betashares

Embrace the trend:

Invest in Australian companies showing strong momentum

ASX: MTUM

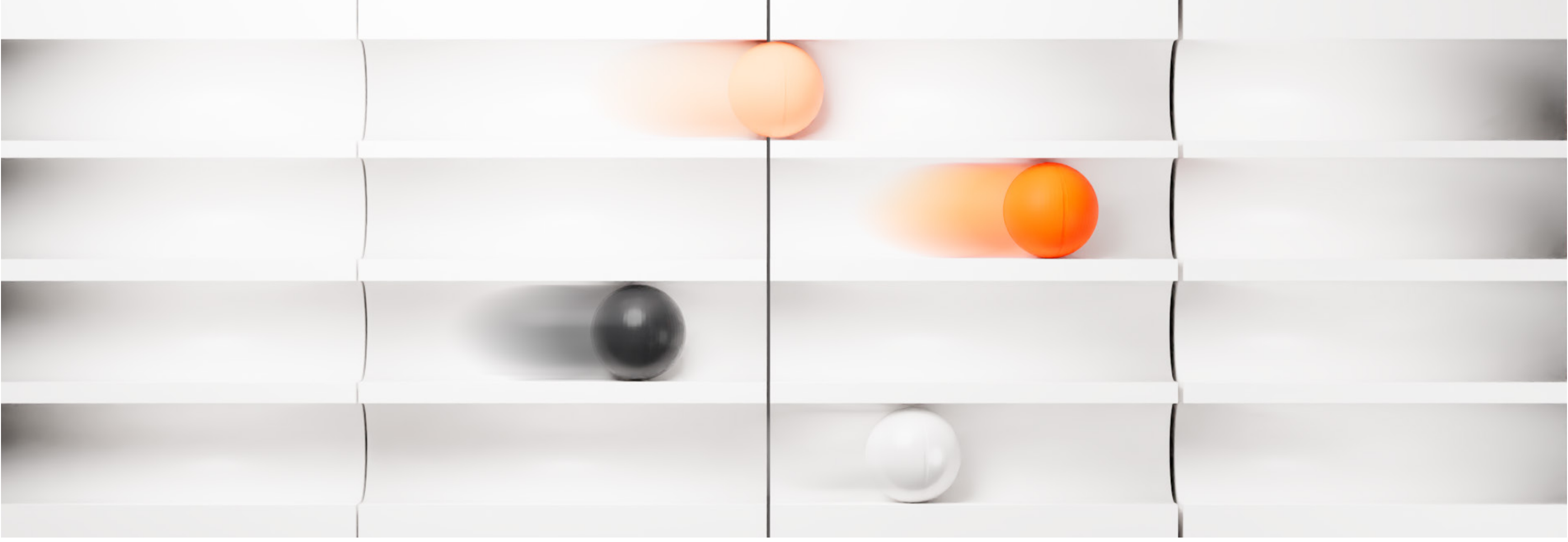
Betashares Australian Momentum ETF

Momentum is a powerful phenomenon in the physical world – characterised as an object's ability to maintain or increase its speed or force. But what if we applied this concept to investing? By buying stocks that are increasing in price while avoiding or selling those that are not, can we potentially harness the power of momentum in financial markets?

As this paper will explain, there is academic research and empirical data that demonstrate the benefits of momentum investing.

Investors can now access a convenient, systematic way to implement momentum investing in Australian equities, with **Betashares Australian Momentum ETF (ASX: MTUM)**, the first ETF to provide access to a momentum strategy over Australian shares.

MTUM aims to track an index (before fees and expenses) comprising a portfolio of Australian companies with above-average momentum scores, as measured by their risk-adjusted returns.



Reasons to consider MTUM:

- **Proven investment approach**

  Momentum investing aims to identify stocks that show a recent trend of outperforming the broad market, and is an approach supported by economic theory and empirical data.

- **Portfolio diversification**

  Momentum investing provides a unique return profile that can blend well with other active and passive equity funds.

