BetaShares
Exchange Traded Funds

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BETASHARES' TOP 3 GLOBAL TACTICAL TRADES USING ETFS

HOW TO ACCESS SOME OF THE 98% OF INVESTMENT OPPORTUNITIES THAT ARE OUTSIDE OF AUSTRALIA

INTRODUCTION

Despite the initial shock of the COVID-19 crisis earlier this year, the global economy and equity markets now appear to be on a gradual recovery path supported by major fiscal and monetary stimulus and a progressive easing in social distancing restrictions.

While COVID-related risks clearly remain, the disease is now somewhat better understood, and more countries are trying to manage the outbreak without a return to the harsh economic lockdowns of earlier this year.

At the same time, given the high level of research activity, confidence is growing that a vaccine could be available sometime next year. Against this background, and with global inflation and interest rates still very low, equity markets might continue to offer an attractive source of return for many investors.

One increasingly well-known opportunity is leading U.S. tech darlings such as Facebook, Amazon, Apple and Google, exposure to which is easily achieved on the Australian Securities Exchange (ASX) through the Betashares NASDAQ-100 ETF (ASX Code: NDQ), but this special report outlines what I consider to be three alternative global investment opportunities. Of course, this report is general in nature and readers should always do their own research and consider the suitability of any potential investment in light of their own circumstances and as a component of a broader portfolio.

WHAT IS AN EXCHANGE TRADED FUND (ETF)?

An ETF is a managed fund that is traded on a stock exchange – just like any share. ETFs are one of the fastest growing categories of investment products in the world. The reason for this is clear – ETFs offer simple, liquid, transparent, low cost and flexible investment options for investors. ETFs aim to closely track the performance of a given index or asset class, and provide the returns of that index/asset class - less any fees. ETFs provide access to a range of bonds, shares (both domestic and global), or other asset types (such as commodities or listed property).

DAVID BASSANESE,
BETASHARES CHIEF ECONOMIST

1) TAKE A BITE OF ASIA'S TECH TIGERS

Although U.S. technology giants attract most of the headlines, some may be surprised to know that Asia also has a thriving tech sector, and in several respects China is already ahead of the U.S. in terms of technology use.

Did you know, for example, that China had 854 million internet users as at end-2019, or more than 2.5 times as many as in the U.S.?[1] What's more, 23% of Chinese retail spending was transacted online last year, compared to only 10% in the U.S.[2] and 76% of online payments in China were made via a mobile phone, compared to only 38% in the U.S.[3]

It's perhaps not surprising, therefore, that Asia is home to four of the 10 largest technology companies in the world. China-based Alibaba, for example, is now the world's largest retailer, with its sales and profits surpassing that of all U.S. retailers (including Walmart, Amazon and eBay) combined since 2015. Baidu, meanwhile, runs China's most popular search engine, far surpassing Google in terms of market share. And Tencent runs China's most popular social networking sites, far exceeding the reach of Facebook.

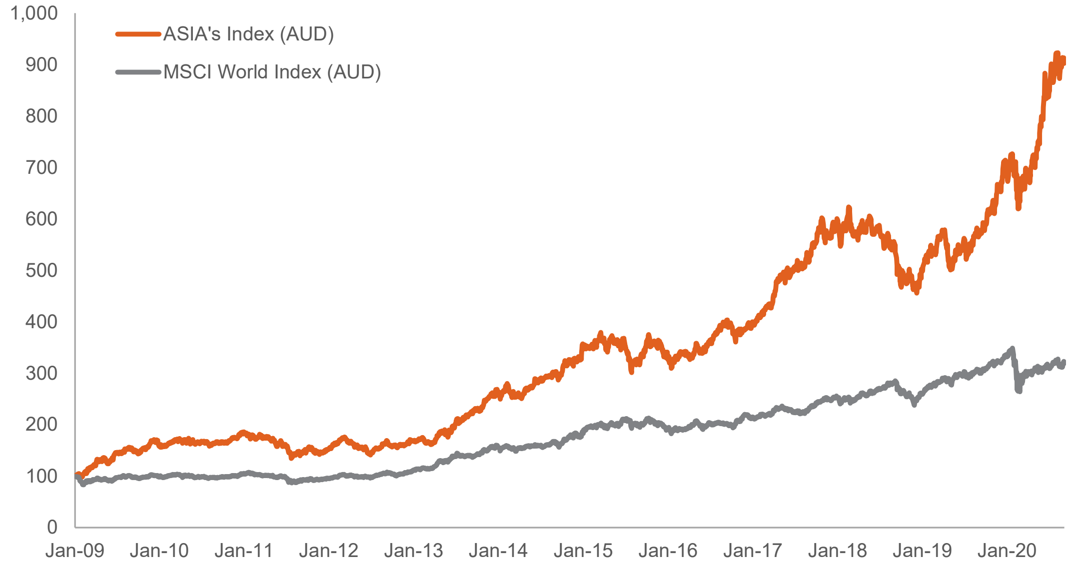
So how can investors put some Asian tech tigers in their portfolio? The [BetaShares Asia Technology Tigers ETF (ASX code: ASIA)] provides access to a portfolio of the 50 largest technology companies in Asia (ex-Japan), which includes the Asian tech giants referred to above such as Alibaba, Tencent and Baidu – just to name a few.

