

Avoiding self-satobage

And building portfolios like an institutional investor

May 2024

Cameron Gleeson

Senior Investment Strategist



About Beta shares

Our mission

Betashares provides investment solutions to help Australian investors build their wealth.

\$36B+

In assets under management

90+ funds

Widest range of exchange traded products on the ASX

1+ million

Investors in our funds



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What is market timing?

Market timing involves making investments when prices are low, and then selling them at higher levels, the goal being to avoid market crashes and improve returns.

Sounds simple, but is it?



Market timing:
Is it even possible?



“When it comes to market timing there are only two sorts of people: those who can't do it, and those who know they can't do it.”

Terry Smith, CEO - Fundsmith

Accuracy of well-known forecasters

Below snapshot based on CXO Advisory study of 6,582 forecasts for the S&P 500 from 68 stock market 'experts' covering 1998 to 2012.



48%

Jeremy Grantham

Chairman of GMO



47%

Mark Faber

Publisher of The Gloom, Boom and Doom Report



47%

Jim Cramer

CNBC presenter



38%

Gary Shilling

Forbes columnist and founder of A. Gary Shilling & Co

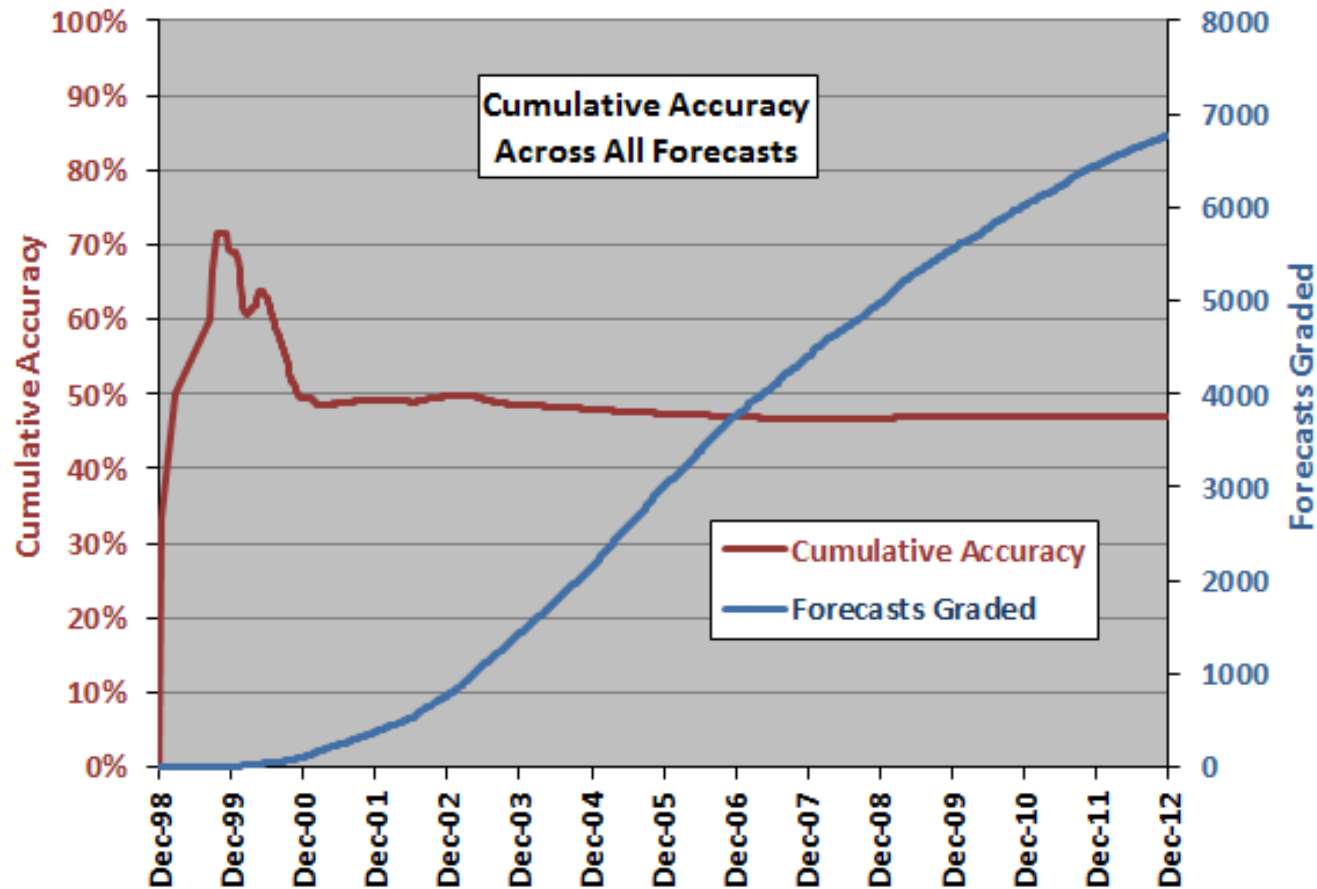


35%

Abby Cohen

Former Chief US investment strategist at Goldman Sachs

46.9% of forecasters were accurate – worse than a coin flip



Source: CXO Advisory – Guru Grades

Why investors
try anyway



With perfect foresight, market timing *could* be very profitable

Ending value of \$1 invested in 1926 to 2015

Inflation	\$ 13
Cash (30-day T Bills)	\$ 21
Bonds (20-year US Treasuries)	\$ 132
Stocks (S&P 500 Index)	\$ 5,421
'Best' asset class*	\$ 3.7 million

***'Best' asset class** assumes that a hypothetical investor was able to allocate all their capital to the best performing asset every year, with no transaction costs.

Source: Ibbotson & Associates. Past performance is not indicative of future performance. Provided for illustrative purposes only.

The biggest rallies have
tended to happen during or
soon after market crashes

Biggest one-day rallies

S&P/ASX 200 Index

Date	1-day rally	Crash
30/03/2020	7.0%	Covid crash
29/10/1997	6.1%	Asian financial crisis
17/03/2020	5.8%	Covid crash
25/11/2008	5.8%	Global financial crisis
13/10/2008	5.6%	Global financial crisis
25/03/2020	5.5%	Covid crash
3/11/2008	5.1%	Global financial crisis
25/01/2008	5.0%	Global financial crisis
20/08/2007	5.0%	Global financial crisis
22/09/2008	4.6%	Global financial crisis
13/03/2020	4.4%	Covid crash
23/01/2008	4.3%	Global financial crisis
6/04/2020	4.3%	Covid crash
20/10/2008	4.3%	Global financial crisis
28/11/2008	4.3%	Global financial crisis
19/09/2008	4.3%	Global financial crisis
1/10/2008	4.2%	Global financial crisis
24/03/2020	4.2%	Covid crash
8/12/2008	4.1%	Global financial crisis
30/10/2008	4.0%	Global financial crisis

Nasdaq -100 Index

Date	1-day rally	Crash
3/01/2001	18.8%	Dot com bubble
13/10/2008	12.6%	Global financial crisis
5/12/2000	11.7%	Dot com bubble
28/10/2008	10.9%	Global financial crisis
5/04/2001	10.8%	Dot com bubble
8/05/2002	10.6%	Dot com bubble
21/10/1987	10.3%	Black Monday ('87 crash)
17/04/2000	10.1%	Dot com bubble
30/05/2000	10.1%	Dot com bubble
13/03/2020	10.1%	Covid crash
29/10/1987	9.7%	Black Monday ('87 crash)
18/04/2001	9.5%	Dot com bubble
22/12/2000	9.5%	Dot com bubble
13/10/2000	9.1%	Dot com bubble
19/10/2000	8.4%	Dot com bubble
25/04/2000	8.0%	Dot com bubble
10/04/2001	7.9%	Dot com bubble
24/03/2020	7.8%	Covid crash
3/10/2001	7.8%	Dot com bubble/Sept 11 attacks
10/11/2022	7.5%	2022 Tech crash

Source: Bloomberg. Beta shares. Start date for S&P/ASX 200 Index is 01/06/1992, Start date for Nasdaq-100 Index is 04/02/1985.

