BetaShares
Exchange Traded Funds

ASX: IIND

BetaShares India Quality ETF

A PASSAGE TO INDIA: THE BETASHARES INDIA QUALITY ETF

ACCESS HIGH QUALITY COMPANIES, IN ONE OF THE WORLD'S FASTEST GROWING ECONOMIES

India is a country with tremendous economic growth and investment potential. At the same time, due to its quite different economic structure, it also offers a useful source of added portfolio diversification for Australian investors.

In order to tap into the potential of this dynamic market, the BetaShares India Quality ETF explicitly screens for companies that score highly on "quality" characteristics, such as good profitability and moderate debt levels.

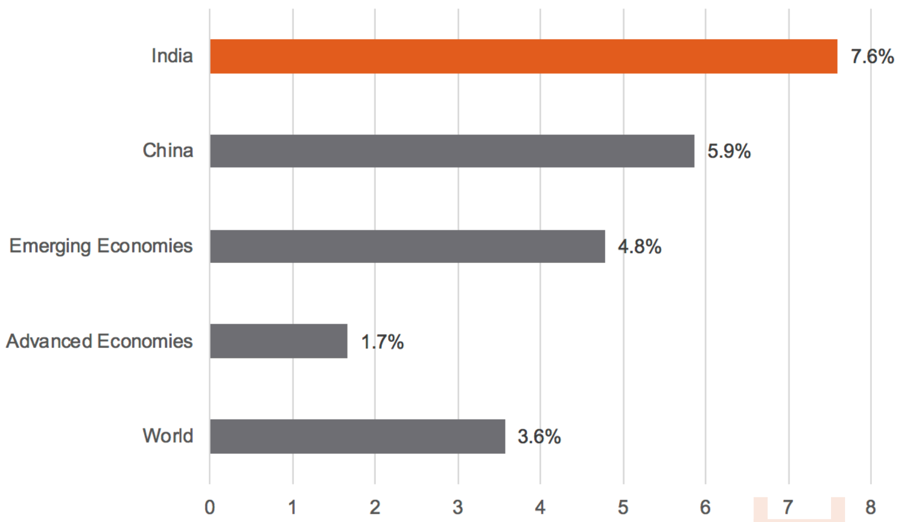
STRONG ECONOMIC GROWTH

Next to China, India has been one of the star economic growth performers in recent years. Over the last decade to 2018, the economy has enjoyed average annual growth of 7.5% p.a., only just below China's growth rate of 7.9% p.a., but well ahead of global growth of only 3.4% p.a. [1]

Due to its relatively young population, still low development level and reformist political environment, solid economic growth is likely to continue – with growth forecast to exceed that of China.

As seen in the chart below, IMF forecasts suggest the Indian economy could experience annual average growth of around 7.6% in the six years to 2024, compared to growth of 5.9% in China, 4.8% across developing economies, and 3.6% for the global economy.[1]

IMF Economic Growth Forecasts: Average annual growth from 2019 to 2024



Source: IMF, World Economic Outlook, April 2019. Actual outcomes may differ from forecasts.

[1] IMF World Economic Outlook, April 2019.

There are several factors supportive of this continued strong growth outlook for India.

For starters, India's population is relatively young and growing strongly. According to United Nations estimates[2], India's population will have a median age of only 28 years next year, compared to 42 years globally and 38 years in China. UN forecasts suggest India's population will grow at an annual rate of 0.9% over the decade to 2030, compared to only 0.2% in China.

India also retains tremendous catch-up growth potential. Indian-per-capita GDP in 2019 was estimated at $US7,874, or less than half that China's $US18,110, and well below the $US65,606 average of the United States[3].

Urbanisation – or the ongoing movement of workers from low productivity rural jobs toward more productive urban services and manufacturing employment – should also support economic growth. According to UN estimates, only 34% of India's population lived in urban centres as at 2018, compared with 60% in China and 55% across the world[4].