As seen in the chart below, the index which ASIA aims to track has been a significant performer amongst global sharemarkets. Indeed, this index returned 59.7% in $A terms for the 12 months to 30 September 2020, and it has enjoyed returns of 20.3% and 22.9% p.a. over the past 3 years and 5 years respectively to 30 September 2020[4].

The demand outlook for Asian technology remains strong. According to a study by Google and Temasek Holdings, in 2019 the Southeast Asian internet economy reached $100 billion in gross merchandise value across the Online Travel, e-Commerce, Online Media and Ride Hailing sectors. If the industry maintains the growth rate of the last few years, the Southeast Asian internet economy is on track to hit $300 billion by 2025.

It also bodes well that Asia's leading online technology companies are arguably not, at the time of writing, trading at demanding valuations by the standards of their U.S. counterparts. At 30 September 2020, for example, the price-to-forward earnings (PE) ratio for leading Asian technology companies was around 24.7, compared to around 31.8 times earnings for shares within America's tech-heavy NASDAQ-100 Index[5].

ASIA's index vs. MSCI World All-Country Index: Net Returns, $A: 30 January 2009 to 30 September 2020



Source: Bloomberg. Past performance is not an indicator of future performance of Index or ETF. You cannot invest directly in an index. Does not take into account ETF's fees and costs. An investment in ASIA is subject to risks, such as country, concentration and information technology sector risk.

[1] Source: InternetWorldStats.com
[2] Source: J.P. Morgan Global Payment Trends 2019
[3] Source: J.P. Morgan Global Payment Trends 2019
[4] Source: BetaShares, Bloomberg.
[5] Source: Bloomberg.

2) JOIN THE ROBOT REVOLUTION

Another global opportunity is robotics and artificial intelligence (A.I.). Indeed, contrary to fears that "robots will take our jobs", the reality is that the global economy faces labour shortfalls in coming years due to both population ageing and declining birthrates. Together with rapid technological advances, this is creating opportunities for the deployment of labour-saving robotic devices in a widening array of industries. A.I. takes these advances even further, by effectively teaching robots to teach themselves, and thereby enabling them to undertake tasks of ever greater complexity.

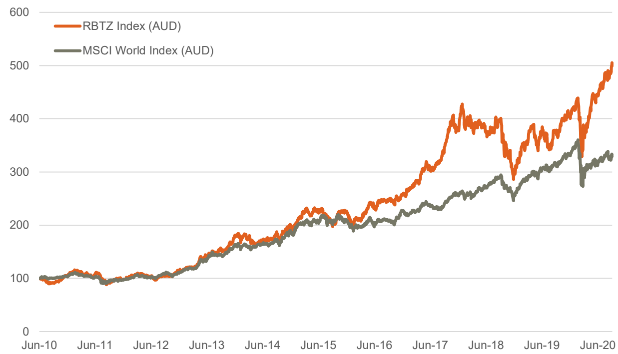
Did you know, for example, that some estimates suggest one quarter of U.S. manufacturing operations will be automated by 2025, up from only around 10% today?[1] The International Federation of Robotics also recently reported a new record of 2.7 million industrial robots operating in factories around the world - an increase of 12% since 2019[2]. Robots are also being adopted into many other industries, such as healthcare where they are assisting in delicate surgeries and round the clock care for the elderly and sick.