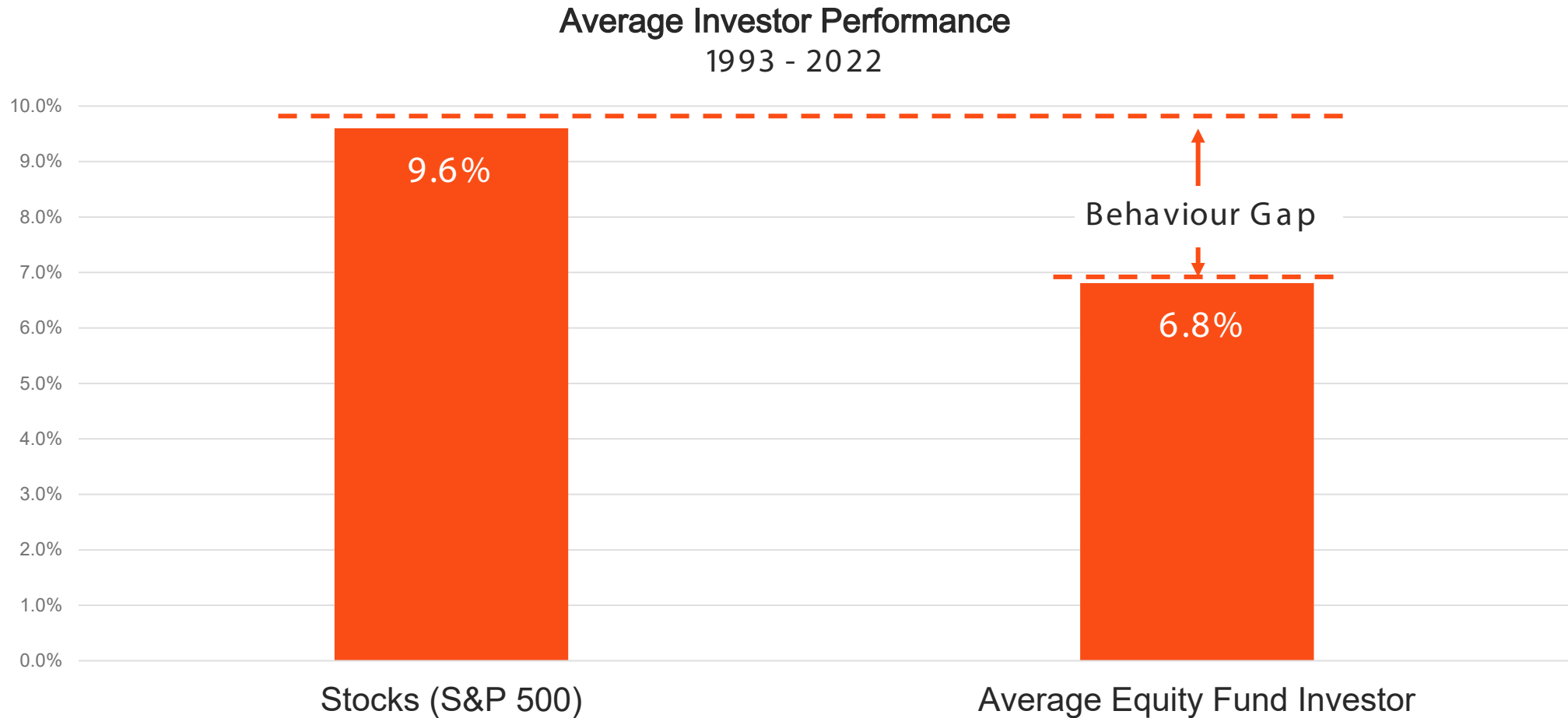
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Mistakes
can be costly



The cost of being 'out of the market'

Dalbar study: Performance of S&P 500 vs average equity fund investor (1993-2022)



*Average investor and average equity fund investor returns are based on an analysis by DALBAR, Inc., which utilises the net of aggregate mutual fund sales, redemptions and exchanges each month as a measure of investor behavior. Average investor returns are based on a blend of stock and bond funds, while average equity fund investor returns are based on equity funds only. Behaviour gap is the difference between index or fund performance, and the performance of investors who invest in said funds. This is due to timing the market. Source: Horizon Investments

Five investors: How does their performance compare?



Lucky Leo

Always invests at the market's lowest point each year.



Rapid Riley

Invests on the first day every year.



Steady Eddy

Dollar-cost averages in 12 equal monthly investments throughout the year.



Hopeless Harry

Always invests at the market's highest point each year.

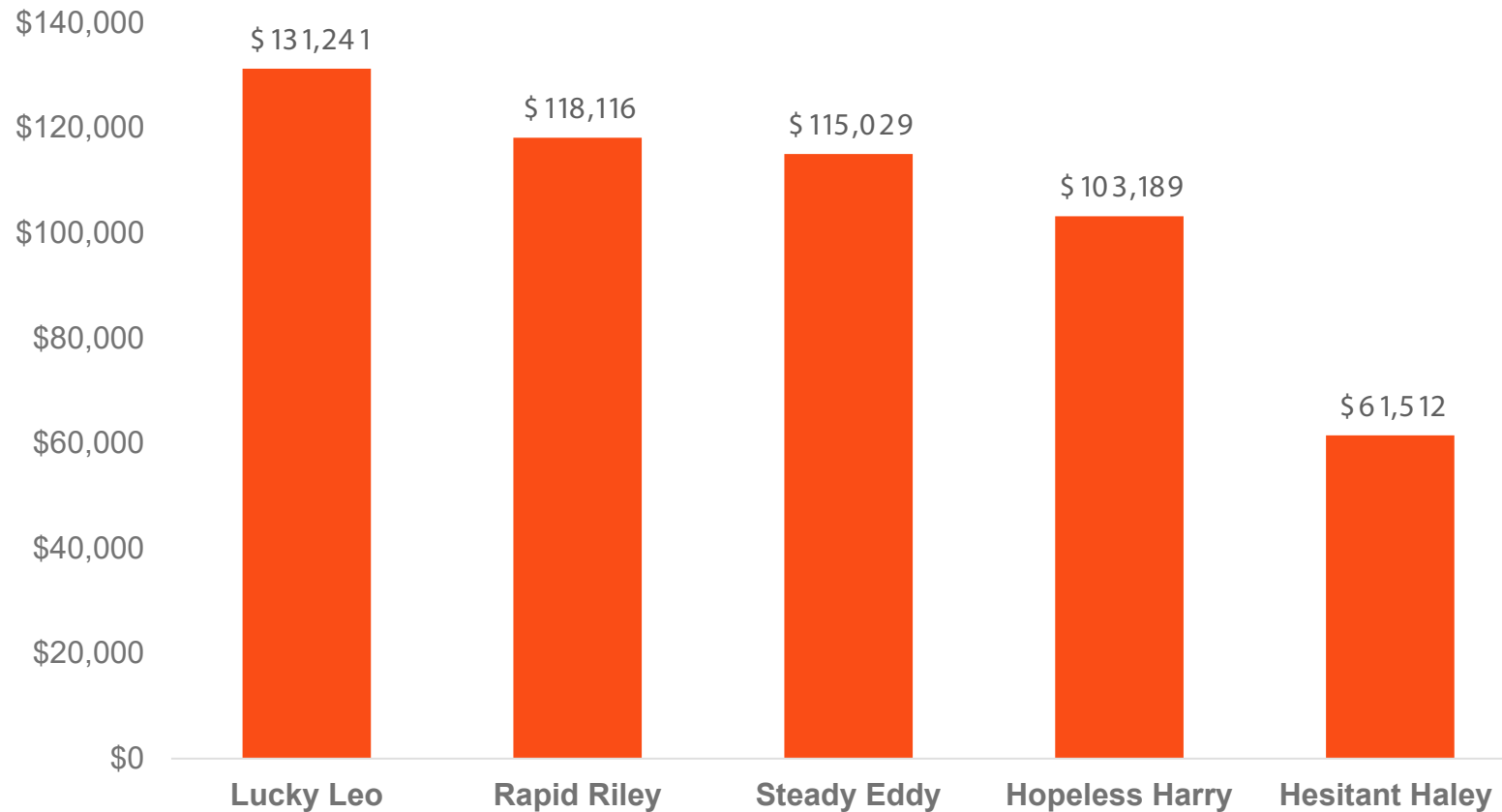


Hesitant Haley

Never invests in shares, only in cash.

Could 'now' be the best time to invest?

Example investment performance based on S&P/ASX 200 Index
1 Jan 2001 to 31 Dec 2022



Source: Bloomberg, Betashares. Hypothetical example provided for illustrative purposes only. Assumes: (a) each investor (other than Haley) invests \$2,000 every year in a portfolio represented by the S&P/ASX 200 Index; (b) reinvestment of distributions; and (c) Haley receives a return in line with the Bloomberg Ausbond Bank Bill Index. You cannot invest directly in an index. Not a recommendation to invest or adopt any investment strategy.

