strategy, she would have an ending balance just over $1.7 million for the simulated historical comparison period.

Similar to the DCA example earlier, a regular contribution strategy helps to ensure that a superannuation member remains invested in the market. Using a geared strategy has the potential to increase the amount of capital one can generate throughout accumulation phase and eventually use tax-free once he or she enters retirement phase.

This can offer a significant value-add over the default options available to individuals through their super fund.

> Using a geared strategy has the potential to increase the amount of capital one can generate throughout accumulation phase and eventually use tax-free once he or she enters retirement phase.

Source for the chart above: Bloomberg, Betashares. Refer to the “Important Information” section on page 6 for further information and key assumptions. This information is provided for illustrative purposes only and is not representative of actual fund performance. Actual outcomes may differ materially. The information is not a recommendation or offer to make any investment or to adopt any particular investment strategy. **Simulated past performance is not indicative of future performance of any fund or strategy.**

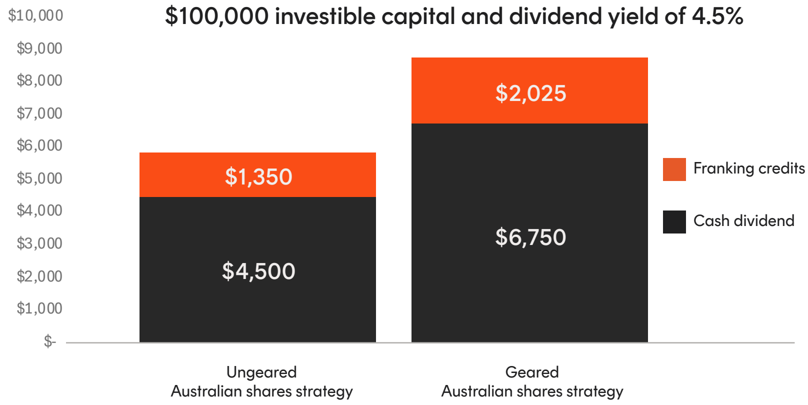
Increasing franking credits

Franking credits are another important consideration for investors seeking additional income from their equity investments.

Because gearing magnifies one's exposure to the market, an investor in a geared strategy may also be entitled to receive more franking credits depending on their eligibility.

The hypothetical example on the right illustrates this by comparing the uplift in total income one could receive by investing $100,000 in a geared Australian shares strategy compared to investing in a corresponding ungeared strategy.

Increased franking credits through gearing Based on $100,000 investible capital and dividend yield of 4.5%



In this hypothetical example, at a loan to value ratio of 33%, investing $100,000 in a geared strategy magnified the capital exposure to around $150,000. With this increased exposure, the geared strategy has the potential to generate more income (both cash dividend and franking credits).

This reflects an uplift in the gross yield from around 5.9% for the ungeared strategy to 8.8% for the geared strategy.

Boosting total income can have many advantages for investors and provide additional flexibility to meet various financial and lifestyle needs.

In addition, by allocating part of an SMSF portfolio to a geared Australian equity strategy during accumulation phase, a member could generate franking credits that can then be used to offset part of the tax liability that the SMSF portfolio incurs.

Investors can gain an exposure to a 'moderately geared' Australian equities strategy through the Betashares Wealth Builder Australia 200 Geared (30-40% LVR) Complex ETF (ASX: G200).

This reflects an uplift in the gross yield from around 5.9% for the ungeared strategy to 8.8% for the geared strategy.

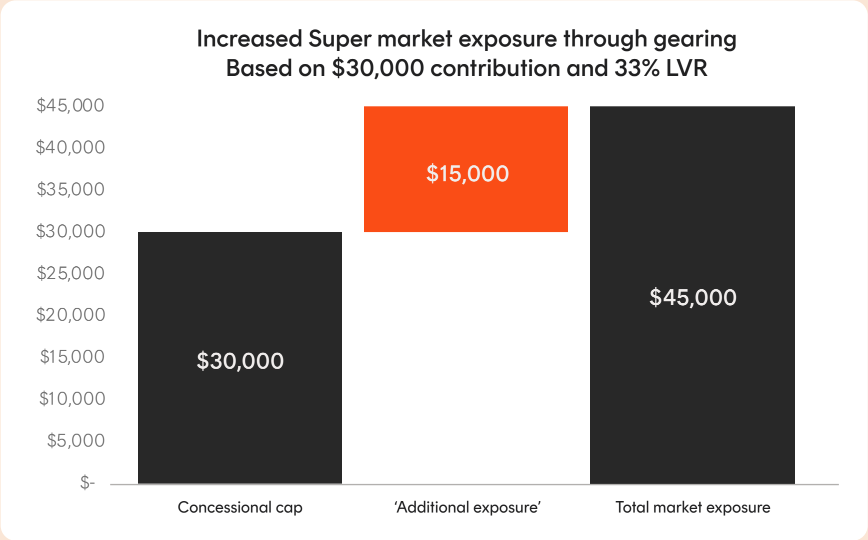
Hypothetical example provided for illustrative purposes only. Not representative of actual fund performance. Actual outcomes may differ materially. This information is not a recommendation or offer to make any investment or adopt any particular investment strategy. Not all Australian investors will be able to receive the full value of franking credits. Assumptions: Investor has $100,000 of investible capital, a cash dividend yield of 4.5% with 70% franking, and the geared portfolio has a loan to value ratio (LVR) of 33%. Assumes a company tax rate of 30%.

