



Product Review

Betashares Geared Australian Equity ETF (Hedge Fund)

ISSUE DATE 12-10-2023

Key information

FUND MANAGER	BETASHARES CAPITAL LTD
ASSET CLASS	AUSTRALIAN EQUITIES
SECTOR	AUSTRALIAN LARGE CAP
SUB SECTOR	STRATEGY - PASSIVE
INVESTMENT TYPE	EXCHANGE TRADED FUND (ETF) LISTED ON THE AUSTRALIAN SECURITIES EXCHANGE (ASX)
PDS OBJECTIVE	TO PROVIDE GEARED EXPOSURE TO THE RETURNS OF THE AUSTRALIAN SHARE MARKET.
DERIVATIVE USE	DERIVATIVES ARE PERMITTED TO LEVER THE FUND UNDER THE PDS. HOWEVER, THIS PROVISION IS NOT CURRENTLY USED.
SECURITIES LENDING	NO
LISTING DATE	APRIL 2014
DISTRIBUTION FREQUENCY	SEMI-ANNUALLY
FUND SIZE	\$389.75M

Fees & costs (% per annum)

MANAGEMENT FEES AND COSTS	0.8
PERFORMANCE FEE COSTS	-
NET TRANSACTION COSTS	0
ANNUAL FEES AND COSTS (PDS)	0.8

WHERE MANAGEMENT FEES & COSTS IS NULL "-" NO DATA HAS BEEN PROVIDED AND THE ANNUAL FEES & COSTS (PDS) CANNOT BE CALCULATED. REFER TO THE PDS FOR THE FEE INFORMATION.

Daily trading information

TICKER	GEAR
52 WEEK LOW	\$20.64
52 WEEK HIGH	\$26.92
LAST PRICE	\$23.57
LAST NET ASSET VALUE (NAV)	\$23.18
PREMIUM / DISCOUNT TO NAV (DAILY)	0.017%
AVERAGE DAILY TRADED VOLUME	434,235
AVERAGE DAILY TRADED VALUE	\$10.46M

What this Rating means

The 'Recommended Index' rating indicates that Lonsec has strong conviction the financial product can generate risk adjusted returns in line with relevant objectives. The financial product is considered an appropriate entry point to this asset class or strategy.

Strengths

- Efficient means to gain a leveraged Australian equities exposure.
- Cost effective when compared to actively managed geared peers and margin loans.

Weaknesses

- The Manager uses a single lender to provide financing. Lonsec believes having a syndicate of loan providers may help reduce the risks associated with having a single financier and could potentially result in a lower cost of funding.

Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY			●
SECURITY CONCENTRATION RISK		●	
SECURITY LIQUIDITY RISK		●	
LEVERAGE RISK			●

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

BIometrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE							●

A Standard Risk Measure score of 7 equates to a Risk Label of 'Very High' and an estimated number of negative annual returns over any 20 year period of 6 or greater. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW	MODERATE	HIGH
RISK TO INCOME			●

Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG		●	

ANALYST: NATHAN UMAPATHY | APPROVED BY: MICHAEL ELSWORTH

Betashares Geared Australian Equity ETF (Hedge Fund)

Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE		●	
FEES VS. ASSET CLASS		●	
FEES VS. SUB-SECTOR		●	

Fee BIometrics are a function of expected total fee as a percentage of expected total return.

What is this Fund?

- Betashares ('the Manager') has adopted a passive investment strategy in managing the Betashares Geared Australian Equity Fund (Hedge Fund) ('GEAR' or 'the Fund'). The Fund is designed to provide leveraged exposure to a passively managed portfolio of broad-based Australian equities. The Fund will gain its Australian equities exposure by investing in the constituents of the S&P/ASX 200 Index which is a market capitalisation weighted index.
- The Fund aims to amplify its returns (both positive and negative) by borrowing funds to gear a unit holder's market exposure. The Loan-Value-Ratio ('LVR') pertaining to the Fund's construction will remain within the range of 50-65%. The Manager will rebalance the LVR to the middle of the range (i.e. 57.5%) whenever it reaches either the minimum 50% or maximum 65% threshold. A LVR ratio of 65% means that for every \$1 invested, an additional \$1.86 is borrowed to invest (providing a gross exposure of \$2.86 for every \$1 invested). Unlike most other ETFs, the Fund does not aim to track an underlying index due to the leverage.
- The Manager uses Deutsche Bank AG as the Lender to the Fund.
- The Fund's LVR ratio will change on a daily basis as the result of movements in the value of the underlying constituents. An increase in the value of the underlying constituents will likely reduce the Fund's LVR, while a decrease in the value of the underlying constituents will likely increase the Fund's LVR.
- The Fund's PDS, dated 29 September 2022, disclosed Annual Fees and Costs ('AFC') totaling 0.80% p.a. (of gross asset value). Assuming a max gearing level of 65%, this would represent an AFC of 2.29% p.a. The value is comprised solely of management fees and cost.