3 tips: What you can do instead

1

Think
long
term

2

Take a
holistic
approach

3

Consider
each asset
class' role



1

Think long-term

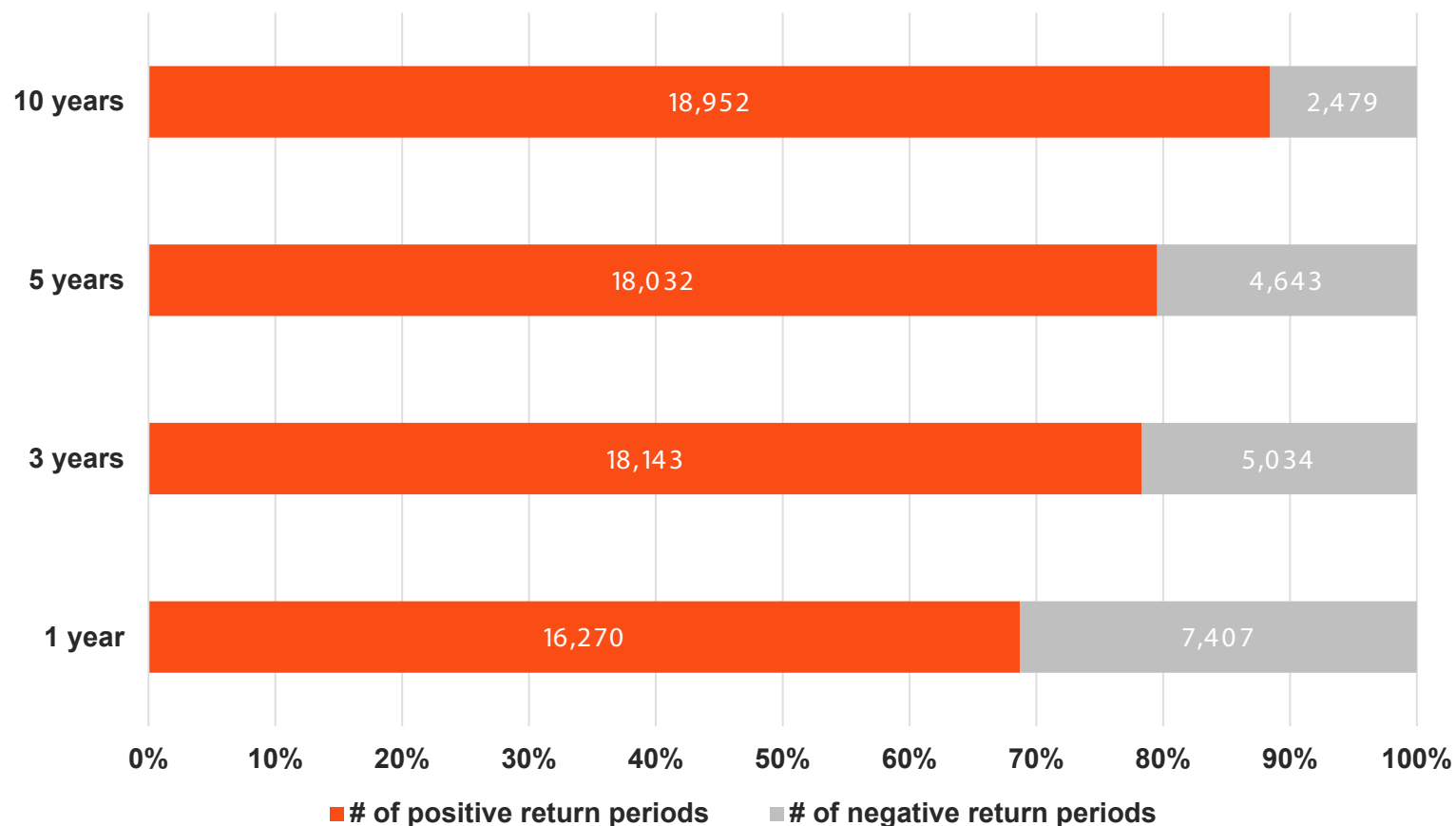


“The stock market is a device for transferring money from the impatient to the patient.”

Warren Buffett

The proportion of negative returns decreases over time

Proportion of positive/negative rolling returns (Dec 1927 – Mar 2023)



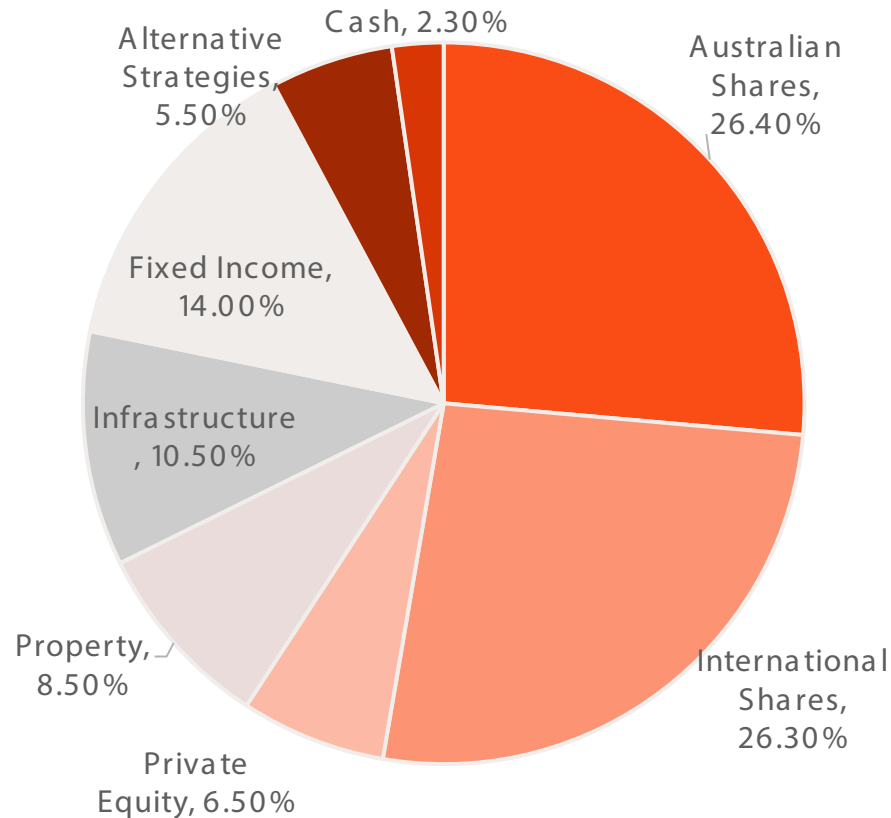
Source: Bloomberg. S&P 500, from December 1927 to March 2023. Rolling returns are consistent with the time period, i.e. 10 year rolling returns used for 10 years.

2

Take a
holistic approach

How should we construct core portfolios?

ART Balanced Pool Asset Allocation ¹



¹Australian Retirement Trust Balanced Pool asset allocations as at 31 December 2023. Provided for illustrative purposes only. Not a recommendation to invest or adopt any investment strategy.

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Our belief on what is required of the building blocks used to construct a robust core



Provide asset class exposure
(Strategic asset allocation process)



Be able to be held for the long run to reduce turnover



Compelling 'value'
Robust, long-term, net-of-fee performance



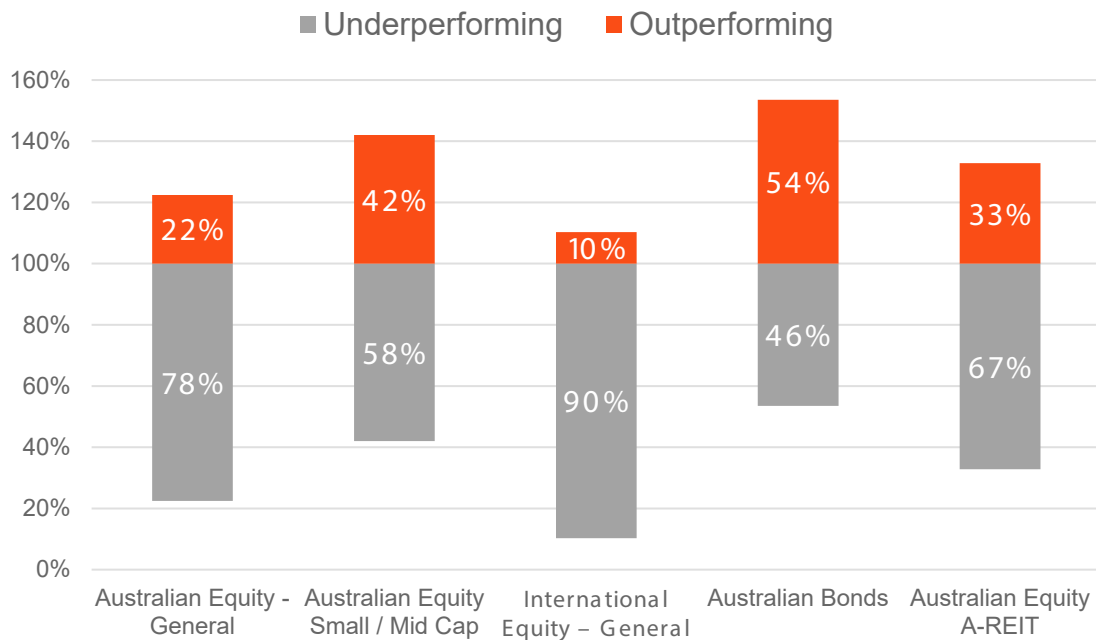
Seek to reduce overall volatility of the portfolio through diversification