The global robotics industry is forecast to enjoy compound annual growth of 26% over the next 5 years, where it is predicted to reach ~US$210 billion in 2025[3], while the global A.I. market is forecast to grow at a compound annual rate of 42.2% from 2020 to 2027[4].

So how can investors add a few robots to their portfolio? The [BetaShares Global Robotics and Artificial Intelligence ETF (ASX Code: RBTZ)], provides access to the leading global companies that either derive a significant portion of their revenues from robotics and A.I.-related activities or can demonstrate that these industries are a primary business focus. Each company must also have a minimum market capitalisation of US$100m.

As seen in the chart below, the index which RBTZ aims to track has returned 32.9% for the 12 months to 30 September 2020, and has enjoyed compound annualised growth of 13.05% and 20% over the past 3 years and 5 years respectively to 30 September 2020[5], reflecting the strong underlying demand that has been emerging for robotic and A.I. technologies.

RBTZ's index vs. MSCI World All-Country Index: Net Returns, $A: 30 June 2010 to 30 September 2020



Source: Bloomberg. Past performance is not an indicator of future performance of Index or ETF. You cannot invest directly in an index. Does not take into account ETF's fees and costs. An investment in RBTZ is subject to risks, such as concentration, smaller companies and robotics & artificial intelligence companies risk.

Given the relatively low exposure of Australia's sharemarket to technology companies, both RBTZ and ASIA provide a handy source of diversification and growth potential for Australian investors' portfolios. What's more, both ETFs could be considered a good complement and source of technology diversification for investors who may already hold a more traditional global technology exposure such as the BetaShares NASDAQ-100 ETF (ASX Code: NDQ), which has a large exposure to U.S. based informational technology companies.

The index which ASIA aims to track, for example, has no exposure to U.S.-based tech firms, and instead currently has a hefty 55% exposure to Chinese companies and approximately one fifth exposure to Korean and Taiwanese companies respectively. RBTZ, by contrast, currently has a relatively larger 43% exposure to Japanese companies, compared to only 34% exposure to U.S. companies as at 30 September 2020. RBTZ is also more highly exposed to industrial companies (45%) compared to a 37% share to information technology companies.

USING ETFS IN YOUR PORTFOLIO

ETFs offer investors flexibility to implement a wide range of investment strategies. For example - Portfolio construction and asset allocation: ETFs can be used as core holdings in a portfolio and as building blocks for portfolio construction. Core/satellite strategy: ETFs can be used to build a core portfolio of broadly diversified indices or asset classes. Single individual stocks can then be added as alpha generating 'satellites'.

[1] Source: The Boston Consulting Group.
[2] Source: IFR, World Robotics Report 2020.
[3] Source: Statista.
[4] Source: Grand View Research, Artificial Intelligence Market Analysis Report, July 2020
[5] Source: Bloomberg, BetaShares.

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3) EMBRACE GLOBAL QUALITY

Another way to approach global investing is to focus on companies with certain characteristics, or 'factors', that tend to generate good share price returns over time.

One factor that has tended to do well in recent years is 'quality', which captures those companies with an above average ability to generate strong sustained profits on shareholder funds (i.e. return on equity), without reliance on excessive leverage.

It stands to reason that companies with a relatively high sustained return on equity should be able to generate relatively high sustained profits and share price gains over time. What's more, history suggests these 'quality' companies also tend to hold up relatively well in times of general sharemarket weakness, as investors gravitate to companies with sound finances that are better placed to weather the storm.

Due to their generally low capital requirements, many 'quality' companies are in the technology sector. Quality companies can also be found across a diverse range of sectors such as healthcare, industrials, communications and consumer stocks.

So how can investors add an exposure to quality global companies to their portfolio? The BetaShares Global Quality Leaders ETF (ASX Code: QLTY) provides access to leading global quality companies, as identified by quantitative screening of corporate financial metrics.

Specifically, from a universe of 1800 stocks across global markets, the index which QLTY aims to track identifies the top 150 that each year pass a series of quantitative screens covering return on equity, financial health, profitability and business stability.

For investors who wish to minimise the impact of currency fluctuations on returns, the BetaShares Global Quality Leaders ETF – Currency Hedged (ASX: HQLT) is also available. This provides exposure to the same companies as QLTY, with the associated foreign currency exposure hedged back into Australian Dollars.