Case study 5

Boosting concessional contributions in superannuation

Geared strategies can allow investors to get more out of their super contributions by increasing market exposure beyond the current super contribution cap of $30,000 limit.

For example, at a loan-to-value ratio of 33%, an investor would gain an 'additional' $15,000 exposure to the market if they had contributed the cap of $30,000.



Whilst this 'additional exposure' of $15,000 may not seem overly significant at first, it is important to understand that with the power of compounding, such a strategy could return a significantly higher capital value in the long term assuming the relevant market generally rises over the relevant period.

Investors may consider using the 'moderately geared' ETFs in the Betashares Wealth Builder range to achieve this objective.

This case study may be a suitable strategy for superannuation investors approaching retirement, as one could then delay crystallisation of capital gains until after they retire, when they no longer have any tax obligations. Assuming the geared investment strategy delivers positive returns, the larger asset base could be particularly important within pension phase to fund the minimum drawdown rate of 5%.

Hypothetical example provided for illustrative purposes only, assuming an LVR of 33%. Not a recommendation to invest or adopt any investment strategy. Gearing magnifies gains and losses and may not be a suitable strategy for all investors. Geared investments involve significantly higher risk than non-geared investments.

Case study 6

Gearing as an efficient use of capital

Where a loan is drawn down to purchase a non-income generating asset, such as a house or apartment used as a principal residence, the interest on that loan is not deductible for tax purposes. From this perspective, this type of debt may be considered "inefficient".

It may be appropriate for an Australian homeowner with an outstanding mortgage to instead "recycle" some of this non-deductible debt into a more "efficient" form of debt – with the objective of reducing their outstanding home loan balance and paying off their mortgage sooner.

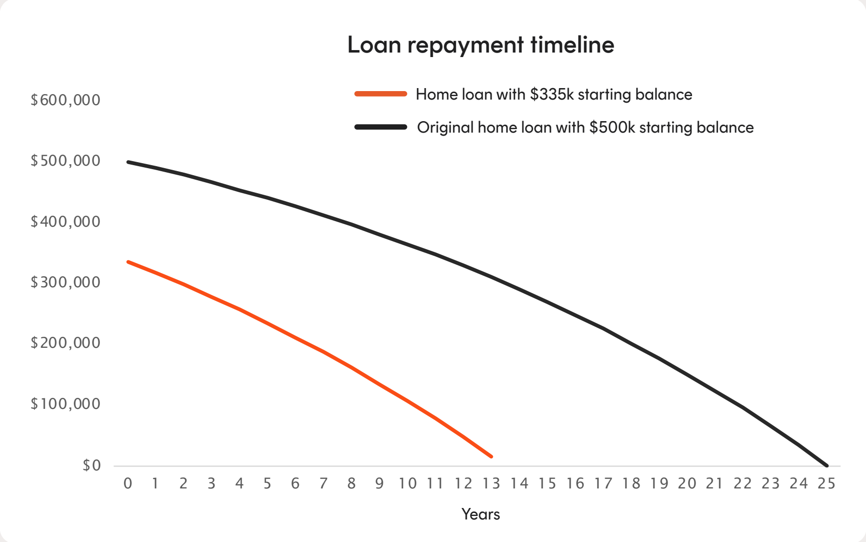
Consider a couple in their mid-30s, who have a $500,000, 25-year term home loan that they would like to repay sooner. They also have an Australian share portfolio with a value of $500,000 and would prefer to retain their exposure to the share market, rather than sell this investment to repay their home loan.

A potential strategy is to sell their current ASX listed shares portfolio valued at $500,000 and then invest $335,000 of the proceeds into G200, with a loan to value ratio of 33% at the time of purchase.

