VanEck®

The extra scoop advantage

Discover the sweetness of gearing and equal weighting in Australian equities.

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The more scoops the better?

What is gearing?

Gearing is an investment strategy whereby investors' capital is combined with borrowed funds, making the amount available for investing larger with the aim of magnifying returns.

While gearing can result in larger gains in a rising market, it can also magnify losses in a falling market. The greater the level of gearing, the greater the potential loss of capital.

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Gearing to invest in property

Full property value	$600k
Deposit saved (20%)	120k
Loan	480k
Gearing Ratio = Loan/Property Value	**80%**

The case for gearing Australian equities

Modelled performance of a geared and ungeared fund

	Geared	Ungeared
Initial investment	$4,000	$4,000
Fund gearing level	60%	Nil
Amount borrowed by Fund	$6,000	Nil
Amount invested in market	$10,000	$4,000
If the value of the Fund's assets rises by 10%		
Rise in value of the Fund's assets	$1,000	$400
Value of Fund assets	$11,000	$4,400
Outstanding loan	$6,000	Nil
Value of investment	$5,000	$4,400
Gain on investment	$1,000	$400
Return	**+25%**	**+10%**
If the value of the Fund's assets falls by 10%		
Fall in value of Fund's assets	-$1,000	-$400
Value of Fund assets	$9,000	$3,600
Outstanding loan	$6,000	Nil
Value of investment	$3,000	$3,600
Loss on investment	-$1,000	-$400
Return	**-25%**	**-10%**

For illustrative purposes only. Not representative of GMVW performance. Read the PDS for more information on fees and costs. These figures do not take into consideration borrowing costs (interest costs) or management fees.

The potential of increasing franking credits

- The dividends are used for interest payments associated with the costs of borrowing.
- For tax purposes these costs are deducted from the dividends received and do not impact the associated franking credits.
- Irrespective of the borrowing costs, the franking credit remain and are higher than ungeared.

$$\text{*Franking Credit} = \frac{\text{Company Tax Rate}}{\text{1-Company Tax Rate}} \times \text{Dividend Amount}$$

	Geared		Ungeared	
Initial investment	$5,000		$5,000	
Fund gearing level	50%		Nil	
Amount borrowed by Fund	$5,000		Nil	
Amount invested in market	$10,000		$5,000	
Assume a dividend of 4% (annual dividend)				
Dividend	$400		$200	
Borrowing cost	$300		-	
Franking level	100%	70%	100%	70%
Franking credit	$120	$84	$60	$42
Grossed up distribution	$220	$184	$260	$242

