



Betashares Geared Australian Equity ETF (Hedge Fund)

GEAR Author: Harrison Sayer Published: 27 Oct 2024

Data is provided by the manager at 31 Jan 2024, and currency in AUD, unless otherwise stated

Refer to glossary for definition of the rating

Product Review

About this Product

Investment manager	Betashares Capital Ltd
Benchmark	S&P/ASX 200 TR Index AUD
Product structure	ETF
LVR Limit	50%-65%
Product Size	\$424.66m
Inception date	Apr 2014
Asset class	Australian Equities
Sector	Australian Large Cap
Peer group	Geared - Passive
Rated peers	6

Product Characteristics

Business Life Cycle	Growing
Product Wind-Up Risk	Low
Complex (RG240)	Yes
ESG Approach	No ESG Integration
Peer Relative Fees and Costs	Above median

Annual Fees and Costs (% p.a.)

Management fees & costs	0.80
Net Transaction Costs	0.00
Annual fees and costs	0.80
Average Exchange Spread data*	0.07

Source: FE fundinfo, PDS Date: 02/Sep/2024
*ASX/CBOE (as at 31/May/2024)

Strengths

- Efficient means to gain a leveraged Australian equities exposure.

Weaknesses

- The Manager utilises a single lender to provide financing. Establishing 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.
- The Fund's AFC is considered high in comparison to the peer group.

Product Opinion

The Fund has retained the 'Recommended' rating as part of this review cycle. The Fund offers investors an efficient means to gain leveraged exposure to the Australian equity market. That said, given the recent introduction of peers within the Australian market, the Fund's feel load is considered high and this therefore tempers conviction. Furthermore, having only one lender to the Fund is considered sub-optimal. There is a preference to have multiple lenders as this can help reduce the counter-party risk of the Fund and potentially lower the cost of borrowing.

Lonsec Rating Model

Rating key: ●●● Above ●●● In-line ●●● Below		
Factor	Peer Rating	YoY Score Change
Business	●●●	—
Team	●●●	—
Process	●●●	—
ESG	●●●	—
Product	●●●	—
Fees	●●●	—
Performance	●●●	—

Allocation Profile

Core		
Satellite		
	Low Complexity	High Complexity

Return Profile

Income		
Capital		
	Defensive	Growth

Key Facts

Key Objectives

Investment objective	Provide geared exposure to the returns of the Australian share market.
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Asset Allocation (%) (as at 31/05/2024)

Australian Equities	100.00
Total	100.00
Source: FE fundinfo	

Rating History

12-Oct-2023	Recommended
26-Oct-2022	Recommended
09-Nov-2021	Recommended

Target Market Determination

Produced by issuer	Yes
Provided to Lonsec	Yes

Product Distribution Profile

Frequency	Semi Annually
Last Missed Distribution	N/A
Number of Missed Distributions in the last 5 years	0
AMIT Election	Yes
TOFA Currency Hedging Election	No

Top 10 Holdings (as at 31/05/2024)

	Weight (%)
BHP GROUP LIMITED	9.800
COMMONWEALTH BANK OF AUSTRALIA	8.700
CSL LTD	5.900
NATIONAL AUSTRALIA BANK LIMITED	4.600
WESTPAC BANKING CORP	4.000
AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED	3.700
WESFARMERS LIMITED	3.200
MACQUARIE GROUP LIMITED	3.000
GOODMAN GROUP ORD	2.500
WOODSIDE ENERGY GROUP LTD	2.300

Source: FE fundinfo

Performance Analysis - annualised after fees at 31/05/2024

	1 Year	2 Year	3 Year	5 Year
Performance (% p.a)	21.18	11.18	10.08	10.01
Standard deviation	26.95	35.69	32.49	37.83
Excess return (% p.a)	8.25	3.38	3.27	2.18
Tracking error (% p.a)	15.50	21.02	18.97	21.40
Worst drawdown (%)	-18.21	-19.17	-26.50	-55.58
Time to recovery (mths)	2	2	4	15