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- Lonsec notes that the Manager has produced a Target Market Determination ('TMD') which forms part of the Responsible Entity's Design and Distribution Obligations for the Fund. Lonsec has collected the TMD that has been provided by the Manager and notes that this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- The Fund is a geared 'long' only Australian equity product and as such will generally sit within the growth component of a balanced portfolio. As a

geared equity fund, Lonsec considers it to be suitable for blending with other beta and 'smart beta' options in a risk controlled manner.

- Leverage is used in the management of this Fund, with the mandate permitting a LVR ratio between 50% and 65%. Investors should be aware that gains and losses will be magnified by gearing and that levered investments will significantly underperform equivalent non-g geared investments when the underlying assets experience negative returns.
- Investors should note that when the Fund re-balances its LVR due to market movements, it will involve borrowing additional capital after a period in which the market has risen, or redeeming debt after a period in which the market has fallen. As a result, the Fund is likely to have a relatively high level of borrowings around market peaks (and vice-versa at market bottoms). This is a common trait of 'geared funds'. This trait will tend to magnify the Fund's downside risk at market peaks (and vice-versa) relative to an ungeared fund.

Suggested Lonsec risk profile suitability

SECURE	DEFENSIVE	CONSERVATIVE	BALANCED	GROWTH	HIGH GROWTH
				●	●

For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- Lonsec notes there have been no material changes to the investment process since our previous review.

Lonsec Opinion of this Fund

People and resources

- Betashares is a specialist provider of ETFs with approximately \$30 billion in funds under management ('FUM') across 81 exchange-traded products as at August 2023. This includes both active and passive ETFs.
- Betashares was formed in 2009 with TA Associates ('TA') currently being a strategic shareholder. TA is a well-established US-based private equity firm with over 50 years of experience and a significant global presence. Further, TA has a long history of co-investing in fund managers and Lonsec considers TA to have the ability to provide the necessary resources to help drive Betashares' growth over the long term.
- The Fund is overseen by Louis Crous, who heads the investment team as Chief Investment Officer. He is supported by five portfolio managers and two assistant portfolio managers. Lonsec considers the team to be suitably experienced and qualified to oversee this strategy in the Australian market.
- The Manager has invested additional resources for their investment team as they are responsible for a large number of ETFs listed on the ASX. Furthermore, the Manager has signaled they will continue to launch new products in line with their team's growth. Lonsec highlights the risk associated with the investment team approaching capacity, given their increasing workload. However, these risks are mitigated due to the low key person risk and highly systematic approach to index investing. As such, Lonsec remains comfortable with the team's

Betashares Geared Australian Equity ETF (Hedge Fund)

resourcing for the moment and will continue to monitor this in future reviews.

- The Fund is currently supported by multiple market makers and authorised participants. Lonsec believes this arrangement benefits investors by promoting competition and tighter spreads within the primary and secondary markets.

Investment approach

- The Manager will seek to maintain the weights of the Underlying Index whilst implementing a gearing overlay with an LVR of between 50-65%. The level of gearing of the overall portfolio is monitored daily and when the LVR approaches the lower or upper end of this predefined range, the Manager will re-balance the portfolio to an LVR of 57.5%. Lonsec considers the monitoring and management of the Fund's LVR limits to be prudent and in line with peers.
- Lonsec considers the 'all in' borrowing cost to be competitive and favourable when compared to alternatives such as margin loans. However, the Fund only uses Deutsche Bank AG as the sole lender of the Fund's loan syndicate which Lonsec considers to be sub-optimal. Lonsec would prefer to see multiple loan syndicate members as this can drive down interest costs while also lowering counter-party risks.

