betashares

Why it pays to buy quality Australian companies

ASX: AQLT

Betashares Australian Quality ETF

Quality companies tend to deliver attractive shareholder returns over time

The benefits of investing in ‘quality’ companies have long been apparent in global markets, and the evidence suggests the same applies in Australia.

To this end, Betashares has launched the Betashares Australian Quality ETF (ASX: AQLT) to complement our popular quality-titled global shares fund, the Betashares Global Quality Leaders ETF (ASX: QLTY).

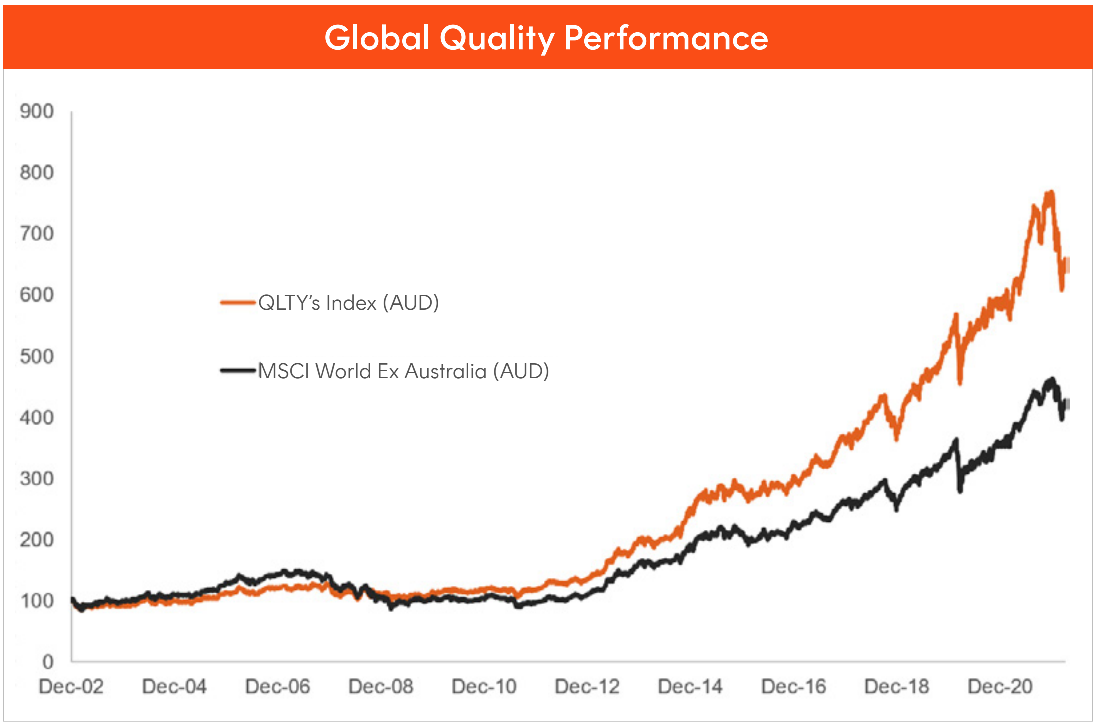
The case for 'quality' companies

Globally, evidence has long suggested that so-called 'quality' companies i.e. those able to maintain a consistently high return on equity (ROE), without undue leverage, tend to be able to produce good shareholder returns over time.

Indeed, none other than the famed investor Warren Buffett has identified this as a key metric he considers when picking stocks.