Lonsec Peer Group: Australian Equities - Australian Large Cap - Geared - Passive

Product Benchmark: S&P/ASX 200 TR Index AUD

Time to recovery: NR - Not recovered, dash - No drawdown during period

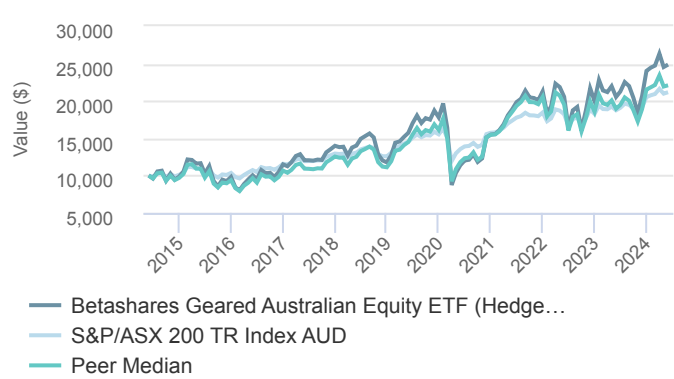
Performance data is as at 31 May 2024

Performance

Performance Summary

PDS return objective	Provide geared exposure to the returns of the Australian share market.
Product benchmark	S&P/ASX 200 TR Index AUD
Lonsec peer group	Geared - Passive

Growth of \$10,000 Over 10 Years



Lonsec Opinion

Performance

Over the last five years to May 2024, the Fund delivered a performance return of 10.01% p.a. This is compared to the S&P/ASX 200 Index's performance of 7.83% p.a. over the same period. It is noted 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's standard deviation was 37.83% p.a. compared to the standard deviation of the S&P/ASX 200 Index of 16.48% p.a.

Fees

Annual Fees and Costs (% p.a.)

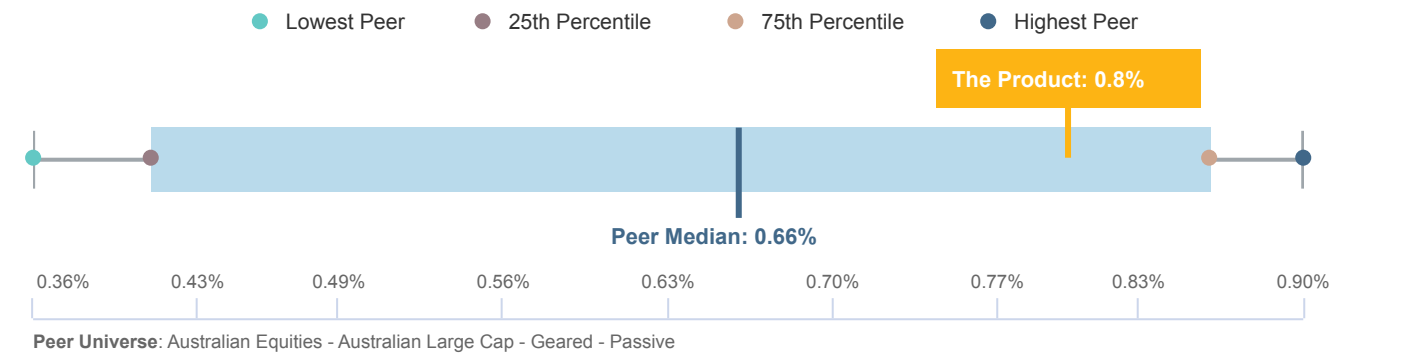
Management fees & costs	0.80
Net Transaction Costs	0.00
Annual fees and costs	0.80
Average Exchange Spread data*	0.07

Source: FE fundinfo, PDS Date: 02/Sep/2024
*ASX/CBOE (as at 31/May/2024)

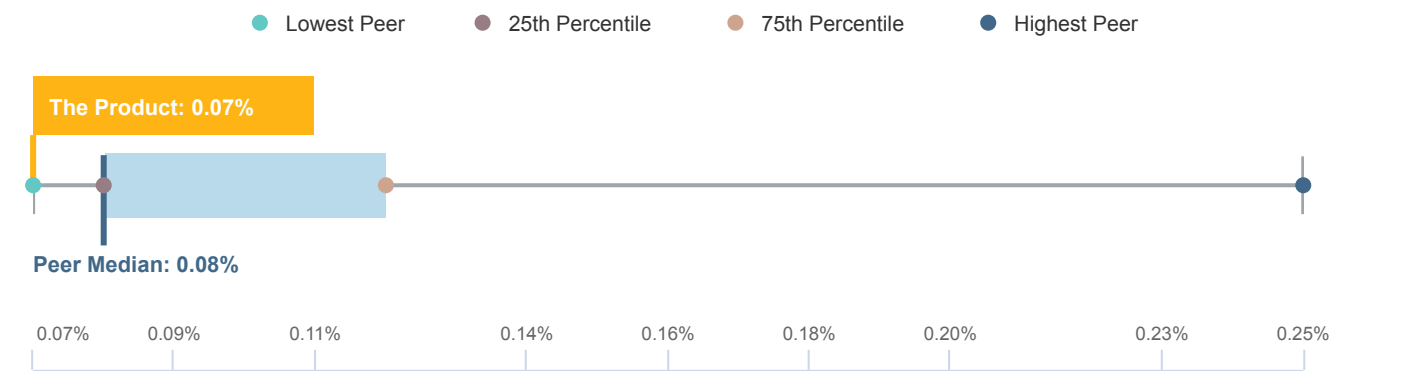
Fees Explained

The Fund's PDS 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 comprises solely of management fees and cost.