- **Convenient, systematic way to implement momentum investing**

  Momentum investing can be difficult to implement and is susceptible to human bias. MTUM's index is purely rules-based, prioritising stocks with strong and consistent momentum, while cutting the worst performers quickly.

What is momentum investing?

Momentum investing is an investment strategy that involves buying companies that have outperformed and selling or avoiding those that have underperformed in the recent past.

Backed by academic research, momentum is a well-known 'style factor' (alongside value and growth).

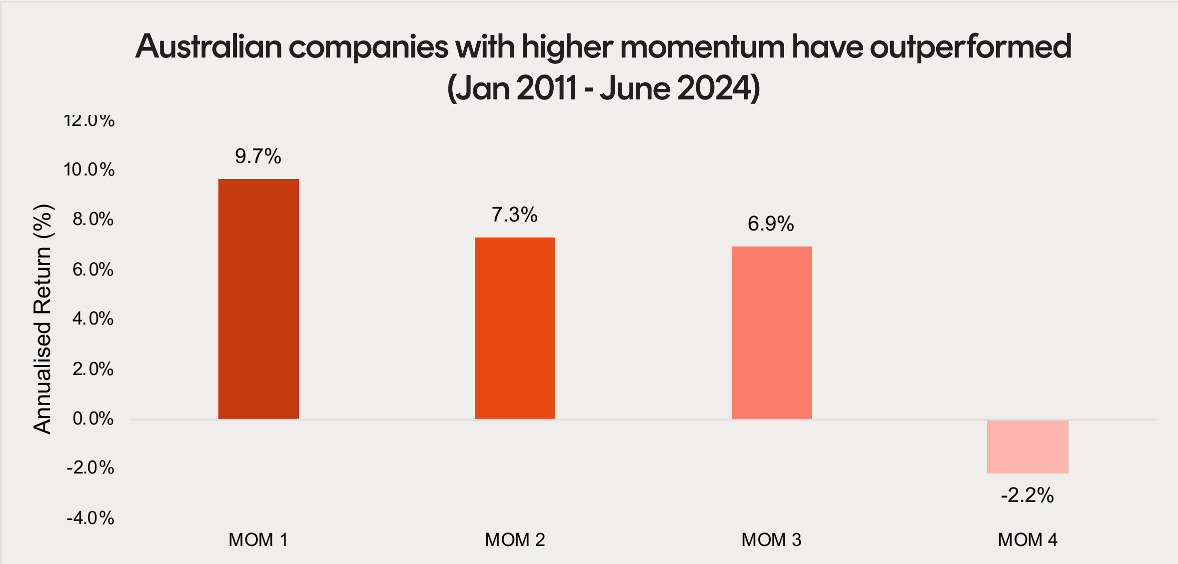
Rather than aiming to profit from underlying company fundamentals, momentum investing instead is based on the theory that rising asset prices tend to continue rising, and falling prices tend to continue falling.

Why should investors consider a momentum-based investment strategy?

Momentum can play a key role in investors' portfolios, by potentially providing enhanced returns when compared to a broad based, market cap-weighted equity fund, or as a complement to other equity funds.

The below analysis illustrates the performance of 200 of the largest Australian companies grouped into quartiles by their ***momentum rankings*** based on their risk-adjusted returns (12-month total return/12-month volatility), weighted equally and rebalanced semi-annually.

The top 50 stocks by momentum ranking are grouped into the first quartile MOM 1 with MOM 2 consisting of stocks with the next 50 highest risk-adjusted rankings, and so on.



Source: Solactive, Betashares as at 25 June 2024. **Past performance is not indicative of future returns.**

The chart above shows that, over this period, stocks with the highest momentum scores (MOM 1) achieved far superior performance (by around 12% p.a.) to stocks with the lowest momentum scores (MOM 4), while both MOM 2 and 3 lie somewhere in between.

Why does momentum work?

The initial research on momentum was published by Jegadeesh and Titman in 1993[1], and has been found to be persistent since that time and pervasive across a range of countries and asset classes.[2]

There is often a misconception that if a factor like momentum is so well-known, returns can't be sustained over the long-run. Wouldn't this source of outperformance be susceptible to being competed away?