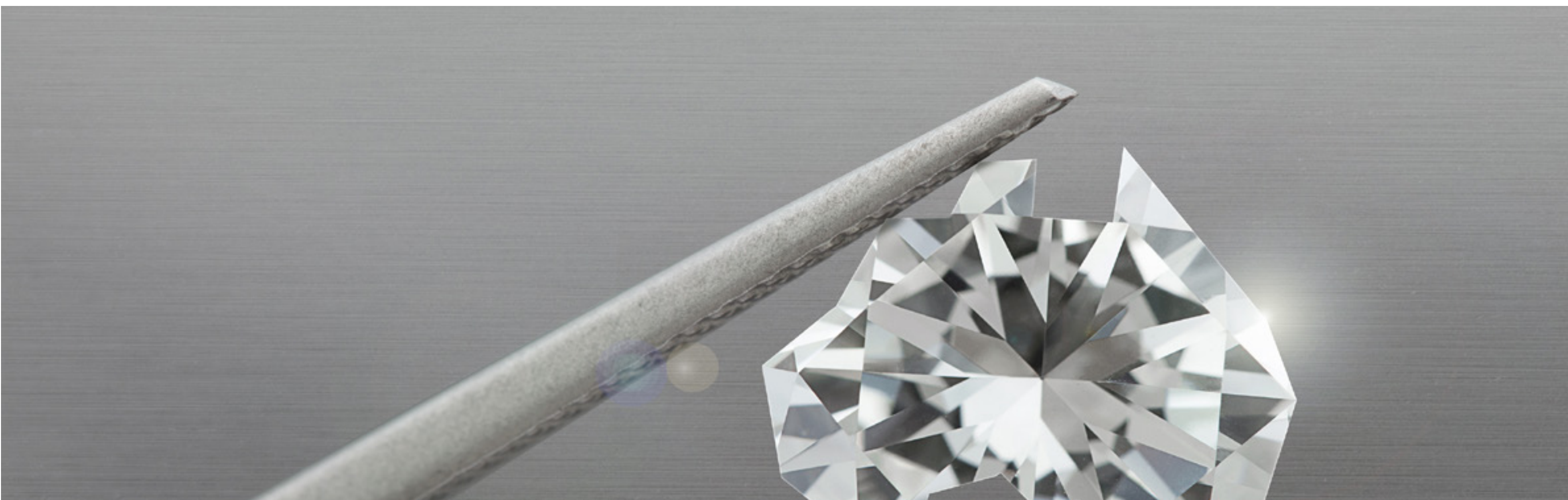
This stands to reason. After all, if a company can generate high profits relative to its invested equity, it should be well-positioned to provide attractive investor returns over time – through either high dividends and/or high earnings growth from the reinvestment of profits.

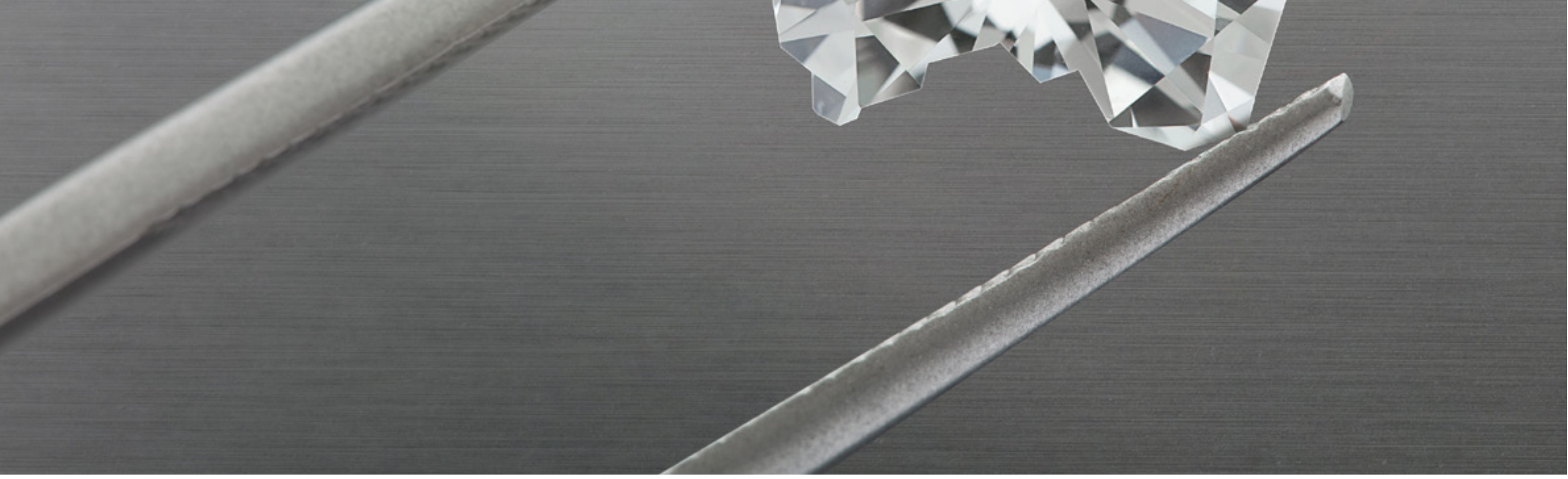
This has been borne out in the results. For example, the index which our Global Quality Leaders ETF aims to track[1] has outperformed the benchmark MSCI World Ex Australia in $A terms by 2.5% p.a. from its inception in December 2002 to 31 March 2022.