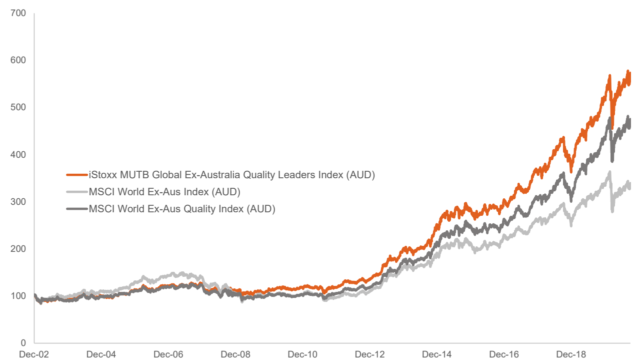
INTERNATIONAL INVESTING, WITHOUT THE ADDED PAPERWORK!

Like all BetaShares Funds, the funds referred to in this special report are domiciled in Australia. As such, unlike the many 'cross listed' funds on the Australian market providing international investment exposure, investors in BetaShares Funds do not need to fill out U.S. tax forms (known as W-8 BEN forms), or risk any potential U.S. estate tax issues. Also, like all BetaShares ETFs, they can be bought and sold on the ASX in Australian dollars as simply as being any share.

As at 30 September 2020, the index that QLTY and HQLT aim to track includes technology names such as Apple, NVIDIA, and Intel Corp. It also includes healthcare companies such as United Health Group and Novo Nordisk, consumer companies such as Nike and L'Oreal, and industrial companies such as 3M and Recruit Holdings.

As seen in the chart below, QLTY's index of global quality companies has returned 17.9% in $A terms for the 12 months to 30 September 2020, and it has enjoyed compound annualised growth of 15.5% and 19.7% over the past 3 years and 5 years respectively to 30 September 2020[1].

QLTY's index vs. MSCI World ex-Aus Index vs. MSCI World ex-Aus Quality Index: Net Returns $A: 27 December 2002 to 30 September 2020



Source: Bloomberg. Past performance is not an indicator of future performance of Index or ETF. You cannot invest directly in an index. Does not take into account ETF's fees and costs. An investment in QLTY/HQLT is subject to risks, such as concentration and index methodology risk.

BetaShares International ETFs

ASX TICKER	FUND NAME	MGT COSTS (% p.a.)
ASIA	Asia Technology Tigers ETF	0.67%
BNKS	Global Banks ETF – Currency Hedged	0.57%
DRUG	Global Healthcare ETF – Currency Hedged	0.57%
ETHI	Global Sustainability Leaders ETF	0.59%
F100	FTSE 100 ETF	0.45%
FOOD	Global Agriculture Companies ETF – Currency Hedged	0.57%
FUEL	Global Energy Companies ETF – Currency Hedged	0.57%
HACK	Global Cybersecurity ETF	0.67%
HETH	Global Sustainability Leaders ETF - Currency Hedged	0.63%
HEUR	Europe ETF – Currency Hedged	0.56%
HJPN	Japan ETF – Currency Hedged	0.56%
HNDQ	NASDAQ 100 ETF - Currency Hedged	0.51%
HQLT	Global Quality Leaders ETF - Currency Hedged	0.38%
IIND	India Quality ETF	0.80%
MNRS	Global Gold Miners ETF – Currency Hedged	0.57%
NDQ	NASDAQ 100 ETF	0.48%
QLTY	Global Quality Leaders ETF	0.35%
QUS	FTSE RAFI U.S. 1000 ETF	0.40%
RBTZ	Global Robotics and Artificial Intelligence ETF	0.57%
UMAX	S&P 500 Yield Maximiser Fund (managed fund)	0.79%

[1] Source: Bloomberg, BetaShares.

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Learn more about BetaShares

BetaShares is a leading manager of ETFs and other Funds that are traded on the Australian Securities Exchange ('ASX'). Our aim is to provide intelligent investment solutions for Australian investors.

Visit our website and explore our full range of Funds that can help you achieve your financial objectives.

Important Information:

There are risks associated with an investment in any of the Funds, including market risk, industry sector risk and concentration risk. For more information on risks and other features of the Funds, please see the relevant Product Disclosure Statement.

www.betashares.com.au