Myths about active managers:

1. Active managers are better placed in a volatile market

SPIVA Australia Scorecard Year-End 2023:

Relative Performance of Australian Domiciled Fund Managers (5-year returns)

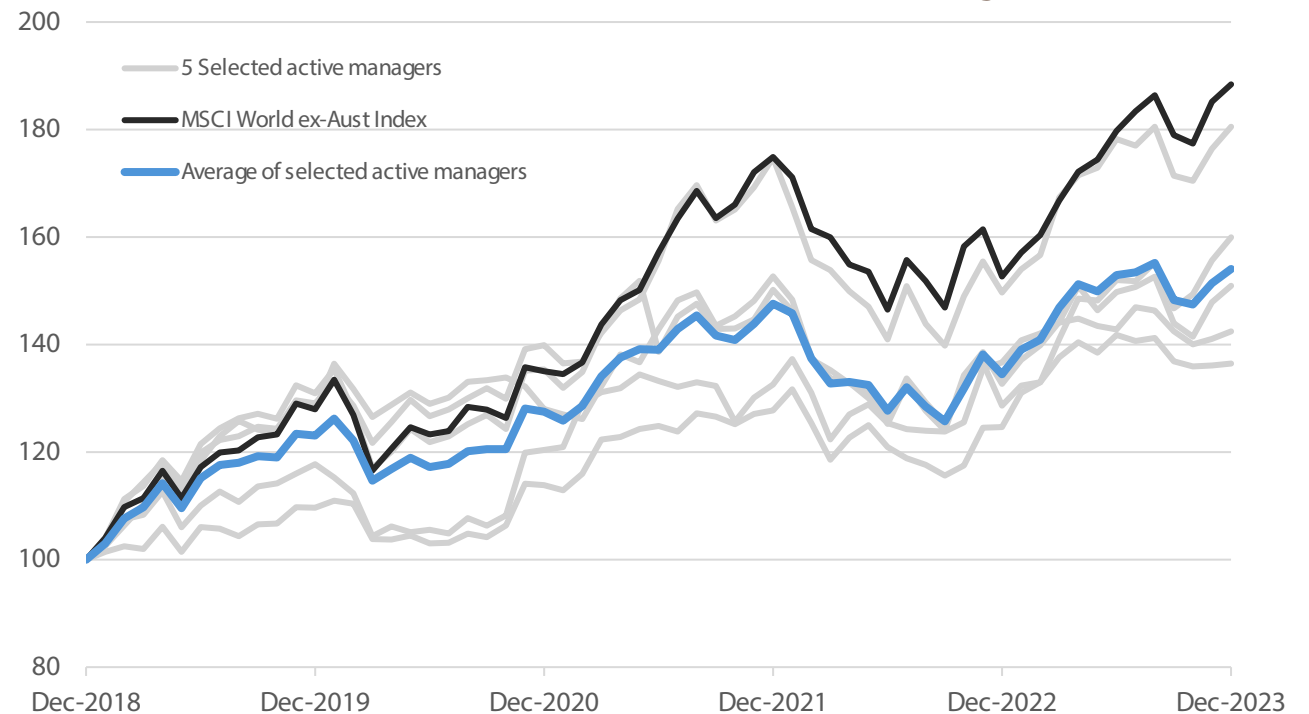


Source: S&P Dow Jones Indices LLC, Morningstar. Data as of 31 December 2023. Chart is provided for illustrative purposes. Underperformance rates for Australian Bonds and Australian Equity Mid- and Small-Cap categories are reported for time horizons over which the respected benchmark indices were live. You cannot invest directly in an index. Past performance is not indicative of future performance.

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Largest 5 Australian International Equity Active Funds (by Dec 2018 FUM) versus Broad Market Index (MSCI World ex-Aust)

Total Return: Dec 2018 – Dec 2023 (Indexed to starting value of 100)

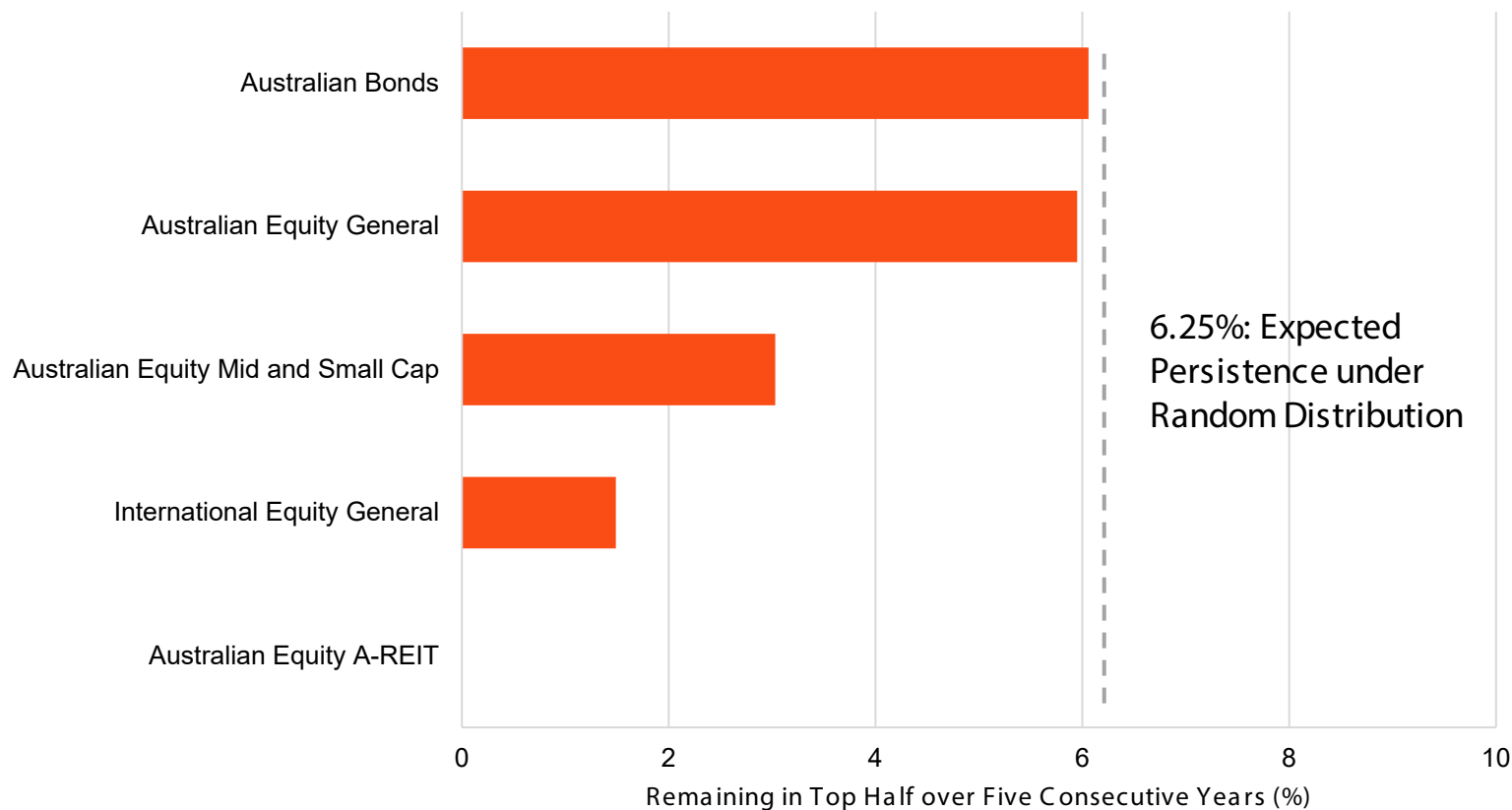


Source: Bloomberg, Morningstar, largest funds based on FUM as at 31 Dec 2018, taken from universe of all funds classified as "Australia Fund Equity International Large, Value, and Blend" and are not classified as an "Index fund". You cannot invest directly in an index. **Past performance is not indicative of future performance.**

Myths about active managers:

2. It's all about picking the best active manager

Percentage of Funds Remaining in Top Half over Five Consecutive Years



- One measure of skill is the consistency of a fund's relative performance
- S&P's Persistence Scorecard shows that there may be more luck than skill in active management, with returns often being short-lived
- Persistence of outperformance against benchmarks was rare: only 6% of Australian Equity General funds remained in the top half within their category over five consecutive years ending 31 December 2023

Source: S&P Dow Jones Indices LLC. Morningstar. Data as of 31 December 2023. Chart is provided for illustrative purposes. **Past performance is no guarantee of future results**

Compounding hurts active managers over time

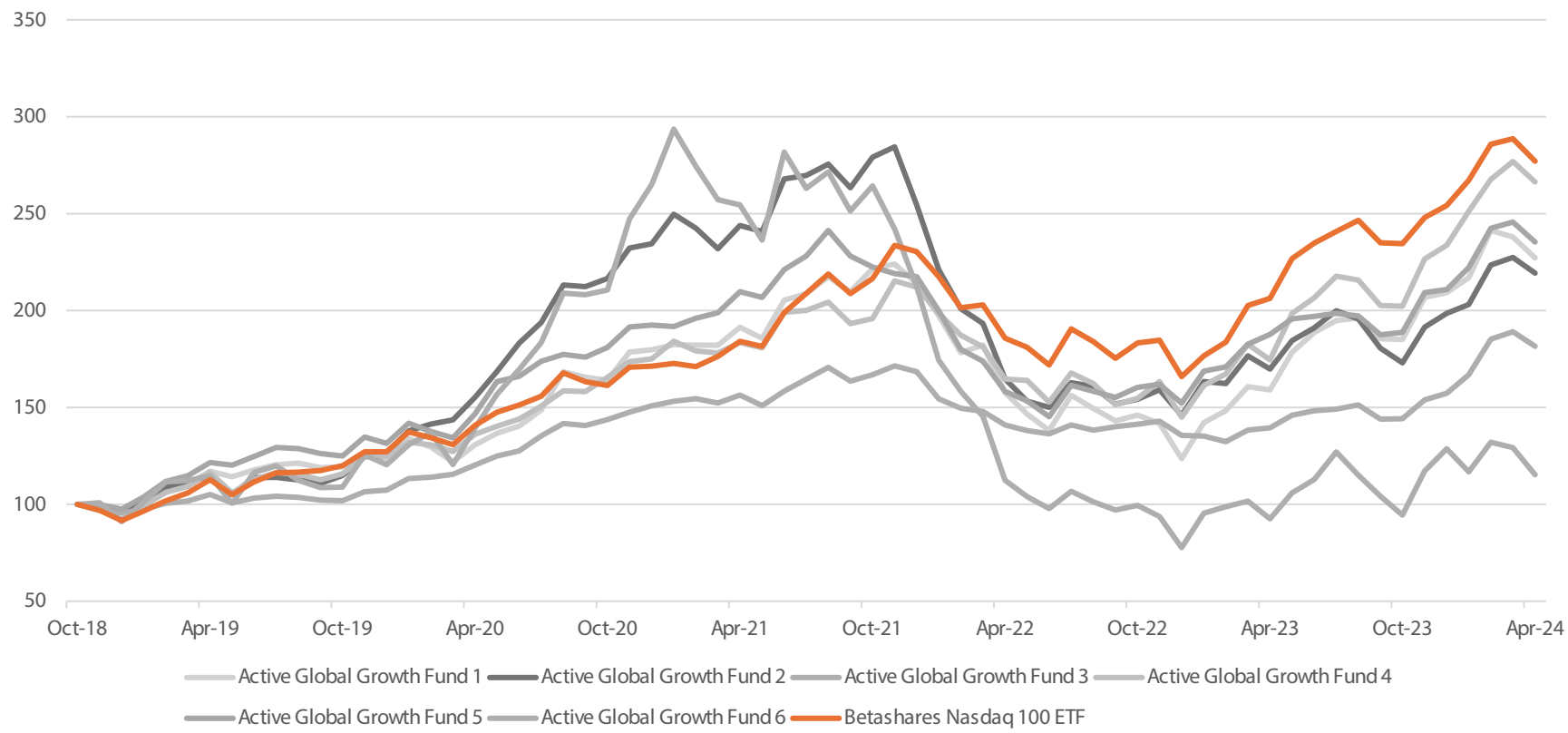
Impact on long term performance

- Where active outperformance is transient, it does not compound.
- Higher fees and costs **always** compound in the same direction, eroding capital.
- The cost of staying with an underperforming active manager can be significant (“Do I switch or do I stay?”).
 - ▶ Using index funds in the core portfolio reduces this risk.

Myths about active managers:

3. Only active funds can provide investment outcomes different to market benchmarks

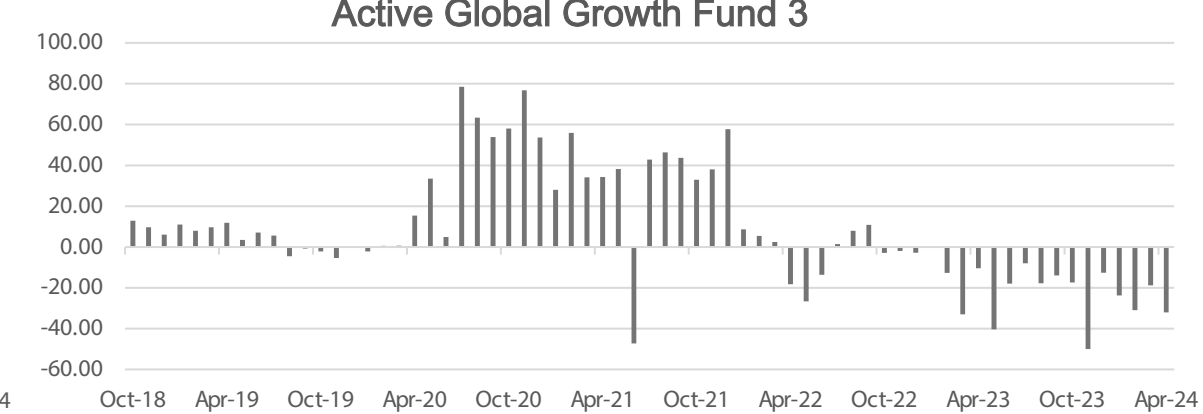
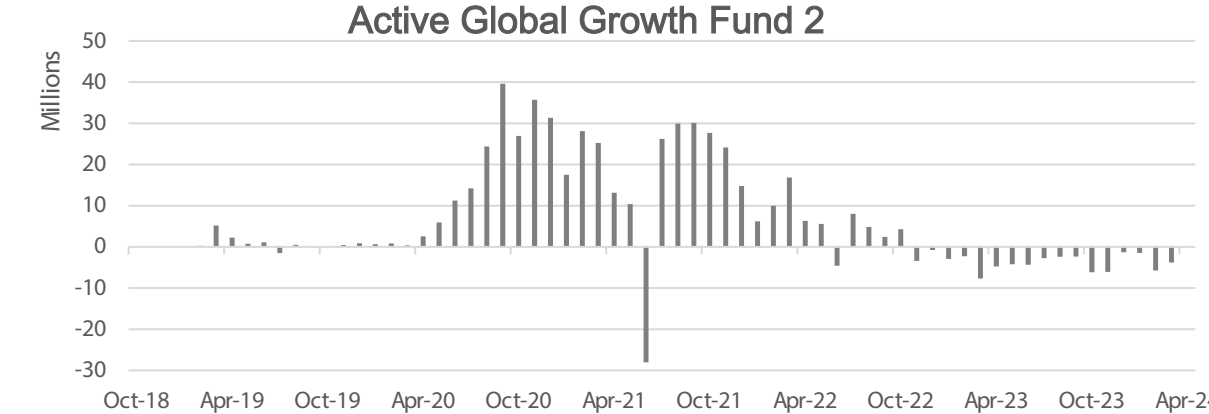
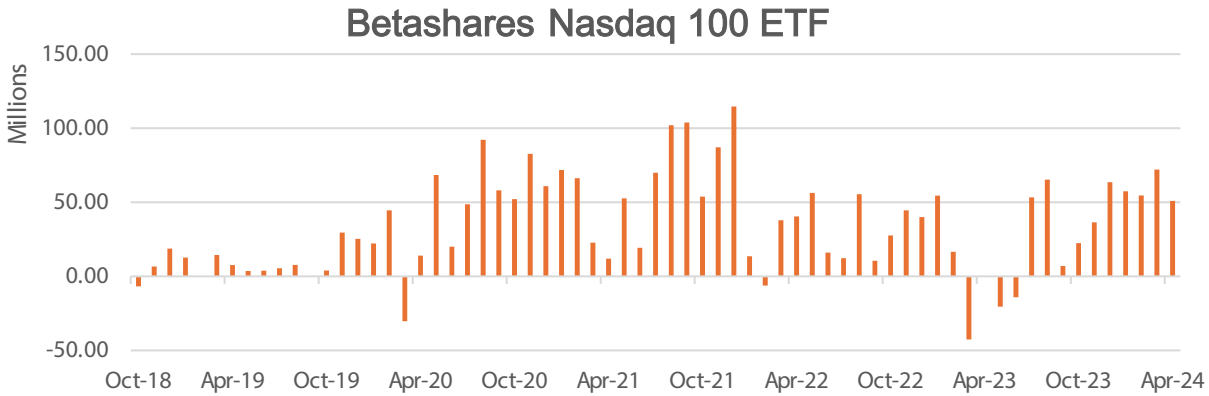
Performance of Betashares Nasdaq 100 ETF vs Active "growth" peer funds:
October 2018 - April 2024 (Indexed to 100)



Source: Morningstar. As at 31 December 2023. Selected Active Global Growth Peers selected from Australian domiciled global equity active funds with similar factor profile to Betashares Nasdaq 100 ETF (ASX: NDQ) (as determined by Betashares). You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or fund.**

What do the investor flows tell us about the behaviour gap?