In response, there are two main adduced explanations: behavioural, and risk-based.

The behavioural explanation says that momentum exists because of investors' cognitive biases like herding behaviour, whereby the buying pressure of investors following the crowd leads to a self-fulfilling prophecy which accelerates the momentum trend and the fear of missing out.

Another behavioural explanation for the momentum phenomenon is the 'limited attention bias' that assumes there is a limit to the amount of information an investor can process in a given period. As a result, you would be more likely to act (buy or sell) when there is a large movement in the share price of a company, as this information is readily available and recallable, than when a stock moves in a small and gradual manner. The end result is that investors with this bias tend to buy into a stock that's going up while selling those that are going down – fuelling momentum.

The risk-based explanation holds that you are being compensated for bearing risk – i.e. the risk of markets suddenly plunging in the event of a recession or major correction. While momentum (as a well-established factor) has positive expected returns over the long run, it can come with large but infrequent losses that risk-averse investors may wish to avoid. For example, momentum experienced a sharp negative reversal throughout the Global Financial Crisis of 2008, but recovered in the years after.

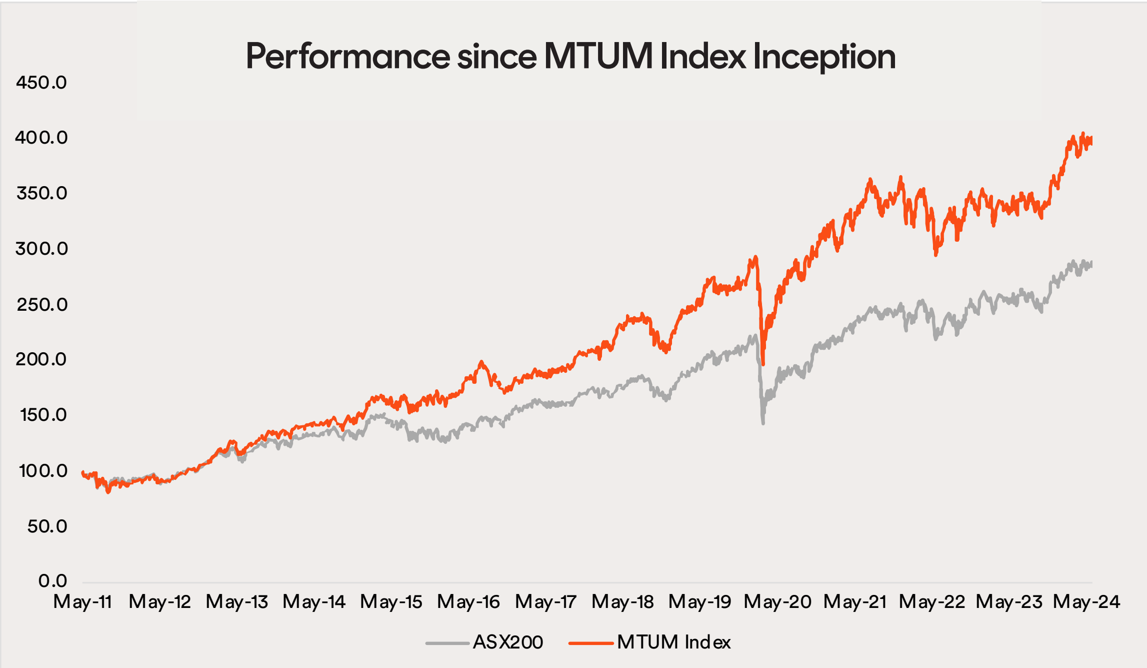
[1]Jegadeesh, N. and Sheridan, T., (1993). "Returns to Buying Winners and Selling Losers: Implications for Stock Market Inefficiency." Journal of Finance. 48, 65-91.

[2]Your Complete Guide to Factor-Based Investing by Andrew L. Berkin & Larry E. Swedroe (2016). See Chapter 4 'The Momentum Factor' pp. 76-80.