Annual Fees and Costs Peer Comparison



Bid/Ask Spread Peer Comparison



Lonsec Opinion

Annual Fees and Costs

The Fund's AFC is higher than the peer median.

Fairness

The Fund's AFC is considered less competitive given recent entrants into the peer group. However, these new entrants causing compression of fees within the space provide a lower geared exposure. Further, its fees are relatively inexpensive when compared to active-geared Australian equity products in the broader peer group.

Bid/Ask Spread

The Fund's average bid / ask spread for the 12 months was lower in comparison to the peer group. Competitive spreads contribute to a lower total fee load.

Process



What is the Investment Process?

The Fund is designed to provide leveraged exposure to a passively managed portfolio of broad-based Australian equities. 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.

The Manager will seek to maintain the weights of the S&P/ASX200 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%. Betashares utilises a direct loan facility with BNP Paribas. The arrangement with BNP Paribas includes providing a custodial function for the strategy.

What is the Underlying Index's methodology

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.

Lonsec Opinion & Supporting Facts

Investment Approach

The Manager seeks to maintain the Underlying Index weights whilst implementing a gearing overlay with the LVR ranging from 50% to 65%. The Fund is 'internally geared' meaning that all gearing obligations are met by the Fund. The Fund represents an efficient and simplistic means to gain leveraged exposure to a portfolio of mid-large cap Australian equities.

The Fund represents an efficient and simplistic means to gain leveraged exposure to a portfolio of Australian equities. There are no margin call requirements with no requirements for margin lending accounts. The maximum losses are solely limited to the extent of the initial capital investment.

BNP Paribas is utilised as the sole lender of the loan syndicate, which is viewed as sub-optimal given the increased counterparty risk. The syndicate of loan providers is appropriate for leveraged investment strategies, especially when the Fund scale grows.

ESG



Manager Positioning

Responsible investment style	Nil
ESG approach	No ESG Integration
Sustainability thematic	No Sustainability Thematic
Non-financial objective	None

Sustainability Score

No score.

What is the Manager's ESG approach?

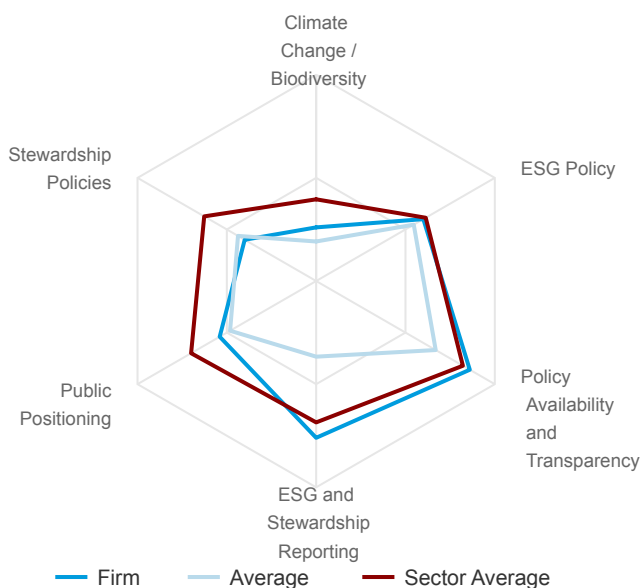
The Manager has not indicated any ESG approach in their submissions to Lonsec. While the Manager may be undertaking some activities that would be considered ESG integration Lonsec is unable to provide guidance on how that might reflect portfolios.

Lonsec Opinion & Supporting Affiliate Data

Overview

ESG Process Score	Mod
Responsible Investment strategy risk: Clarity, measurability & reporting	N/A

ESG Snapshot



Product Level Approach

As this is a passive index tracking product, the Manager has very limited opportunity to incorporate any ESG into the portfolio construction beyond any that may be embedded into the benchmark construction. The benchmark for this fund does not incorporate any ESG factors. There are no exclusions recorded for this product. The Manager demonstrated a strong engagement program although there is less structure to the prioritisation of those engagements than with some peers. While ESG does not form a component of the compliance framework, portfolio disclosure is leading.

