BetaShares
Exchange Traded Funds

Market/Trends

With Chief Economist,
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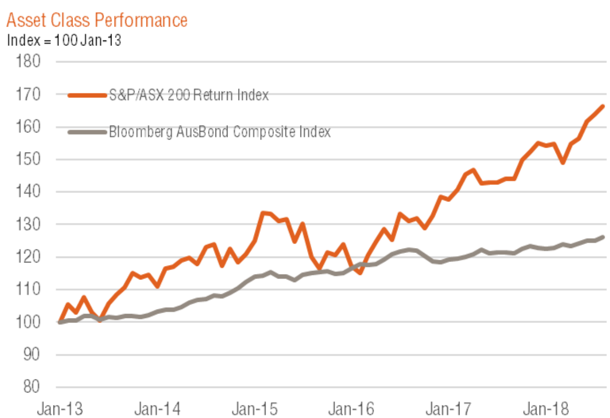
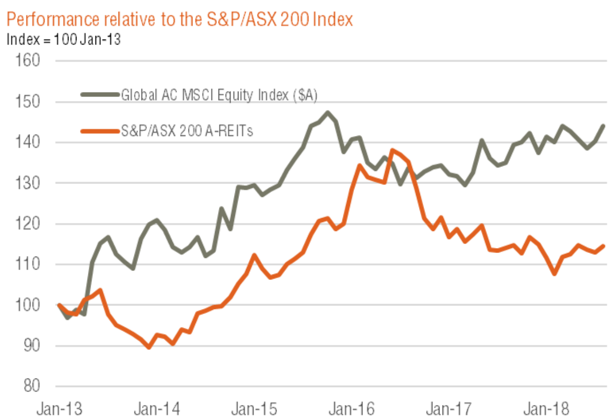
Major Asset Class Performance

Global stocks continue their rebound

Major Asset Class Performance*	Aug-18	Jul-18	6-month	12-month	Momentum Rank**
Int. Equities ($A)	4.1%	2.8%	10.3%	23.2%	1
Aust. Property	2.7%	1.0%	14.2%	15.8%	2
Aust. Equities	1.4%	1.4%	7.3%	15.4%	3
Aust. Bonds	0.8%	0.2%	2.7%	3.8%	4
Cash	0.2%	0.2%	1.0%	1.9%	5
Int. Bonds	0.3%	0.0%	1.3%	0.8%	6
Gold ($US)	-1.7%	-2.3%	-8.7%	-8.9%	7
World Currencies per $A	2.9%	-0.2%	5.5%	9.1%	
Int. Equities (hedged)	1.1%	3.0%	4.5%	12.9%	





Source: BetaShares, MSCI, Bloomberg

Unhedged international equities were the best performing of our seven core asset classes in August, returning 4.1%.

With global interest rates and equity valuations holding relatively steady, continued solid earnings growth underpinned global equity returns, while a drop in the Australian dollar also boosted returns in Australian dollar terms.

Australian property posted the second best return of 2.7%, helped by a decline in local bond yields as RBA rate hike expectations were further reduced due to persistent low inflation.