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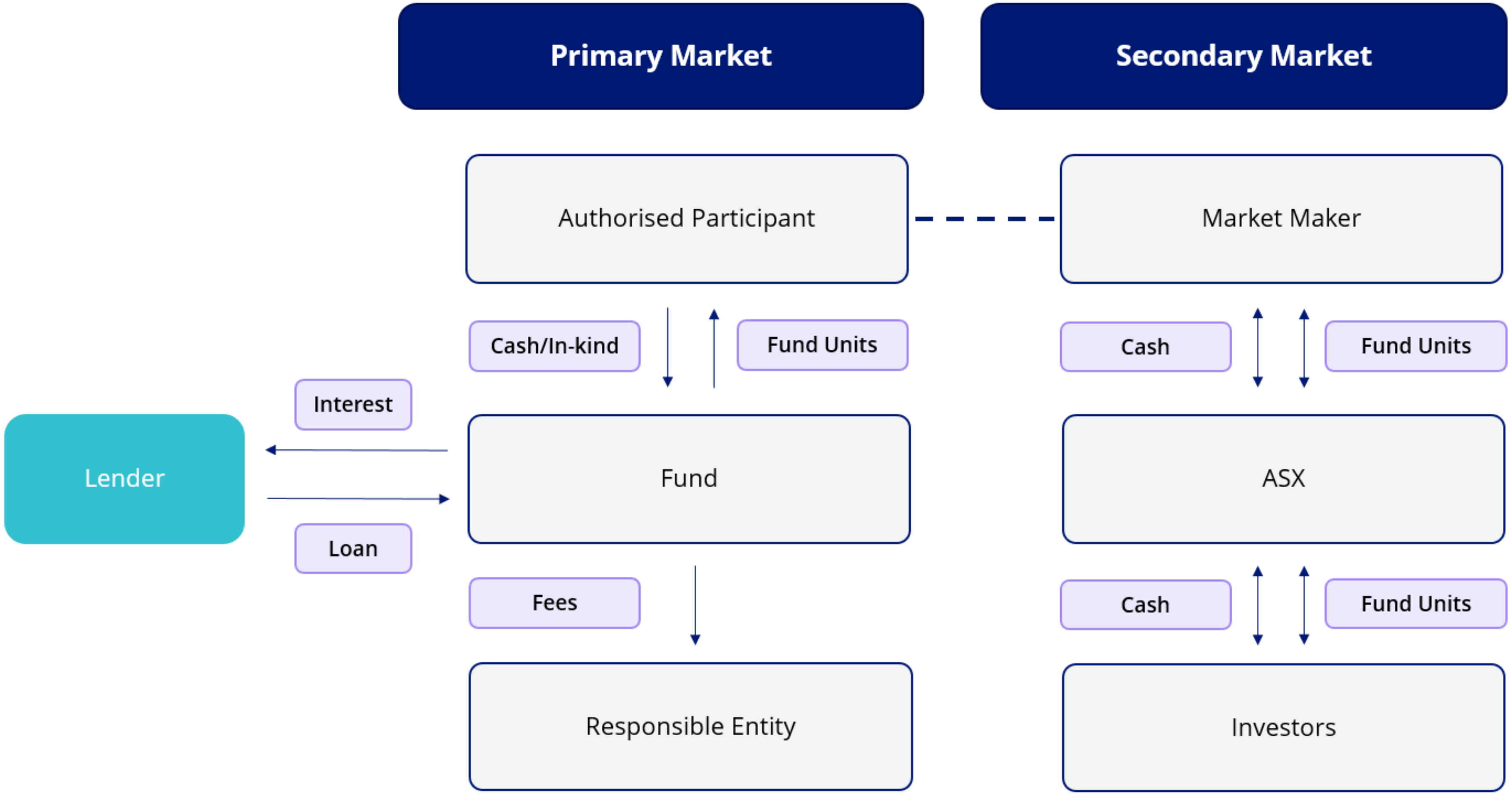
Ways to gear Australian equities

	Geared managed fund	Margin loans	CFDs/Listed warrants
Gearing levels	Generally, 40-60%	Set by the investor	Usually 50% to 90% - set by issuer
Access	Available on ASX like a share	Requires credit checks and documentations	Requires documentations
Downside risk	Limited to investor capital	Unlimited recourse to client	Limited to investor capital
Diversification	High	Depends on underlying exposure	Depends on underlying exposure
Margin calls	No	Yes	No
Borrowing cost	Accessible at institutional funding rates	Retail funding rates	Retail funding rates
Potential for interest deductions	Yes – interest costs reduce taxable dividends to investors	Yes	Yes
Ability to pre-pay interest	No	Yes	Yes
Issuer credit risk	No	No	Counterparty risk of issuer
Super fund/SMSF eligible	Yes	No	Yes
Dividends and franking credits	Yes	Yes	No

How a geared fund works



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Practical applications of gearing

Wealth accumulation strategy with no margin calls

Provides greater exposure to the share market performance compared to an ungeared portfolio together with the dividend income and franking credits associated with investing in Australian shares.

Portfolio diversification

Gearing can potentially increase portfolio diversification when compared to what an investor's own funds alone could achieve.

Freed up capital can be used to potentially invest in other asset classes.

SMSF concessional contribution cap

Investors nearing the current concessional superannuation contribution cap may want to maximise their exposure to the share market to take advantage of the concessional tax rate of 15%.

By investing in a geared product, investors can increase their exposure to Australian shares or diversify with other asset classes without exceeding their contribution cap.

Case study: Portfolio diversification

Investors looking to allocate funds to mitigate asset class concentration

- Heather already has $50,000 invested into Australian shares but also wants to diversify her portfolio into other asset classes without reducing her exposure to Australian equities.
- By investing $25,000 into GMVW instead, Heather can still maintain a $50,000 notional exposure to Australian shares and will have $25,000 of spare capital to invest into other asset classes.