Source: Bloomberg. Past returns are not an indicator of future performance. You cannot invest directly in an index. The graph shows the performance of QLTY's index and does not take into account QLTY's fees and costs.

[1] ISTOXX MUTB Global Ex-Australia Quality Leaders Index. QLTY's Index is designed to track the performance of the 150 highest quality companies across the world - selected based on a combined ranking of four key metrics: return on equity, debt-to-capital, cash flow generation ability and earnings stability.





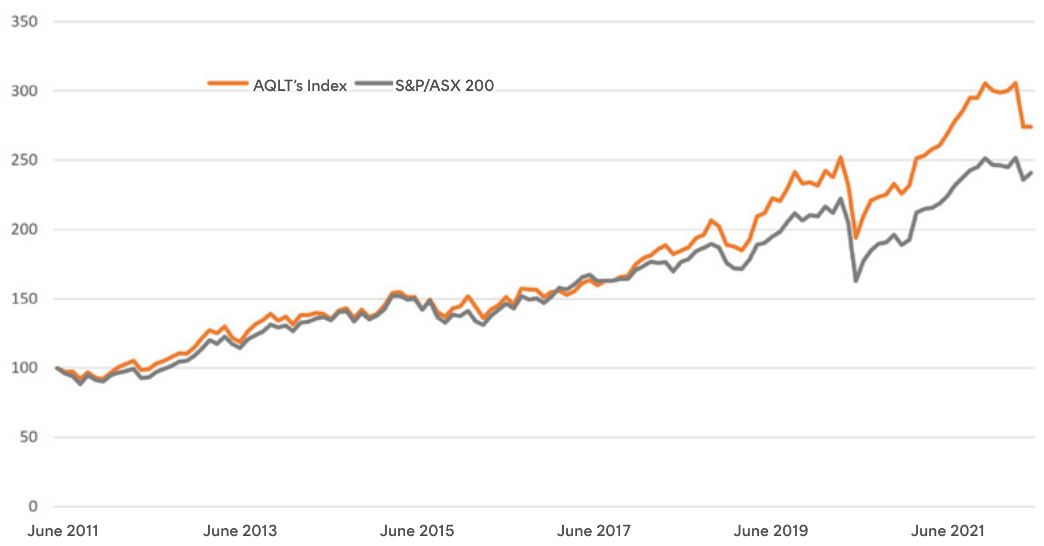
Quality also works in Australia

The benefits of a quality exposure within one's investment portfolio need not be limited to global companies – it stands to reason that quality Australian companies should also be able to provide attractive shareholder returns over time.

This has been evident in the performance of the Solactive Australia Quality Select Index, which the AQLT ETF aims to track (before fees and costs). Rather than just weight stocks by their market capitalisation, this index favours companies with a high 'composite quality score', which in turn is based on key financial metrics such as ROE, debt-to-equity, and relative earnings stability over the last five years[2].

As seen in the chart below, the Index which the AQLT ETF aims to track (before fees and costs) has delivered returns in excess of the benchmark S&P/ASX 200 Index over the long term. From its inception in June 2011, the Solactive Australia Quality Select Index has produced returns of 10.6% p.a. to 31 March 2022, compared with 9.4% p.a. for the S&P/ASX 200 Index.

Relative Return Performance



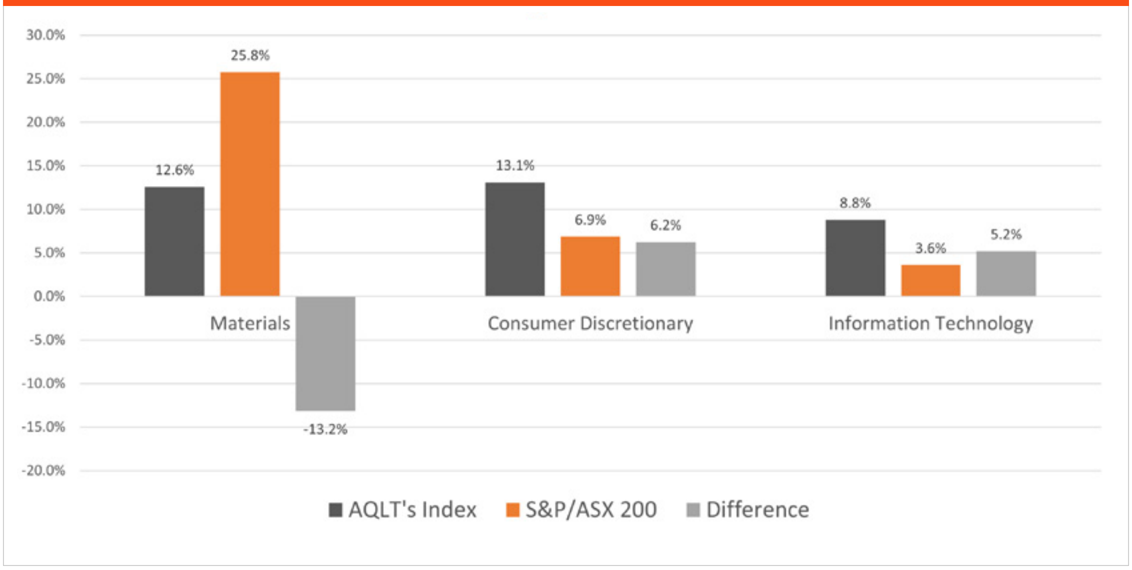
Source: Bloomberg. Past returns are not an indicator of future performance of the Index or AQLT. You cannot invest directly in an index. The graph shows the performance of AQLT's index and does not take into account AQLT's fees and costs.