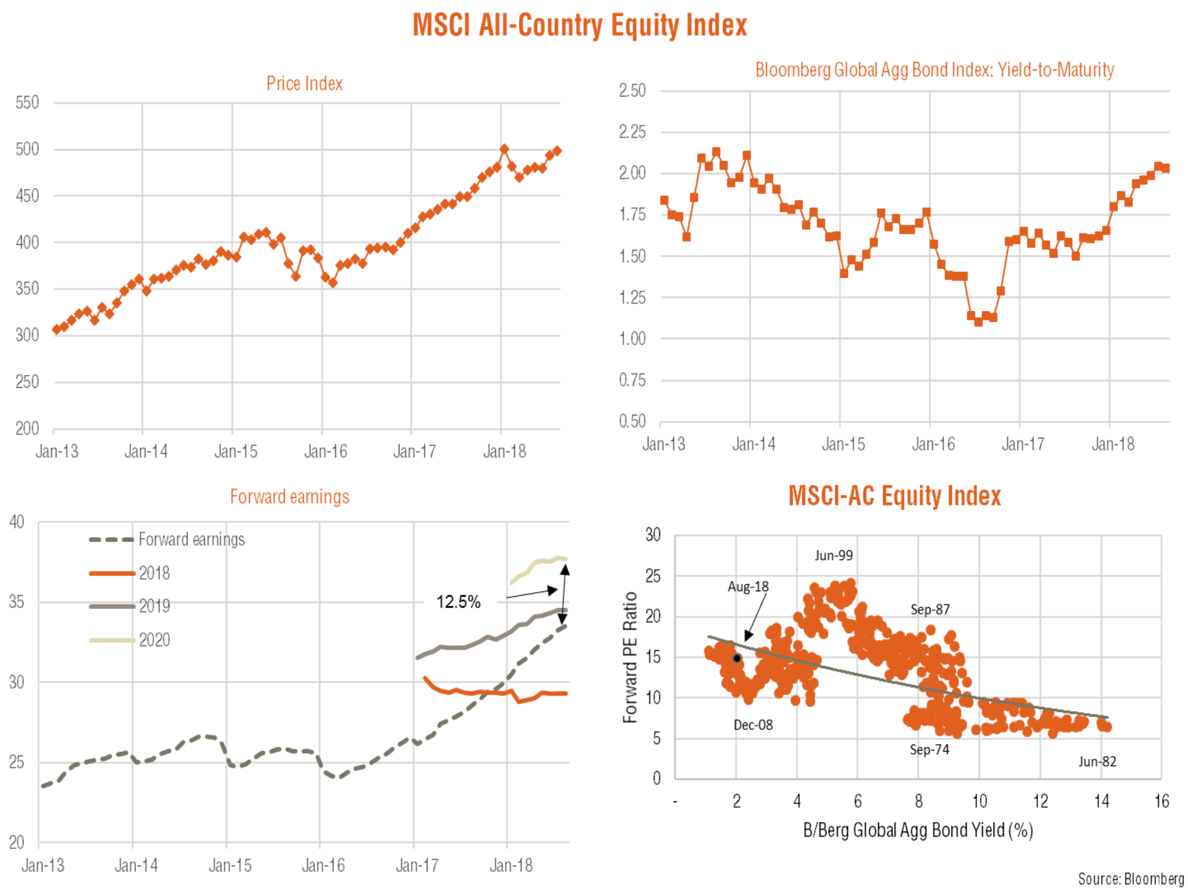
In terms of relative momentum, International equities and Australian property remain the two strongest performing asset classes at end-August, while gold and international bonds were the weakest.

*ASSET BENCHMARKS **Cash:** UBS Bank Bill Index; **Australian Equities**: S&P/ASX 200 Index; **Australia Bonds:** Bloomberg Composite Bond Index; **Australian Property:** S&P/ASX 200 A-REITs; **International Equities:** MSCI All-Country World Index, unhedged $A terms; **Commodities:** S&P GSCI Light Energy Index, $US terms. ** Rank based on equally-weighted average of 6 & 12 month return performance.

BetaShares

Global Equity Fundamentals

Steady rates, reasonable valuations and good earnings are providing support



On a month-end total return basis, global equities have all but fully recovered from their losses earlier this year.

The rebound in equities have been largely driven by earnings, with an ongoing lift in interest rates placing some downside pressure on PE valuations. The global PE ratio ended August at 14.9, compared with 16.4 at end-January.

Interest rates have steadied in recent months while the earnings outlook remains upbeat. Relative to interest rates, PE valuations also do not appear excessive, with “fair-value” PE based on the current level of global bond yields estimates at 16.6.

Current expectations suggest a rise in forward earnings of around 12.5% by end-2019.