ESG Integration

- Lonsec's ESG integration assessment considers the rigour and structure of the ESG process for the Fund, as well as how well it integrates into the overall investment process and the Manager's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings of the Fund's portfolio or the Manager's adherence to any form of impact, green / sustainable or ethical standards.
- ESG integration for index tracking portfolios is largely limited to stewardship and engagement activities plus active voting, unless ESG considerations are clearly incorporated within the index. As such, for non-ESG driven indices, the ESG score provided by Lonsec is primarily an assessment of the overall ESG adoption, commitment and policy framework implemented at the Manager level. Further, Lonsec notes that simple sector exclusions do not constitute the incorporation of ESG.
- At a corporate level, Lonsec views the Manager's overall ESG policy framework and disclosure to be aligned with peers. The Manager has articulated its commitment to ESG Integration within their investment process with evidence of public positioning and a policy framework. The level of disclosure with respect to the Manager's proxy voting policy and voting outcomes is in-line with peers supported by publicly available voting outcomes. Lonsec however notes, that reporting on voting outcomes for certain ethical and ESG themed ETFs are better than peers with credit paid to rationales provided for ESG related votes. While the engagement policy and engagement outcomes are publicly available, the policy lacks depth compared to peers.
- The Underlying Index used for this Fund has no basic filters applied and there is no integration of ESG factors in its construction.

Overall

- Lonsec has maintained the Fund's rating of **Recommended** ^{Index} as part of this review cycle. The Fund offers investors an efficient means to gain leveraged exposure to the Australian equity market. Lonsec also considers the Fund's fee load to be competitive compared to alternatives such as margin loans.
- However, Lonsec considers having only one lender to the Fund as being sub-optimal. Lonsec would prefer the Fund to have multiple lenders as this can help reduce the counter-party risk of the Fund and potentially lower the cost of borrowing.

People and Resources

Betashares Holdings was established in 2009 as a specialist provider of exchange-traded products. It is currently owned by TA Associates and the Betashares management team. Betashares has approximately \$30 billion of FUM across 81 ETF products as at August 2023.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
LOUIS CROUS	CHIEF INVESTMENT OFFICER	23 / 14
THONG NGUYEN	SENIOR PORTFOLIO MANAGER	19 / 13
CHAMATH DE SILVA	SENIOR PORTFOLIO MANAGER	14 / 7
DON HOANG	PORTFOLIO MANAGER	12 / 10
JING JIA	PORTFOLIO MANAGER	10 / 5
DANE BRUJIC	PORTFOLIO MANAGER	11 / 1
LUKE SHEATHER	ASSISTANT PORTFOLIO MANAGER	8 / 1
PARKER GUAN	ASSISTANT PORTFOLIO MANAGER	8 / 2

76 of Betashares' 81 ETFs are managed in-house by its eight-person portfolio management team in Sydney led by Louis Crous. The investment decisions for RINC, EINC, EMMG (Franklin Templeton Martin Currie), HBRD (Coolabah Capital Investments) and BNDS (Franklin Templeton Western Asset) are made by the respective active management teams. The Betashares business currently employs an additional +100 dedicated financial service professionals and more broadly benefits from access to the broader distribution, research, infrastructure and risk management systems.

Investment Approach

Overview

The Fund's investment objective is to provide geared exposure to the returns of the Australian share market. The Fund seeks to achieve this objective by combining the applications of investors with borrowed funds and investing in a long-only share portfolio that aims to replicate the holdings of the S&P/ASX 200 Index. The S&P/ASX 200 Index is a leading investment benchmark for the Australian equity market. The index represents the 200 largest and most liquid publicly listed entities in Australia.

Betashares Geared Australian Equity ETF (Hedge Fund)

In terms of implementation, the Manager has adopted a 'full replication' approach where the Fund will generally invest in all securities in the S&P/ASX 200 Index in the same weights as they are held in the Index. As the Fund purchases physical securities, it should earn dividends and franking credits on the underlying share portfolio. The Fund's Gearing Ratio or LVR will be managed by Betashares to be within a range of 50% – 65%. The level of gearing is monitored daily, and the Manager will rebalance the Gearing Ratio back to the middle of the range whenever the Fund's Gearing Ratio reaches either the minimum or maximum of the allowed range. Betashares utilises a direct loan facility with Deutsche Bank AG (Deutsche). The arrangement with Deutsche includes it providing a custodial function for the strategy.

Underlying index

Unlike most other ETFs, the Fund does not aim to track an Underlying Index. The Fund does aim to replicate the holdings of the S&P/ASX200 Index by investing in all the securities in the index at its corresponding weights.

Transparency

Information relating to the underlying portfolio of securities and Gearing Ratio is updated daily on the Betashares website. Accordingly, Lonsec believes the transparency of the Fund to be good.

Liquidity

The FUM has grown to \$405.4m as at July 2023 and hence Lonsec considers the liquidity for the Fund to be reasonable.