Introducing Betashares Australian Momentum ETF (ASX: MTUM)

Betashares Australian Momentum ETF (ASX: MTUM) seeks to track an index (before fees and expenses) comprising a portfolio of Australian companies with above average momentum scores, as measured by risk-adjusted returns.

MTUM's index has outperformed the S&P/ASX 200 index by 2.8% p.a. from MTUM's index inception in May 2011 to end June 2024, as well as outperforming that benchmark over most time periods as shown in the table below.



Total Return (p.a.)	ASX 200	MTUM Index
1-year	12.4%	17.0%
3-year	6.4%	5.0%
5-year	7.3%	8.4%
10-year	8.1%	10.9%
Since Common Inception	8.4%	11.1%

Source: Bloomberg, Betashares as at 28 June 2024. Returns shown for the period since MTUM's index inception on 31 May 2011 to 28 June 2024. Chart shows index performance (not actual fund performance) to illustrate the longer-term historical performance of Australian companies with high momentum, and does not take into account MTUM management fees and costs of 0.35% p.a. MTUM's inception date was 22 July 2024. You cannot invest directly in an index.

Past performance is not indicative of future performance of MTUM's index or MTUM.

An individual investor seeking to implement a momentum based strategy themselves faces various challenges, including the time required to manage such a strategy, the identification of outperforming stocks, an unbiased selling discipline and execution costs.

MTUM provides a professionally managed, cost-effective approach to momentum investing for Australian investors.

MTUM's systematic approach to momentum

MTUM's index (the Solactive Australia Momentum Select Index) employs a systematic or 'rules based' approach to momentum investing. This removes human biases from the investment process, as these biases can cause irrational behaviour.

The index ranks 200 of the largest stocks on the ASX by their momentum scores, as measured by each stock's 6- and 12-month risk-adjusted returns, and selects the top 50 stocks based on those rankings. This selection and rebalance process is repeated every two months.

MTUM's index has been uniquely designed with fundamental trading principles in mind. Stocks that qualify in the top 50 are gradually added to the portfolio, with effectively a quarter of the portfolio rebalanced every 2 months (bi-monthly). That means for a stock to reach its potential 'full weight allocation' it must show consistent momentum and remain in the top 50 ranked stocks for four consecutive bi-monthly selection days. This approach typically results in a final portfolio of around 90 stocks with a mix of partial and full weighting allocations, with stocks that are outperforming generally receiving an increased weight at each rebalance (subject to weighting caps) and those that are underperforming generally receiving a weight reduction.

Any stock that is ranked in the lowest 10% of the most recent 200-stock universe based on its 6-month total return at the latest selection day is removed from the final portfolio, ensuring the worst performers are cut quickly.

For further details of MTUM's index methodology, please refer to the PDS.

Portfolio diversification

Momentum offers a unique return profile that differentiates it from other style factors such as quality and value, making it an appealing complement to many Australian equities funds (both passive and active).

