

Case study

FTSE
Russell

BetaShares: Pioneering Fundamental ETFs in Australia

The challenge

More than 100 Exchange Traded Funds (ETFs) trade on the Australian Securities Exchange¹ and before 2013, the majority of those ETFs provided market capitalisation weighted exposure to domestic Australian or international markets.

Today, market participants are increasingly aware of systematic sources of return associated with specific investment approaches and styles. Many are now choosing to gain exposure to indexes that use weighting methods other than price in order to measure these return streams. These indexes are often referred to collectively as 'Smart Beta'.

BetaShares, a leading provider of exchange traded products in Australia saw that local market participants had a limited choice in the types of ETF exposure they could gain. Seeking to drive innovation and develop new 'Smart Beta' tools for domestic users, BetaShares turned to FTSE Russell for an appropriate benchmark.

The need

To help achieve its goal, BetaShares looked for an index provider that could create a fundamentally-weighted index of Australian securities that met a specific set of criteria including high capacity, tradability and strong standards of governance.

BetaShares selected FTSE Russell as its index provider based on:

- The extensive live track record and strong international adoption of the FTSE fundamentally-weighted indexes
- 10 years experience in calculating 'smart beta' indexes
- Strong multi-level governance processes

BetaShares uses FTSE RAFI Index Series to launch multiple fundamentally-weighted ETFs for the Australian market.

"Our partnership with FTSE Russell has allowed us to bring to market an intelligent set of products for Australian investors based on an index methodology with a compelling track record."

Alex Vynokur,
Managing Director, BetaShares

¹ Australian Securities Exchange as at 30 April 2015

FTSE Russell's approach

Consultative

The FTSE Russell team consulted with product, sales and research team members at BetaShares to get a thorough understanding of the exact product requirements.

Expert support

The FTSE Russell team then leveraged its expansive knowledge of creating 'Smart Beta' indexes to collaborate with BetaShares to create an index that accurately captured the investment universe while retaining tradability, low turnover and high capacity.

End-to-end service

FTSE Russell supported BetaShares throughout the product development and launch phases with a team from various disciplines including product development, relationship management, index governance and marketing.

The outcome

The BetaShares FTSE RAFI Australia 200 ETF (ASX code: QOZ) was launched on the Australian Securities Exchange tracking the FTSE RAFI Australia 200 Index. The resulting fund now has A\$62 million assets under management as of April 29, 2015, and 'Recommended' ratings from research houses Lonsec and Zenith.

Following the launch of this ETF, significant investor demand resulted in an additional fundamental product being developed to provide Australian investors with exposure to U.S. equities, the BetaShares FTSE RAFI U.S. 1000 ETF (ASX code: QUS) tracking the FTSE RAFI U.S. 1000 Index, which has been awarded a 'Recommended' rating by Lonsec.

Index characteristics

Representative

The index is representative of the opportunity set in Australia. The underlying index for the BetaShares FTSE RAFI Australia 200 ETF is comprised of the 200 companies with the largest RAFI fundamental scores listed in Australia.

Diversified

The index constituents are weighted using a composite of fundamental measures drawn from corporate financial statements, rather than market prices. This means that the index is less prone to market excesses, which can result in excessive concentration in individual companies or sectors.

Highly liquid

The selection and weighting process is designed to consider investability and capacity, helping to ensure easier implementation.

Robust methodology

The FTSE RAFI Australia 200 Index is part of the FTSE RAFI™ Index Series which was developed in association with Research Affiliates®, LLC. FTSE Russell and Research Affiliates have a 10-year track record of creating indexes that follow a simple and transparent methodology. The index series is widely adopted as benchmarks for mutual funds, managed accounts and ETFs with combined assets under management in excess of U.S.\$75 billion.²

² Research Affiliates LLC, as of March 2015

For more information about our indexes, please visit ftserussell.com.

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FTSE Russell is a leading global provider of benchmarking, analytics and data solutions for investors, giving them a precise view of the market relevant to their investment process. A comprehensive range of reliable and accurate indexes provides investors worldwide with the tools they require to measure and benchmark markets across asset classes, styles or strategies.

FTSE Russell index expertise and products are used extensively by institutional and retail investors globally. For over 30 years, leading asset owners, asset managers, ETF providers and investment banks have chosen FTSE Russell indexes to benchmark their investment performance and create ETFs, structured products and index-based derivatives.

FTSE Russell is focused on applying the highest industry standards in index design and governance, employing transparent rules-based methodology informed by independent committees of leading market participants. FTSE Russell fully embraces the IOSCO Principles and its Statement of Compliance has received independent assurance. Index innovation is driven by client needs and customer partnerships, allowing FTSE Russell to continually enhance the breadth, depth and reach of its offering.

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