By using this strategy, the couple is able to:

- retain their current $500,000 exposure to Australian shares and potential related capital growth, income and franking credit benefits
- reduce their home loan by $165,000, being the amount of the proceeds from the sale of the share portfolio remaining after investing into the moderately geared Australian shares strategy.

They may then also choose to leave their home loan repayment amount at its current level to repay the remaining related debt sooner as shown in the chart below.



Using a geared strategy like G200 can allow investors to reduce their home loan balance by recycling part of this non-deductible debt into a more "tax efficient" deductible debt[2].

Investors are also able to retain their exposure to Australian shares and potential capital gains, income and franking credit benefits for a lesser capital outlay.

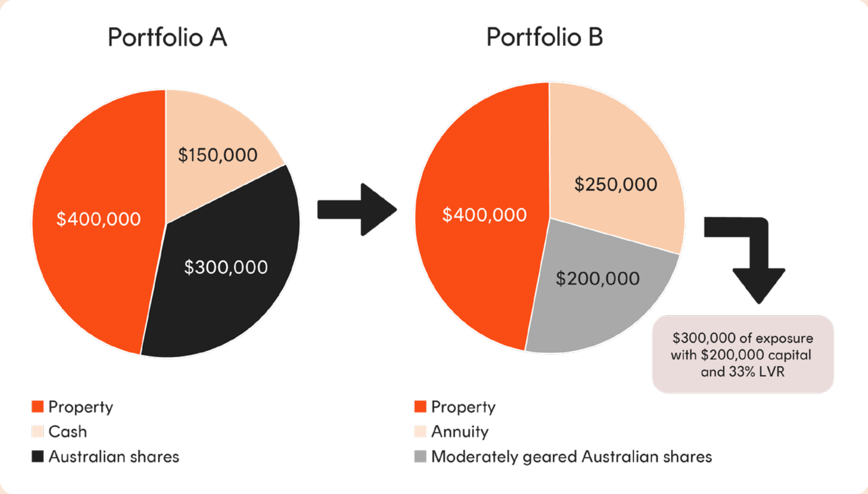
[2] Utilising an 'internally geared' fund to implement this strategy would mean the fund borrows the money, instead of the investor. Interest costs are therefore deducted at the fund level. Given the income received in the fund is expected to exceed the borrowing costs incurred, there should be no after-tax difference between the investor receiving the benefit of interest deductions indirectly via the fund and receiving it directly if they had borrowed in their own name.

Optimising outcomes in pension

Managing a investor's wealth during pension phase can be challenging. As people are living longer, there may be a need for a higher allocation to growth assets, like equities, to outrun inflation. And the interaction of a investor's investments with the pension asset test can meaningfully change any pension entitlements.

Lifetime annuities are a good tool for generating income needed in retirement and are favourably treated under the pension asset test. Depending on a investor's circumstances and objectives, an adviser could consider using a lifetime annuity in combination with a 'moderately geared' ETF like Betashares Wealth Builder Australia 200 Geared (30-40% LVR) Complex ETF (G200), to seek to boost pension income payments whilst also retaining a specific level of investment exposure to the equity market.

In the example below, we compare two hypothetical portfolios held within super. We assume the member in this instance is a couple in pension phase who owns their home, receives the age pension and account-based pension, and has no other sources of income. They do not wish to sell the investment property.



- Portfolio A holds $150,000 in cash, $300,000 in Australian equities, and $400,000 in property
- Portfolio B maintains the total investment value of $850,000; however, $100,000 is taken out of the Australian equities portion (with the remaining $200,000 invested in G200) and moved into a lifetime annuity with the initial $150,000 cash.

Lifetime annuities are a good tool for generating income needed in retirement and are favourably treated under the pension asset test.

By combining a lifetime annuity with an allocation to G200, the couple shifting from Portfolio A to Portfolio B could potentially increase their annual pension payments by $7,795 – from $11,926 to $19,721. This increased pension entitlement is due to the discounted value assigned to a lifetime annuity when assessed under the pension assets test.

Importantly, Portfolio B's exposure to the equity market is also retained as the geared portfolio of shares increases the investor's exposure.

In this example, although the amount of capital invested in equities dropped by $100,000, the $200,000 invested in G200 effectively provides a leveraged exposure to the market of around 1.5x (assuming a loan to value ratio of 33%) on a given day.

This equates to roughly $300,000 of exposure to Australian equities in Portfolio B on a given day – the same amount of exposure held via Portfolio A.

About Betashares Wealth Builder ETFs

The Wealth Builder ETFs provide investors with the potential to build long-term wealth through diversified exposure to Australian and global shares using a 'moderate' level of gearing.

The Wealth Builder range currently comprises three ETFs.