Global Equity Trends

Technology reigns supreme, health care lifts

Global Equity Exposures

	Aug-18	Jul-18	6-month	12-month	Momentum Rank*	
NDQ	9.5%	2.5%	21.2%	42.8%	1	32.0%
HACK	9.7%	-0.9%	15.4%	33.8%	2	24.6%
QUS	5.3%	3.4%	15.0%	28.1%	3	21.6%
FUEL	-2.9%	2.0%	14.8%	25.7%	4	20.2%
DRUG	2.6%	6.9%	12.1%	14.1%	5	13.1%
HEUR	-2.7%	3.7%	2.8%	6.5%	6	4.7%
HJPN	-0.8%	2.3%	-2.5%	9.5%	7	3.5%
FOOD	1.0%	1.7%	0.4%	5.7%	8	3.0%
BNKS	-2.3%	5.7%	-6.0%	6.4%	9	0.2%
MNRS	-12.3%	-5.2%	-11.1%	-25.2%	10	-18.1%
MSCI AC Index	1.1%	3.0%	4.5%	12.9%		
S&P 500	3.3%	3.7%	8.0%	19.7%		
S&P/ASX 200 Index	1.4%	1.4%	7.3%	15.4%		

Among our major global regional/sector ETFs, US based technology exposures NDQ and HACK produced the best performance last month. QUS also performed well, with all three unhedged ETFs benefiting from weakness in the $A.

Weighted by an equally weighted average of 6 & 12-month return performance, NDQ remains the strongest performer, followed by HACK and QUS.

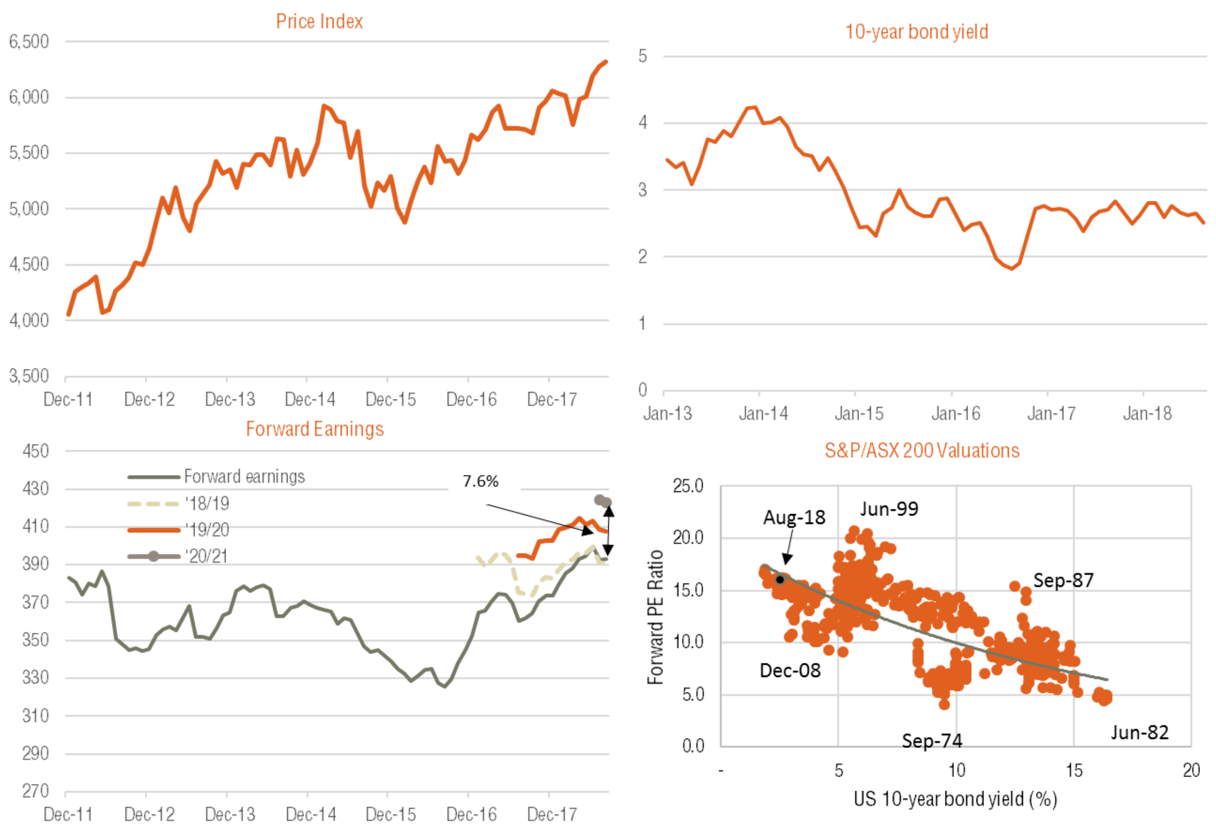
Not helped by the weakness in gold prices, global gold miners (MNRS) had another bad month, to be the worst performing global exposure over the past year.