Strategy: Clarity, Measurability & Reporting

This product does not make any specific claim to being a sustainable, ethical or impact offering. As such, an alignment review for the product is not required thus the product's risk of misalignment has been assessed as N/A.

Manager Level Approach

The Manager's overall ESG policy framework and disclosure are broadly aligned with their passive peers and ahead of the universe. Stewardship policies are considered weaker than peers due to the engagement policy, which lacks clarity and depth. ESG and Stewardship reporting are considered slightly better than peers due to reporting on voting outcomes for certain ethical and ESG-themed ETFs, with rationales provided for ESG-related votes.

Product



Service Providers

Responsible entity	Betashares Capital Ltd
Investment manager	Betashares Capital Ltd
Custodian	Citigroup
Administrator	Citigroup
Fund Auditor	KPMG
Change in Key Providers? (Over last 12 months)	No
Exchanges	Australian Stock Exchange ('ASX')
Market making mode	External

Product Details

Product size	\$424.66m
Investment structure	Direct
Product type	Registered MIS
Disclosure of holdings - Frequency	Daily
Currency hedged	N/A
Use of derivatives	No

Lonsec Opinion

Fund Scale and Liquidity

As at the current review, the Fund has a large amount of scale when compared to the peer group.

The Fund offers investors liquidity via the ASX, which is supported by a market maker that is obligated to provide liquidity to the market by maintaining pre-agreed spreads and volumes.

Distribution

Pleasingly, the Fund has not missed any distribution over the last five years.

Wind-up Risks

The Fund's wind-up risk is considered to be low at present levels of FUM.

Transparency

The Manager maintains strong transparency and data availability for investors. Information relating to the underlying portfolio of securities and gearing ratio is updated daily on the Betashares website.

Operational 'Red Flags'

There are currently no operational red flags for this Fund.

Business data is as at 31 December 2023

Business

Facts

Investment Manager	Betashares Capital Ltd
Ultimate Parent Company	BetaShares is owned and managed by its management team along with a strategic shareholding from TA Associates.
Headquarters	Sydney, Australia
Inception Date	Apr 2009
% Staff Ownership	Not Disclosed

Governance

% Independent board members	33
% Female board members	0
Independent chair	No
CEO as Chair	Yes
Separate Audit Committee	No

Who is the Manager?

Betashares Capital Ltd ('Betashares' or 'the Manager') was established in 2009 as a specialist provider of exchange-traded products across equities, fixed income, commodities and digital assets. It currently has a strategic shareholding from majority owned by US based private equity firm TA Associates, with the remainder predominantly owned by Betashares' management team and global investment company, Temasek.

Lonsec Opinion

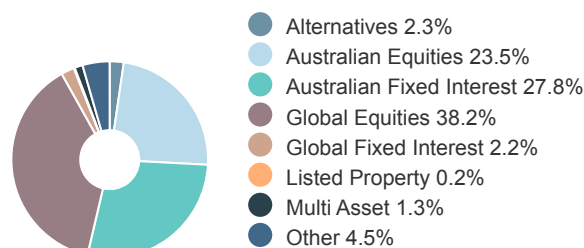
Profitability

Betashares is one of the largest ETF providers in the Australian market and is highly profitable and well-capitalised. The Manager's earnings quality is bolstered by a strong track record of product development, FUM growth, and consistently gaining market share.

Business Track record

The Manager has an established long-term track record in delivering ETF products. Betashares has exhibited a strong pedigree in launching innovative offerings across various asset classes and thematic sectors, primarily driven by investor demand, though with varying degrees of success in achieving sustainable FUM at the product level.

AUM



Metrics

Total AUM	\$33.82b
Investment Management Headcount	143
Investment Professionals	13
Sales & Service	33
Distributor	Self

Business Ownership

Betashares is majority owned by TA Associates a private equity with investments in other asset management businesses and the remaining equity is owned by the management team at Betashares. Since the previous review, global investment company, Temasek acquired a stake in the firm.

Business Governance

The Manager's governance framework is less developed than that of leading peers. This is reflected in the CEO serving as chair and the board not including a majority of independent directors. That said, while the Manager does not have a separate audit committee, there is a separate compliance committee with two independent directors. Although there have been no reported regulatory findings or compliance issues, the framework does not meet best practice standards. Nonetheless, this framework is largely in line with the firm's passive peers.

Team



Who is the Team?

The Fund is overseen by Louis Crous, who leads the investment team as Chief Investment Officer. Crous is supported by five Portfolio Managers, two Assistant Portfolio Managers, and two Analysts, each with varying levels of industry experience. The Manager currently employs over 100 dedicated financial services professionals and benefits from extensive distribution, research, infrastructure, and risk management systems.