Exposure	Australian Equities	Australian and global equities	Nasdaq 100
ETF	Betashares Wealth Builder Australia 200 Geared (30-40% LVR) Complex ETF	Betashares Wealth Builder Diversified All Growth Geared (30-40% LVR) Complex ETF	Betashares Wealth Builder Nasdaq 100 Geared (30-40% LVR) Complex ETF
ASX Code	ASX: G200	ASX: GHHF	ASX: GNDQ
Underlying portfolio	200 of the largest ASX-listed companies	Diversified basket of Australian and global developed and emerging markets equities	100 of the largest non-financial companies listed on the Nasdaq
Management fee	0.35% p.a. of Gross Asset Value	0.35% p.a. of Gross Asset Value	0.50% p.a. of Gross Asset Value
Loan to value ratio range	30-40%	30-40%	30-40%
Geared exposure range[3]	1.43x - 1.67x on a given day	1.43x - 1.67x on a given day	1.43x - 1.67x on a given day

These ETFs are internally geared which means Betashares arranges the borrowing on behalf of the ETF itself, ensuring that investor risk is limited to the capital invested, with no possibility of margin calls for investors.

Additionally, investors benefit from institutional interest rates that Betashares is able to access, which are typically significantly lower than margin loans or those available to individual investors seeking to borrow in their own capacity.

For further details about each ETF's investment strategy and an explanation of the mechanics of gearing, please refer to the Wealth Builder Brochure.

[3] Each Fund's returns will not necessarily be in the stipulated geared exposure range over periods longer than a day, primarily due to the effects of rebalancing to maintain the Fund's daily target geared exposure range and the compounding of investment returns over time, as well as the impact of fees and costs. Each Fund's returns over periods longer than one day may differ in amount and possibly direction from the daily target geared return range.

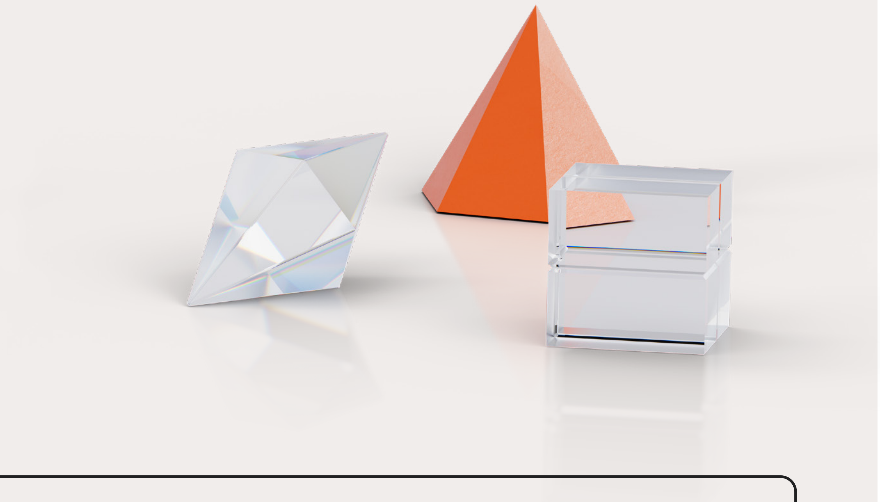
betashares

betashares

Contact us today

T: 1300 487 577 (within Australia)
T: +61 2 9290 6888 (outside Australia)
E: info@betashares.com.au
W: betashares.com.au

@Betashares
/Betashares



The gearing ratio of between 30% and 40% means that each Fund's geared exposure is anticipated to vary between ~143% and 167% of the Fund's Net Asset Value on a given day. Each Fund's portfolio exposure is actively monitored and adjusted to stay within this range.

Each Fund's returns will not necessarily be in this range over periods longer than a day, primarily due to the effects of rebalancing to maintain the Fund's daily target geared exposure range and the compounding of investment returns over time, and the impact of fees and costs.

Each Fund's returns over periods longer than one day may differ in amount and possibly direction from the daily target geared return range. This effect on returns over time can be expected to be more pronounced the more volatile the relevant sharemarket or portfolio and the longer an investor's holding period.

Due to the effects of rebalancing and compounding of investment returns over time, investors should not expect each Fund's Net Asset Value to be at a particular level for a given value of the relevant sharemarket or portfolio at any point in time.

Investors should monitor their investment regularly to ensure it continues to meet their investment objectives.

Gearing magnifies gains and losses and may not be a suitable strategy for all investors. Investors in geared strategies should be willing to accept higher levels of investment volatility and potentially large moves (both up and down) in the value of their investment. Geared investments involve significantly higher risk than non-geared investments. An investment in each Fund is high risk in nature.