Source: BetaShares and Bloomberg.
* Rank based on equally-weighted average of 6 & 12 month return performance.

Australian Equities

Valuations rather than earnings have pushed prices higher in recent months

S&P/ASX 200 Equity Index



Source: Bloomberg

Australian equities pushed higher in August, even though forward earnings appear to have levelled off.

Indeed, unlike the case globally, earnings expectations have eased in recent months.

It has been rising valuations, rather than earnings, that has largely pushed the market higher in recent months. In turn, higher valuations have been supported by easing local bond yields.

Relative to current bond yields, the market could be considered “fair-value”, but is becoming expensive relative to global equities.

Australian Equity Trends

Financials bounce for the second month in a row

Australian Equity Exposures

	Aug-18	Jul-18	6-month	12-month	Momentum Rank*
QRE	-4.4%	0.1%	6.5%	21.5%	1
EX20	1.6%	1.4%	7.2%	18.2%	2
SMLL	1.2%	-0.7%	4.6%	15.5%	3
QOZ	0.1%	1.6%	4.9%	12.2%	4
RINC	0.8%	0.3%	8.3%	7.1%	5
EINC	2.3%	0.1%	2.8%	7.6%	6
QFN	0.0%	2.0%	0.0%	4.7%	7
S&P/ASX 200 Index	1.4%	1.4%	6.2%	7.3%	

Among our Australian equity sector/thematic funds, EINC produced the best return in the month, consistent with some renewed interest in yield plays given the relatively benign local interest rate environment. Small and mid-cap stocks (EX20) also performed well.

Meanwhile global trade concerns saw profit taking in resource stocks (QRE) after recent strong gains.

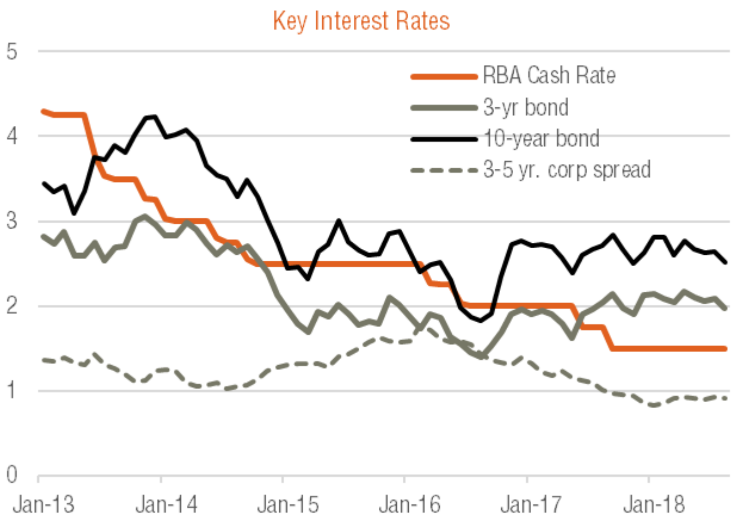
In terms of relative momentum, the top three performers remain QRE, EX20 and SMLL respectively.

The large-cap heavy financial sector (QFN) continues to lag in relative performance.

Source: BetaShares and Bloomberg.
* Rank based on equally-weighted average of 6 & 12 month return performance.
** Unlisted Fund performance prior to March 2018

Aust. Cash and Bonds

An easing in credit spreads support hybrids and floating rate bonds



A decline in local bond yields boosted returns from long-duration corporate bonds (CRED) in August, and steady corporate spreads also supported further gains for hybrids (HBRD).