Lonsec Opinion

Team Size

The size and breadth of the investment team is commensurate with the volume of products and the requirements of the process. The Manager continues to invest in additional resources in their team, as they are responsible for a large number of ETFs listed on the ASX. Furthermore, the Manager has signalled that they will continue to launch new products in line with their team's growth. Given the increasing workload, there are increased risks associated with the team reaching capacity. However, this is mitigated due to the low key-person risk and the highly systematic approach to index investing. As such, there is comfort with the team's current resourcing, and this will continue to be monitored in future reviews.

Capability & Experience

The team, led by Crous, is suitably experienced and skilled to oversee this strategy in the Australian market. The senior members possess strong experience in managing ETFs and a solid understanding of the financial landscape. This ensures the team is equipped to navigate market complexities and implement strategies aligned with regulations and investor expectations.

Ratings

'Highly Recommended' rating indicates that Lonsec has very strong conviction the product can meet its investment objectives.

'Recommended' rating indicates that Lonsec has strong conviction the product can meet its investment objectives.

'Investment Grade' rating indicates that Lonsec has conviction the product can meet its investment objectives.

'Approved' rating indicates that Lonsec believes the product can meet its investment objectives.

'Not -Approved' rating indicates that Lonsec does not believe the product can meet its investment objectives.

'Closed / Wind Up' status is applied when the product has been closed.

'Fund Watch' status is applied when a rating is under review due to the occurrence of a significant event relating to the product.

The **'Redeem'** rating indicates Lonsec no longer has sufficient conviction that the product can meet its investment objectives.

The **'Screened Out'** rating indicates Lonsec was unable to attain sufficient conviction that the product can meet its investment objectives.

'Discontinued Review' status is applied where a product issuer withdraws the product from the review process prior to completion, for any reason other than the product being closed or unavailable to investors.

The **'Ceased Coverage'** status is applied when a rated product is withdrawn from the research process by the product issuer.

General

Climate Change / Biodiversity: the extent to which a manager has a leading climate and biodiversity policies.

ESG and Stewardship Reporting: the transparency, accessibility and usefulness of a manager's reporting.

ESG Policy: the strength of commitment to ESG as ascertained by a review of a manager's ESG policies.

Excess return: Return in excess of the benchmark return.

Information ratio: Relative reward for relative risk taken (Excess Returns / Tracking Error).

Key decision maker (KDM): A nominated investment professional who has portfolio decision making discretion for a Fund, e.g. 'buy' or 'sell' decisions.

Market capture ratio: A product's performance during either 'up' or 'down' market trends relative to an index.

Policy Availability / Transparency: the ease of public access to, and transparency of, a manager's overall ESG policy suite.

Public Positioning: the resolve of a manager's commitment to ESG as ascertained by their public positioning.

Returns consistency: The proportion of a product's monthly outperformance during a period relative to the benchmark when it was rising, falling and in aggregate.

Sharpe ratio: Excess return earned for additional volatility experienced when holding riskier assets versus risk-free asset.

Standard deviation: Volatility of monthly Absolute Returns.

Stewardship Policies: the strength of a manager's proxy voting and engagement policies with respect to ESG.

Time to recovery: The number of months taken to recover the Worst Drawdown.

Total return: 'Top line' actual return, after fees.

Tracking error: Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns).

Worst drawdown: The worst cumulative loss ('peak to trough') experienced over the period assessed.

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This FSG's purpose is to provide you with important information regarding services offered by Lonsec Research. You should read this FSG prior to using our services. This document was prepared to inform you about:

- who we are and our contact details;
- the financial services we provide;
- the remuneration that may be paid to us and other persons in relation to the financial services we provide;
- how we deal with conflicts of interest; and
- how we deal with complaints

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Contact Details

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Sydney NSW 2000
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Email: info@lonsec.com.au
www.lonsec.com.au

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- deposit and payment products limited to basic product products
- derivatives
- interests in managed investment schemes including investor directed portfolio services
- superannuation
- retirement savings accounts
- foreign exchange products
- life products including:
 - investment life insurance products as well as any products issued by a Registered Life Insurance Company that are backed by one or more of its statutory funds; and
 - life risk insurance products as well as any products issued by a Registered Life Insurance Company that are backed by one or more of its statutory funds;

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Lonsec Research FSG (continued)

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Complaints Manager

Level 39, 25 Martin Place
Sydney NSW 2000
Tel: 1300 826 395

Email: complaints@lonsec.com.au

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Email: info@afca.org.au

Phone: 1800 931 678

Mail:

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GPO Box 3
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This FSG was prepared on 1 August 2024.