The Fund's underlying constituents comprise the 200 largest and most liquid stocks listed on the ASX. Investors should be aware that during normal market conditions, liquidity for these securities will not be a concern; however in times of market stress, some securities may experience more challenging liquidity conditions.

The Manager has also employed reputable market makers and authorised participants that will act to ensure investors can buy and sell units of the Fund at a reasonably accurate price (i.e. consistent with the net asset value of the underlying securities) in most normal market conditions.

Fees and Indirect Costs

Actively managed Australian equity geared products are also included in the peer comparison table below. These actively managed funds (i.e. seek to outperform the index) will typically attract a higher fee than passively managed funds (i.e. replicate the return of the index). As such, the Fund's AFC of 0.80% p.a. (of gross assets value) is considered by Lonsec to represent a reasonably competitive fee load relative to other geared equity funds in Lonsec's broader universe.

Most ETFs calculate Management Costs as a percentage of the net assets value (NAV), however it is a common practice among geared equity funds to calculate fees as a portion of the gross assets value (GAV) (i.e. to include borrowings).

Fee comparison

FUND NAME	AFC (% P.A.)	AVERAGE BID/ASK SPREAD (% P.A.)
BETASHARES GEARED AUSTRALIAN EQUITY FUND (GEAR)	0.80	0.08
AUSBIL AUSTRALIAN GEARED EQUITY FUND (AAP0002AU)	1.2	0.76
PERPETUAL WHOLESALE GEARED AUSTRALIAN SHARE FUND (PER0071AU)	1.17	0.6
FIRST SENTIER WHOLESALE GEARED SHARE FUND (FSF0043AU)	1.02	0.88

Average one-year Bid/Ask Spread to July 2023 (Source: ASX). Unlisted Fund spreads are sourced from their latest PDS.

Performance

The Fund commenced in April 2014 and has a long-term track record of performance. Over the last five years to July 2023, the Fund delivered a performance return of 8.55% p.a. This is compared to the S&P/ASX 200 Index's performance of 7.47% p.a. over the same period.

Lonsec notes that geared Australian equity funds will display much higher volatility (as measured by Standard Deviation) than the S&P/ASX 200 Index across all periods. For instance, over the five-year period, the Fund had a standard deviation of 37.6% p.a. compared to the standard deviation of the S&P/ASX 200 Index of 16.4% p.a.

Tracking Error is not a relevant metric in the context of this Fund because it does not aim to replicate the returns of an index.

Lonsec notes all performance data are quoted after fees.

Risks

An investment in the Fund carries a number of standard investment risks associated with domestic and international investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers major risks to be:

Equity market risk

Investments in equity markets are subject to numerous factors which may have an impact on the performance of an investment (both positive and negative). Unexpected changes in economic, technological, structural, regulatory or political conditions can have an impact on the returns of all investments within a particular market.

Performance risk

The value of and returns (if any) from an investment in the Fund will depend upon the performance of the stocks comprising the S&P/ASX 200 Index as well as the level of gearing or leverage employed. There is no guarantee the value of an investment in the Fund will increase.

Derivatives risk

While not currently utilised, the Manager has scope to use exchange-traded derivatives (e.g. futures and options over securities and indices) to gear the Fund. Lonsec does not expect this to be widely adopted.

Betashares Geared Australian Equity ETF (Hedge Fund)

ISSUE DATE 12-10-2023

Leverage risk

Investors should be aware that gains and losses are magnified through the use of borrowings. Geared investments may significantly underperform equivalent non-geared investments when the underlying assets experience negative returns.

Counter-party risk

The Fund takes on counter-party risk with regard to its market-making activities and with its leverage provider. Counter-parties may default on their contractual obligations, potentially exposing investors to some financial losses.

Further information

Further information can be obtained by calling the Manager on 1300 487 577 or visiting www.betashares.com.au.