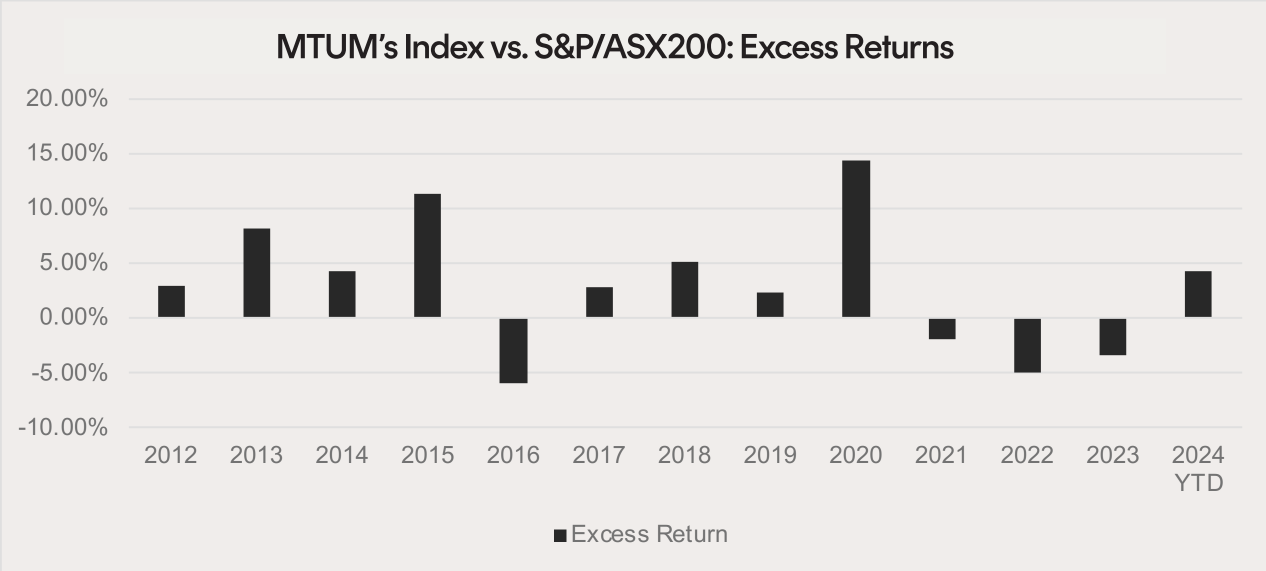
The table below presents the risk and return characteristics of MTUM's index (not actual fund performance) against the S&P/ASX 200 index, a selected Australian quality index and a selected Australian 'fundamental' or value index over the period 31 May 2011 to 28 June 2024.

	S&P/ASX 200 Index	MTUM's Index	Australian Quality Index	Australian Value Index
Returns (p.a.)	9.0%	11.6%	10.5%	10.1%
Volatility (p.a.)	13.5%	14.1%	14.3%	13.9%
Risk-adjusted returns	0.66	0.82	0.73	0.73

Source: Bloomberg, Betashares. All figures are for the period since MTUM's index inception on 31 May 2011 to 28 June 2024. Table shows index performance (not actual fund performance) to illustrate the longer-term historical performance of Australian companies with high momentum, and does not take into account MTUM's management fees and costs of 0.35% p.a. MTUM's inception date was 22 July 2024. You cannot invest directly in an index. **Past performance is not indicative of future performance of MTUM's index or MTUM.** Australian Quality Index is represented by the Solactive Australia Quality Select Index. Australian Value Index is represented by the FTSE RAFI Australia 200 Index.

From a return perspective, MTUM's index outperformed the S&P/ASX 200 benchmark and the selected Australian quality and value indices over the total return period as well as generating the highest risk-adjusted returns (annualised return divided by annualised volatility).

In terms of calendar year returns, MTUM's index has outperformed the S&P/ASX 200 in 8 out of the 12 most recent calendar years and by an average of 2.94% p.a. across the 12 years.



Source: Bloomberg, Betashares. 2024 YTD returns as at 28 June 2024. Chart shows index performance (not actual fund performance) to illustrate the longer-term historical performance of Australian companies with high momentum, and does not take into account MTUM management fees and costs of 0.35% p.a. You cannot invest directly in an index. **Past performance is not indicative of future performance of MTUM's index or MTUM.**

Many actively managed funds and smart beta equity funds (like Betashares' AQLT and QOZ ETFs) exhibit a style bias, whether that be value, growth or quality, so blending a factor like momentum with its unique style agnostic return profile may provide diversification benefits to an existing portfolio of equities.

Portfolio implementation

MTUM is designed to provide a convenient, transparent and cost-effective way for Australian investors to gain diversified exposure to companies exhibiting strong price momentum as measured by their risk-adjusted returns.

Investors may consider MTUM:

- as an efficient way of accessing the performance potential of high momentum stocks, and
- as a complement to other equity exposures, including both passively and actively managed funds, given momentum's unique return profile.

MTUM is the first ETF to provide access to a momentum strategy over Australian shares, and is now available on the ASX.

There are risks associated with an investment in MTUM, including market risk, index methodology risk, portfolio turnover risk and concentration risk. Investment value can go up and down. For more information on risks and other features of the Fund, please see the Product Disclosure Statement and Target Market Determination available at www.betashares.com.au.