Last, but not least, India's political environment is currently both stable and reformist. Under the second term leadership of Prime Minister Narendra Modi, India is embarking on significant reform, including major productivity-enhancing infrastructure projects such as doubling the length of national highways, 100% electrification of all households, and significantly increasing the number of airports across the country.

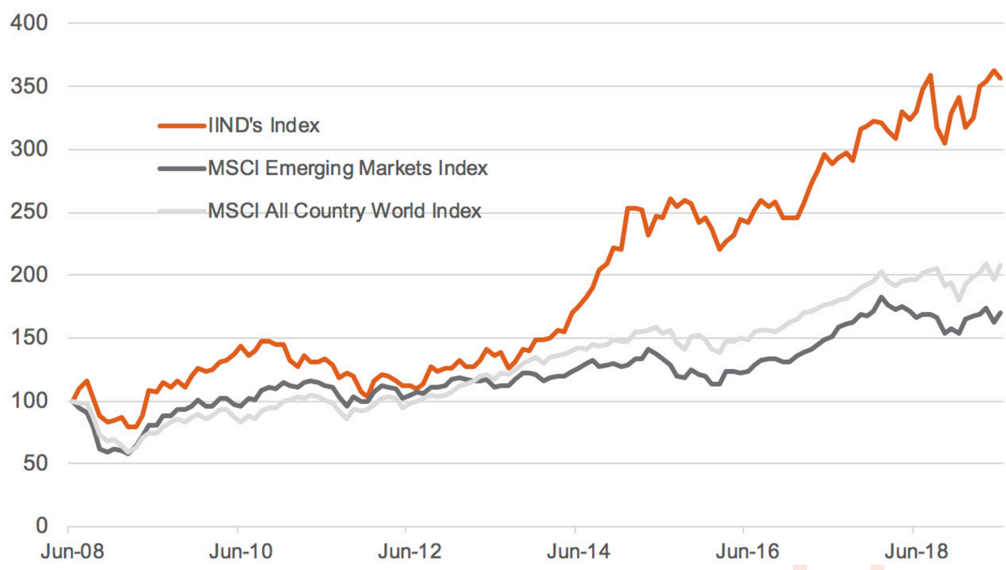
India has also invested heavily in digital payment and identification systems through the mobile phone network. This is helping improve the transparency and efficiency of the financial sector, and shoring up public finances through reducing corruption and tax evasion.

SHARE MARKET GROWTH AND DIVERSIFICATION

As might be expected given India's strong growth potential, the share market has performed relatively well in recent years.

As seen in the chart below, the index of quality companies that the IIND ETF aims to track[5] has significantly outperformed both global and other emerging market equities in the decade since the financial crisis.

Equity Market Return Performance: June 2008 to June 2019*



Source: Bloomberg. Total return indices (in local currency) based to 100 at 30 June 2008. Shows performance of index, not ETF, and does not take into account ETF's fees and costs. You can't invest directly in an index. Past performance is not indicative of future performance.

[2] UN Population Projections, 2019.
[3] IMF World Economic Outlook, April 2019. Estimated on a purchasing power parity (PPP) basis.
[4] UN World Urbanisation Prospects, 2018.
[5] Solactive India Quality Select Index NTR.

What's more, Indian equity returns have tended to have relatively low correlation with Australian equities and global equities more broadly – meaning they offer an important potential source of portfolio diversification.

As seen in the table below, since mid-2008, the correlation in monthly returns between the S&P/ASX 200 Index and IIND's Index in $A terms has been only 0.33, or around half the correlation Australian equities have had with global equities overall. In turn, that reflects the relatively low correlation between Indian and global equities of 0.42.