Monthly net inflows - Betashares Nasdaq 100 ETF vs Active "growth" peer funds
October 2018 - April 2024 (AUD)

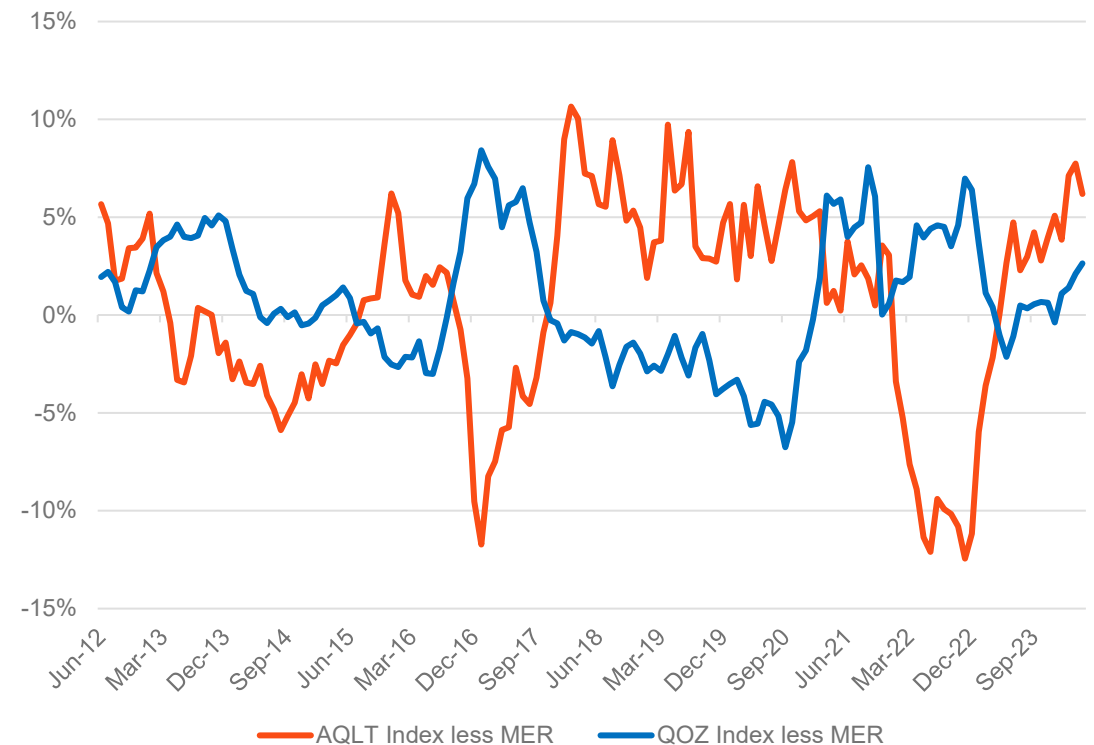


Source: Morningstar. As at 31 December 2023. Selected Active Global Growth Peers selected from Australian domiciled global equity active funds with similar factor profile to Betashares Nasdaq 100 ETF (ASX:NDQ) (as determined by Betashares). You cannot invest directly in an index. **Past performance is not indicative of future performance of any index or fund.**

How does the Beta shares Investment Committee think about portfolio construction

- Construct an all-weather core portfolio by combining uncorrelated “systematic” factor exposures expected to out-perform over the long run.
- **Quality**
 - Betashares Australian Quality ETF (ASX: AQLT)
 - AQLT aims to track an index (before fees and expenses) designed to provide exposure to 40 high quality Australian companies.
- **Value**
 - Betashares FTSE RAFI Australia 200 ETF (ASX: QOZ)
 - QOZ provides access to a “fundamentally weighted” portfolio of 200 large Australian companies.
 - QOZ’s index dynamically tilts to value and benefits from mean reversion in stock prices over time.

Rolling 1-year excess returns vs. ASX 200
Daily Excess Return Correlation = -0.29



Source: Bloomberg. As at 31 December 2023. AQLT Index is the Solactive Australia Quality Select Index. QOZ index is the FTSE RAFI Australia 200 index. Both index series are represented less management fees and costs (0.35% p.a. for AQLT and 0.40% p.a. for QOZ). Excess returns are relative to the ASX 200 benchmark. You cannot invest directly in an index. **Past performance is no guarantee of future results of any index or ETF** .

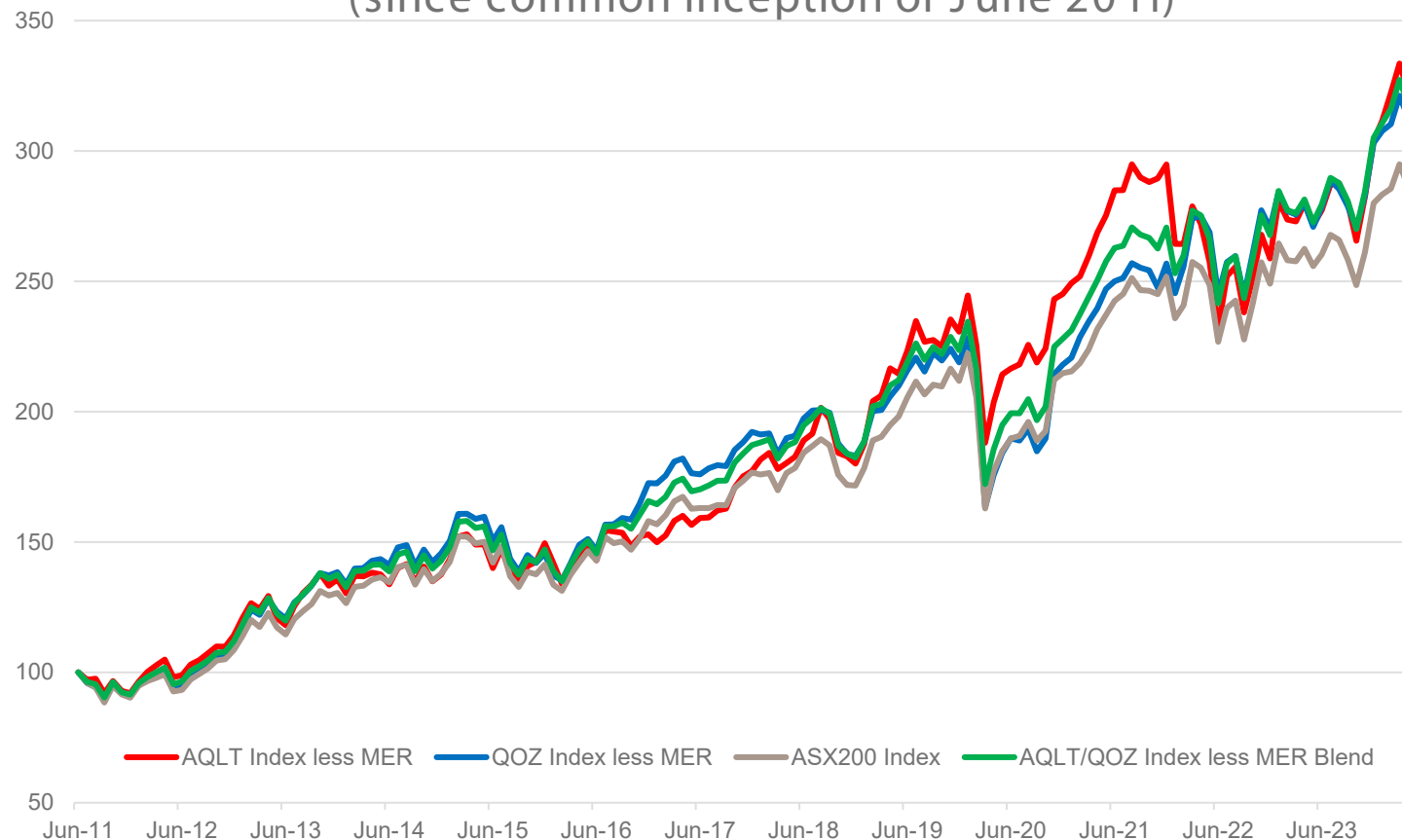
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How does the BetaShares Investment Committee think about portfolio construction