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P 5-7

Betashares Geared Australian Equity ETF (Hedge Fund)

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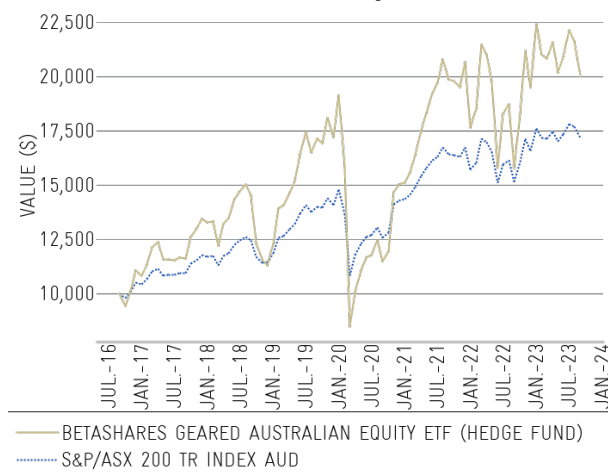
Quantitative Performance Analysis - annualised after-fee % returns (at 30-9-2023)

Performance metrics

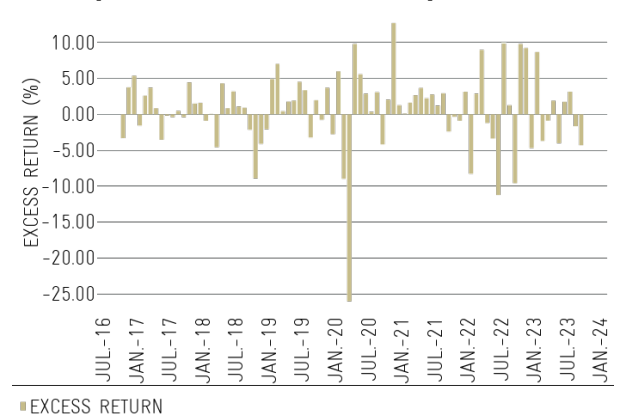
	1 YR	3 YR	5 YR	7 YR
TOTAL RETURN (% PA)	27.16	20.46	6.68	10.47
STANDARD DEVIATION (% PA)	31.65	32.31	37.79	33.04
EXCESS RETURN (% PA)	13.70	9.47	0.02	2.42
WORST DRAWDOWN (%)	-10.43	-26.50	-55.58	-55.58
TIME TO RECOVERY (MTHS)	NR	4	15	15
TRACKING ERROR (% PA)	18.91	18.75	21.40	18.68

PRODUCT: BETASHARES GEARED AUSTRALIAN EQUITY ETF (HEDGE FUND)
 PRODUCT BENCHMARK: S&P/ASX 200 TR INDEX AUD
 TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

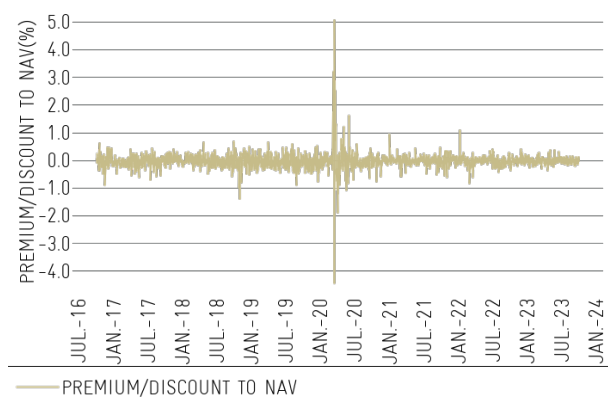
Growth of \$10,000 over seven years



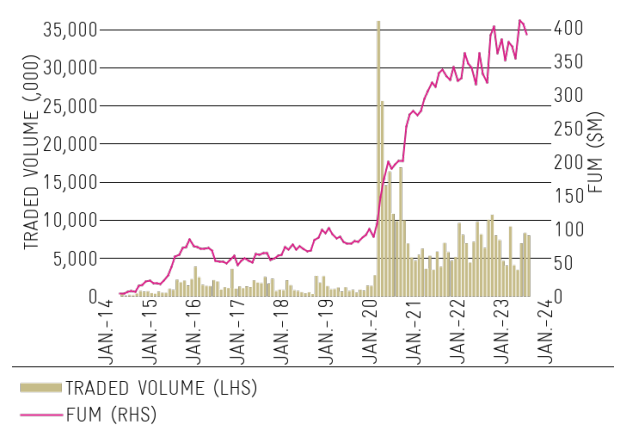
Monthly excess returns over seven years



Premium/discount to NAV over seven years



Traded Volume and FUM



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Glossary

[Click here for the glossary of terms.](#)

About Lonsec

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Analyst Disclosure and Certification

Analyst remuneration is not linked to the research or rating outcome. Where financial products are mentioned, the Analyst(s) may hold the financial product(s) referred to in this document, but Lonsec considers such holdings not to be sufficiently material to compromise the rating or advice. Analyst holdings may change during the life of this document. The Analyst(s) certify that the views expressed in this document accurately reflect their personal, professional opinion about the matters and financial product(s) to which this document refers.

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