Correlation in Monthly Returns: Jun-08 to Jun-19

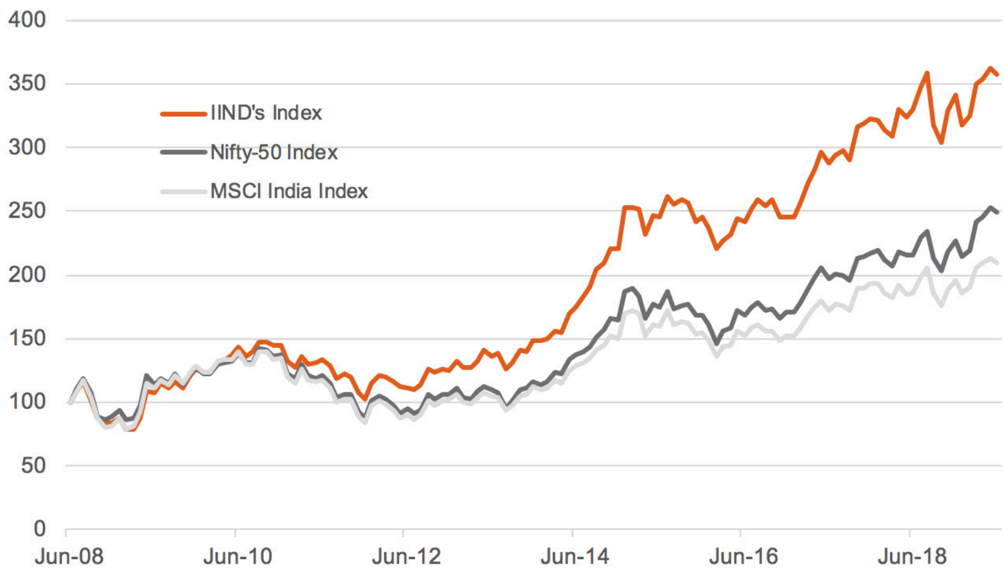
	Australian shares	Global shares	IIND's Index
Australian shares	1.00		
Global shares	0.57	1.00	
IIND's Index	0.33	0.42	1.00

Australian shares represented by the S&P/ASX 200 Index.
Global shares represented by the MSCI All Country World Index.
Source: Bloomberg. Historical correlations are not indicative of future correlations.

WHY QUALITY PAYS IN INDIA

As seen in the chart below, IIND's Index has not only historically outperformed global markets, but also other widely followed Indian equity benchmarks, namely, the MSCI India Index and the Nifty-50 Index - that adopt a traditional market-cap weighting approach.

Relative Indian Equity Return Performance: June 2008 to June 2019*



Source: Bloomberg. Total return indices (in local currency) based to 100 at 30 June 2008. Shows performance of Index, not ETF, and does not take into account ETF's fees and costs. You can't invest directly in an Index. Past performance is not indicative of future performance.

India is one of the most concentrated stock markets in the world and so the Fund's methodology equally weights exposure to large and mid-cap Indian companies, reducing the chances of a small number of companies dominating returns, while also allowing exposure to some potentially more dynamic companies with stronger fundamentals. By explicitly allocating to both large and mid-cap Indian stocks, we believe the Fund provides an investment exposure more indicative of the broad Indian economy.

For these reasons, the BetaShares IIND ETF explicitly avoids a market-cap indexing approach. Instead, the Index which IIND aims to track selects the 30 Indian companies in the market with the highest "quality" characteristics, based on financial metrics such as earnings growth, return on equity and debt levels. Companies with higher quality scores are given a higher weighting in the Index.

SUMMARY

As should be evident, the BetaShares India Quality ETF (ASX Code: IIND) provides exposure to one of the fastest-growing economies in the world, with future growth potential underpinned by strong demographic, economic and political fundamentals.

IIND's quality-based approach, moreover, provides potential for superior performance vs. more traditional market cap-weighted alternatives. As with all ETFs, the IIND ETF can be bought and sold on the ASX just as easily as a company share.

As such, the IIND ETF continues the BetaShares tradition of offering Australian investors innovative and intelligent investment solutions to help them meet their financial objectives.

There are risks associated with an investment in the Fund, including market risk, emerging market risk, currency risk and index tracking risk. For more information on risks and other features of the Fund, please see the Product Disclosure Statement.