More broadly, the relatively benign local interest rate environment continues to favour duration and credit exposures, relative to cash (AAA) and floating-rate bonds (QPON).

Over the past year, CRED has also handily outperformed the widely followed Australian Composite Bond Index.

Australian Cash & Bond Exposures

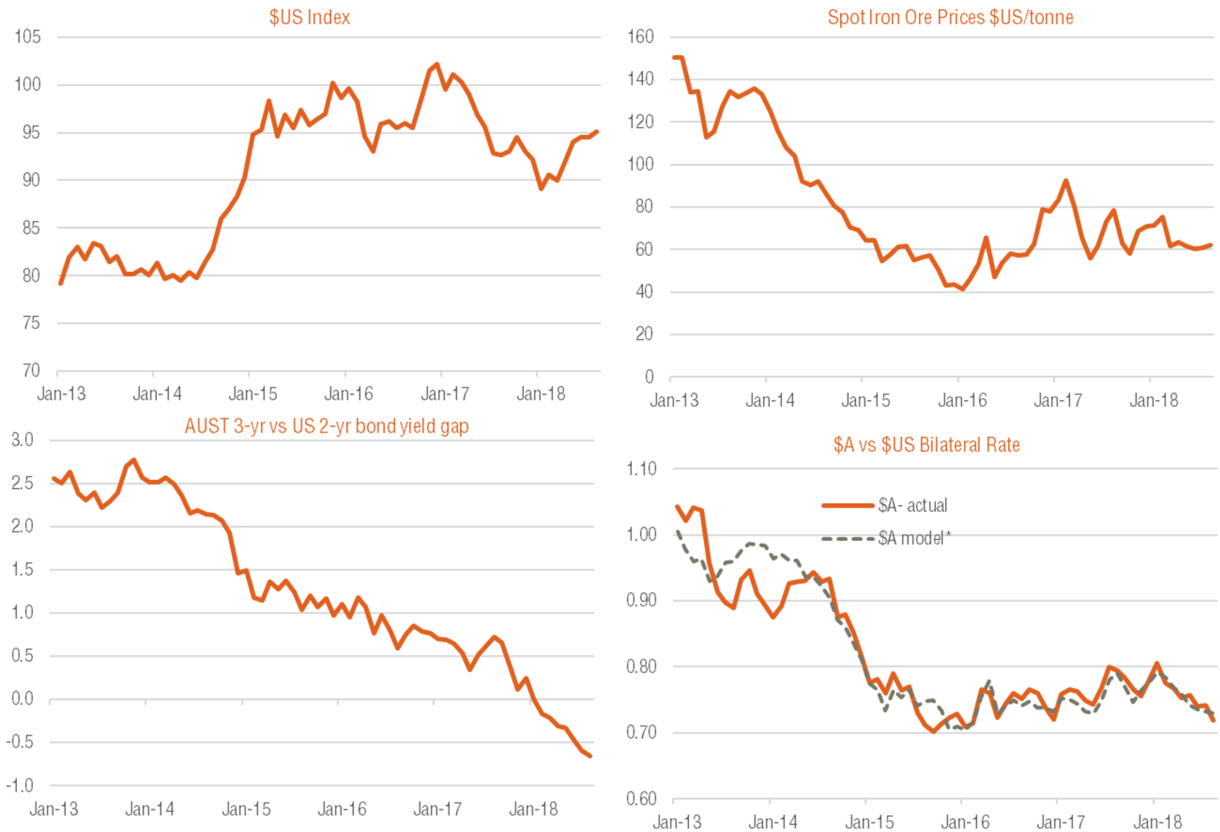
	End-month	*Total return performance*			
	Yield*	Aug-18	Jul-18	6-month	12-month
AAA ETF	2.0%	0.2%	0.2%	1.0%	2.0%
QPON's Index	2.8%	0.4%	0.4%	1.2%	2.8%
HBRD Fund (Net)	3.9%	0.7%	1.1%	2.4%	5.1%
CRED's Index	3.9%	1.2%	0.2%	2.7%	5.2%
AusBond Composite Index	2.5%	0.8%	0.2%	2.7%	3.8%
Bank Bill Index	1.8%	0.2%	0.2%	1.0%	1.9%

Source: BetaShares and Bloomberg.
*Yield-to-maturity for the AusBond Composite Index and the indices tracked by QPON and CRED. Running yield for the HBRD Fund. AAA's yield based on current interest rates earned on the Fund's bank deposits, net of management fees.