[2] The indexing strategy is also designed to avoid undue company size biases relative to the overall market. Further details are available in the PDS.

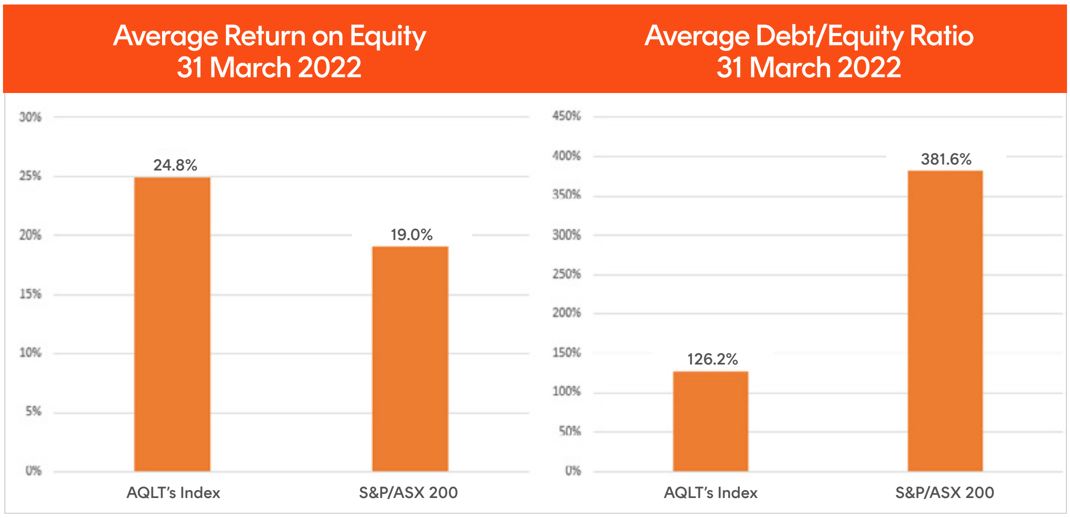
Attractive diversification potential and financial metrics

Given the Australian market is top heavy with financial and mining stocks, AQLT's Index also offers Australian investors potential diversification benefits as it has tended to have different sector weightings to benchmark Australian equities indices such as the S&P/ASX 200 Index. As of 31 March 2022, AQLT's Index has lower exposure to the materials (mining) sector relative to the overall market, and higher exposure to sectors such as consumer discretionary.

Sector Weights: 31 March 2022



The favourable financial metrics of AQLT's index are also evident from indicators such as ROE and the debt-to-equity ratio. As seen in the chart below, the index of companies which the AQLT ETF aims to track had a higher average ROE and lower debt-to-equity ratio than the broad market as of 31 March 2022.



Source: Betashares, Bloomberg. Past performance is not indicative of future performance.

All up, the AQLT ETF is designed to provide an easy, transparent and cost-effective way for Australian investors to gain exposure to a diversified portfolio of quality Australian companies that have the potential to sustain high returns on equity - and hence potential to outperform the benchmark Australian shares index - over the long-term.

As an ETF, AQLT can be easily accessed on the ASX just like a company share, at a cost-effective management fee of 0.35% p.a. or just $35/year for every $10,000 invested.[3]

[3] Other costs, such as transaction costs, may apply. Please refer to the PDS.

There are risks associated with investment in the Fund, including market risk and non-traditional index methodology risk. For more information on risks and other features of the Fund, please see the Product Disclosure Statement available at www.betashares.com.au.