Betashares Investment Committee aims to blend quality and value factors to deliver:

- more consistent alpha
- less deviation and short-term drawdowns versus the ASX 200
- potential for a smoother ride for investors over different market cycles

AQLT/QOZ Index Blended Total Returns vs ASX 200
(since common inception of June 2011)



Source: Bloomberg. As at 31 December 2023. AQLT Index is the Solactive Australia Quality Select Index. QOZ index is the FTSE RAFI Australia 200 Index. Both index series are represented less management fees and costs (0.35% p.a. for AQLT and 0.40% p.a. for QOZ). Excess returns are relative to the ASX 200 benchmark. AQLT/QOZ Index less MER Blend is based on an allocation of 35% to AQLT Index and 65% to QOZ Index (less management fees and costs), rebalanced monthly. You cannot invest directly in an index. **Past performance is no guarantee of future results of any index or ETF.**

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3

Consider each
asset class' role

Key considerations for how you use fixed income in portfolio construction

Examples of a tailored approach

For a portfolio with smaller equity allocation and need for income:

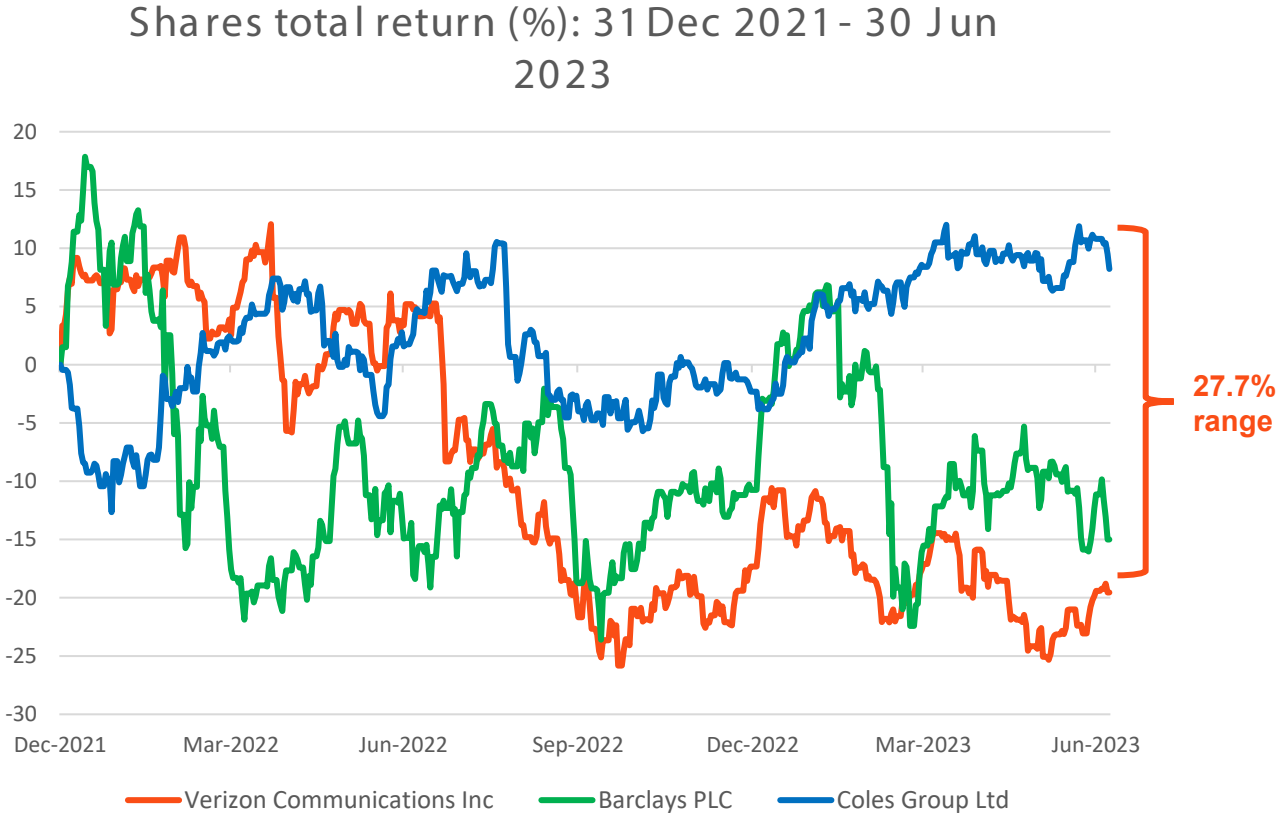
Upweight Credit

For a portfolio with larger equity allocation, longer time horizon:

Upweight Fixed-rate Government Bonds

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Comparative performance of selected Australian Corporate Bonds



Source: Bloomberg. AUD fixed rate bonds selected from Betashares Australian Investment Grade Corporate Bond ETF (ASX; CRED) portfolio as at 30 June 2023, with term-to-maturity 5-7 years and S&P credit rating of BBB+. Where the bond issuer has listed shares the total return of those shares is also shown. **Past performance is not indicative of future performance.**

Credit income funds in portfolio construction

What are credit income funds?

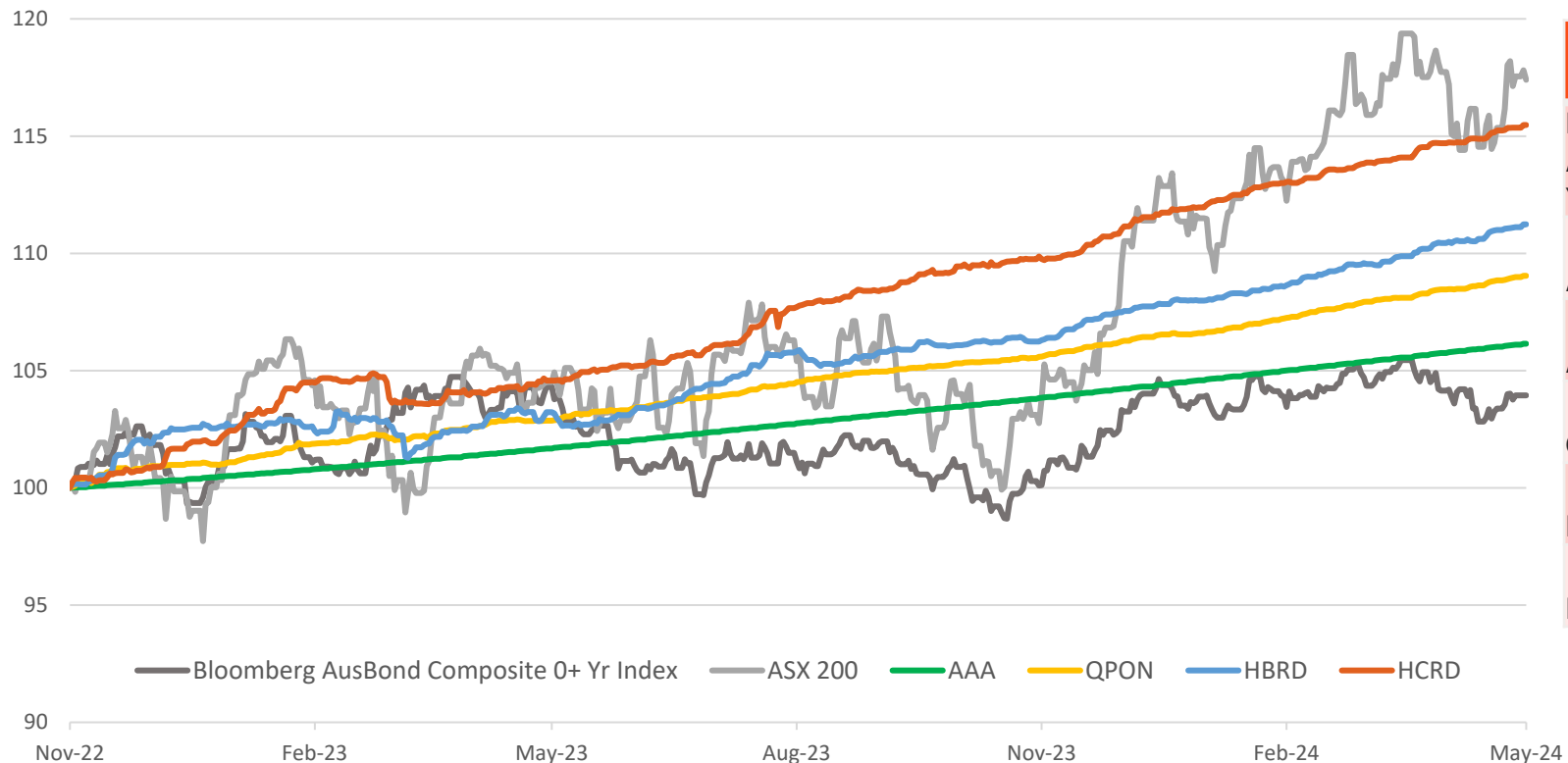
- Funds that aim to generate returns by taking on credit risk
- The focus on credit premia over term premia means they are typically low duration

What is their role in asset allocation?