Australian Dollar

Downside pressures are accumulating

$A Outlook



Source: Bloomberg

Flat iron-ore prices, continued strength in the $US and a further narrowing in interest-rate differentials all helped push the $A lower in August.

Modelling suggests the $A is currently around fair value given these fundamentals.

Assuming further weakness in iron-ore prices, a stronger $US and a continued narrowing in interest rate differentials, it is possible the $A could well ease further in the months ahead – potentially breaking below US70c by year-end.

BetaShares

BetaShares Product Range

Australian Equities

A200
QOZ
QFN
QRE
EX20
SMLL
FAIR

Global Equities

NDQ
UMAX
QUS
FUEL
FOOD
HACK
BNKS
HEUR
HJPN
MNRS
DRUG
ETHI

Equity Income

HVST
YMAX
UMAX

Managed Risk/ Defensive Equity

HVST
AUST
WRLD

Hybrids

HBRD

Cash & Fixed Income

AAA
QPON
CRED

Short

BEAR
BBOZ
BBUS

Geared

GEAR
GGUS

Currency

USD
POU
EEU
AUDS
YANK

Commodities

QAG
QAU
OOO
QCB

Active

EINC
RINC
GLIN
RENT
DMKT

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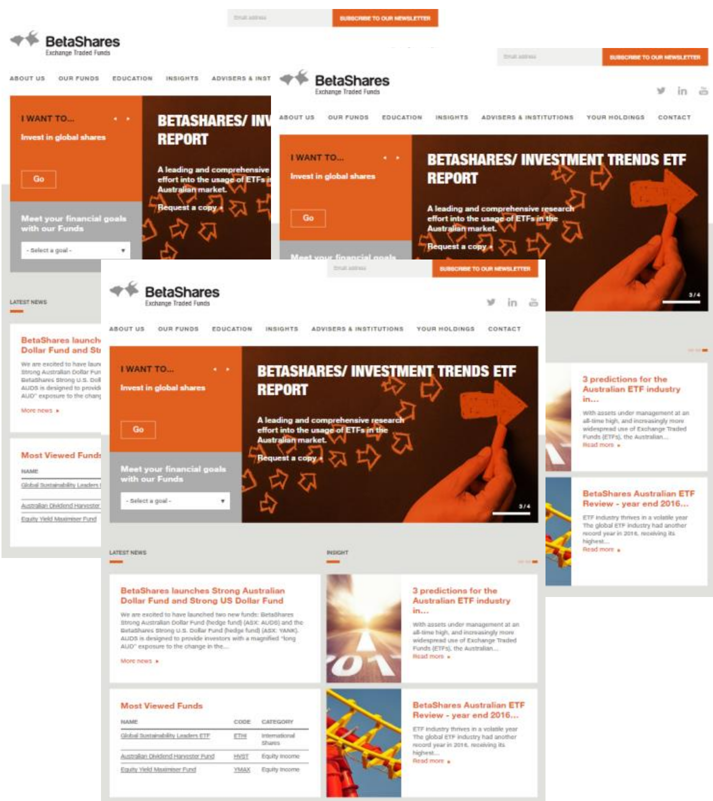

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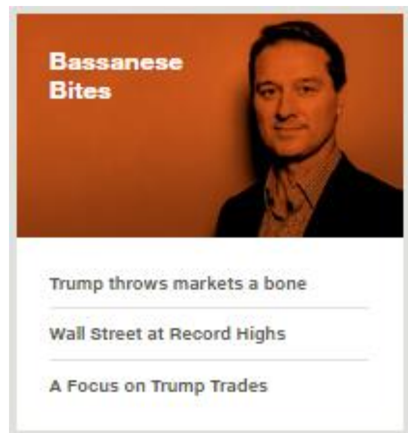

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