- Generating higher income than cash allocations
- Reducing capital variability

Can credit income meet your portfolio's income needs?

Selected Betashares Credit Income ETFs vs AusBond Comp and ASX 200 Index (since common inception of November 2022)



	Expected Yield (p.a.)	Yield Type
Bloomberg AusBond Comp 0+ Yr Index	4.48%	Yield to worst
ASX 200 Index	3.80%	Forecast Dividend Yield
AAA	4.45%	Interest rate (net of fee)
QPON	5.16%	All-in yield
HBRD	5.93%	All-in yield
HCRD	5.98%	All-in yield

Source: Bloomberg. As at 15 May 2024. Performance shown since common inception of November 2022, indexed to a starting value of 100. Performance shown net of management fee and costs for respective Betashares Credit Income ETFs and assumes reinvestment of distributions. Does not reflect brokerage or bid-ask spread that investors may incur when buying and selling units on the ASX. Yield to convention/worst is the lowest possible yield on fixed rate bonds with call rights. All-in yields are the sum of a floating rate bond's discount margin and its reference benchmark rate (typically BBSW in Australia). Yields are subject to change from time to time. Not a recommendation to invest or adopt any investment strategy. **Past performance is not indicative of future performance.**

Key takeaways

1. Timing the market is hard, if not impossible.
2. The probability of generating positive returns increases with your investment horizon.
3. **When building a core:** Use building blocks that can be held over the cycle and focus on the overall portfolio outcomes.
4. **Have a high conviction view?** Consider a satellite allocation, to keep your core balanced and on track.



Better investing starts here

Betashares Direct

Betashares Direct is the new investing platform designed to help you build wealth, your way. Invest in any ETF traded on the ASX with zero brokerage or automate your investing for low monthly fees.

Zero brokerage ETF Investing

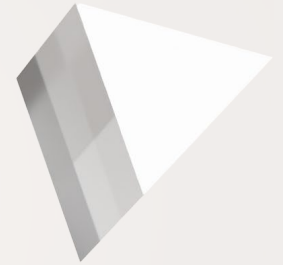
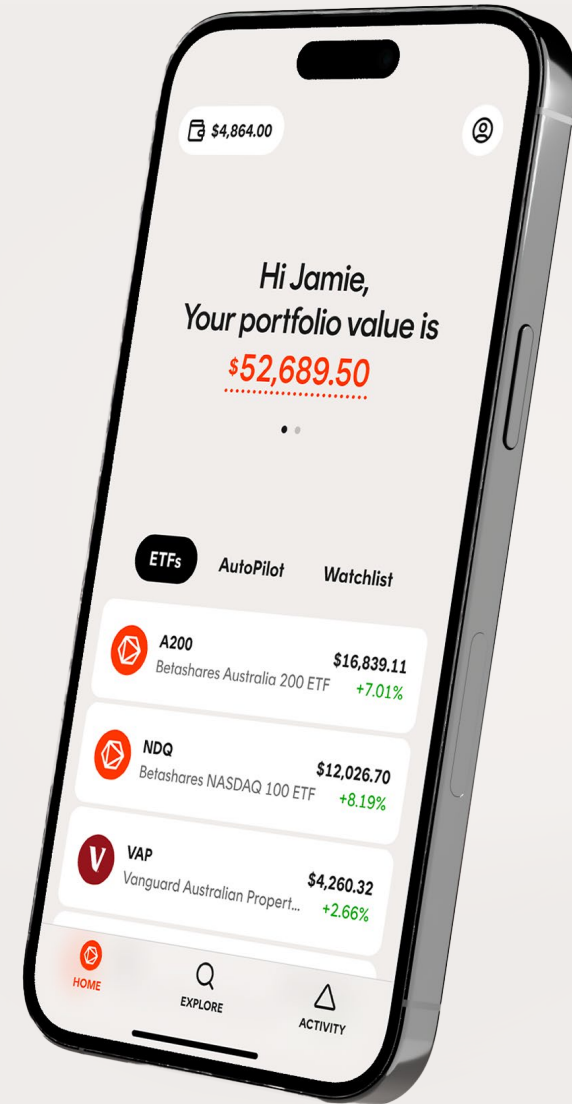
Invest in any ETF traded on the ASX with zero brokerage.

AutoPilot Portfolios

Access professionally constructed pre-built portfolios, or build your own custom portfolio in a few simple steps, for low monthly fees.

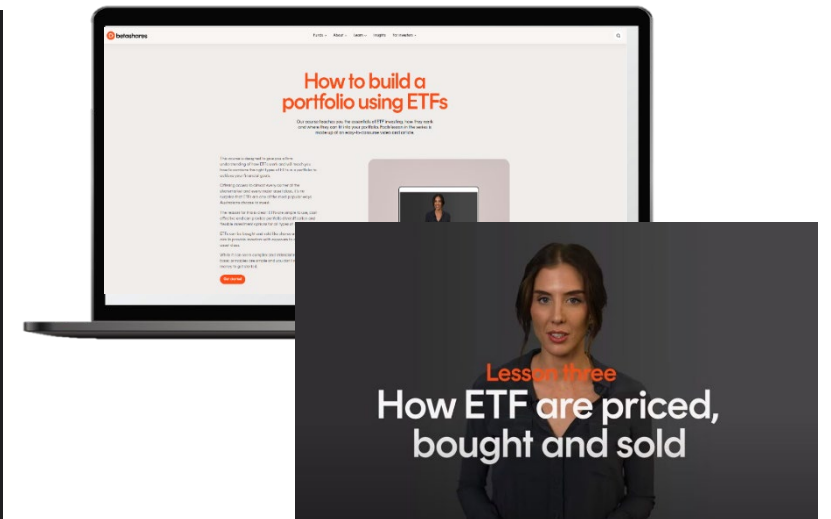
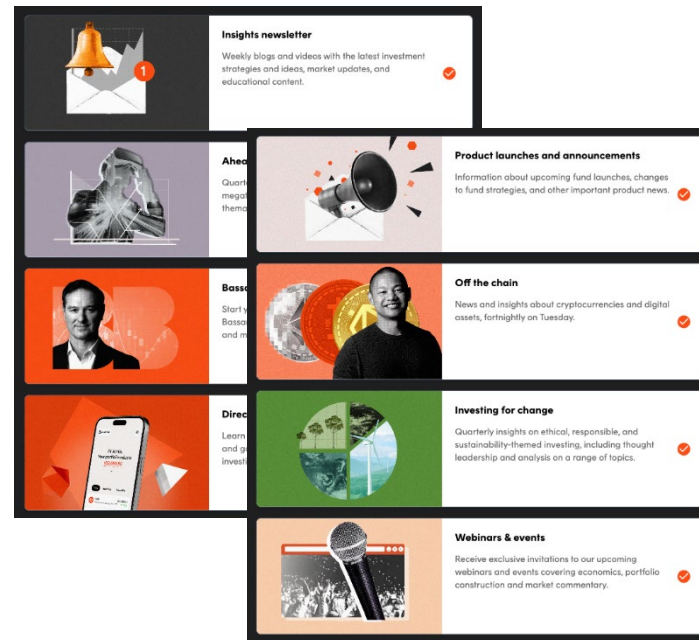
Refer to the PDS for more info on interest retained by Betashares on cash balances and AutoPilot portfolio fees.

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Complimentary ETF course

The image features a large white hexagon centered on a solid orange background. The hexagon is oriented with one vertex pointing to the right. The text "Thank you" is written in a clean, sans-serif font in orange color, centered within the white hexagon.

Thank you

Questions?