Before gearing		After gearing	
Investment	**Amount invested**	**Investment**	**Amount invested**
Australian shares (MVW)	$50,000	Australian shares (GMVW)	$25,000 investment plus $25,000 internal gearing
		International equities (QUAL)	$10,000
		Global infrastructure (IFRA)	$10,000
		Gold bullion (NUGG)	$5,000
Total investment exposure	**$50,000**	**Total investment exposure**	**$75,000**

Illustration only. Assumes LVR of GMVW of 50%. Actual LVR will vary between 45% and 60%. The above example should be analysed commensurate with investor risk tolerance. The case study is not intended as investment recommendations or financial advice. Their serves solely as an example illustrating how a gearing strategy may be considered by investors with a corresponding risk appetite. While gearing can result in larger gains in a rising market, it can also magnify losses in a falling market. The greater the level of gearing in a fund, the greater the potential loss of capital.

When deciding which geared Australian equ
strategy to consider…

You want more than just vanilla

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Market capitalisation weighting leads to concentration

Top 5 securities account for 32.55% of the S&P/ASX 200

Top 10 securities account for 47.75% of the S&P/ASX 200

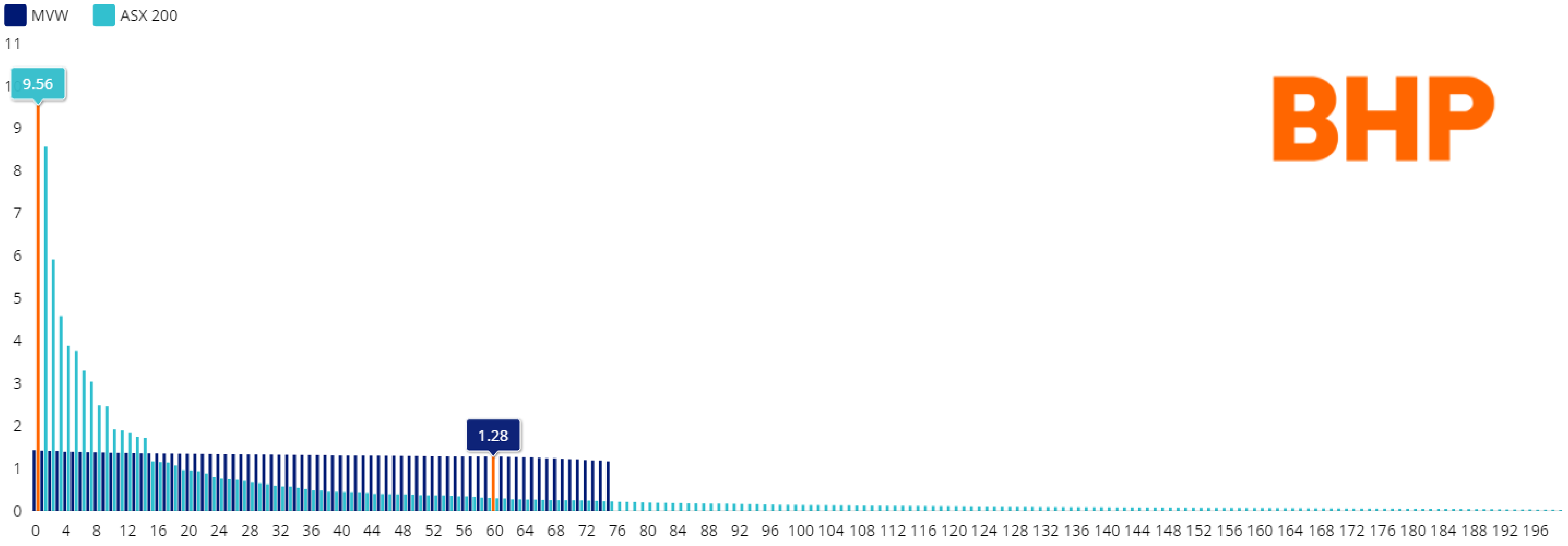
Top 10 securities	Weightings
	S&P/ASX 200 (%)
BHP Group Ltd	9.56
Commonwealth Bank of Australia	8.59
CSL Limited	5.93
National Australia Bank Limited	4.59
Westpac Banking Corporation	3.89
ANZ Group Holdings Limited	3.76
Wesfarmers Limited	3.31
Macquarie Group, Ltd.	3.05
Goodman Group	2.49
Woodside Energy Group Ltd	2.47
Total	**47.63**

Source: FactSet, as at 31 March 2024.

MVW versus S&P/ASX200 Index

Does it make sense to have 9.56% of a 200 company portfolio in one stock?

Constituent rank and weightings



BHP

Source: VanEck, as at 31 March 2024

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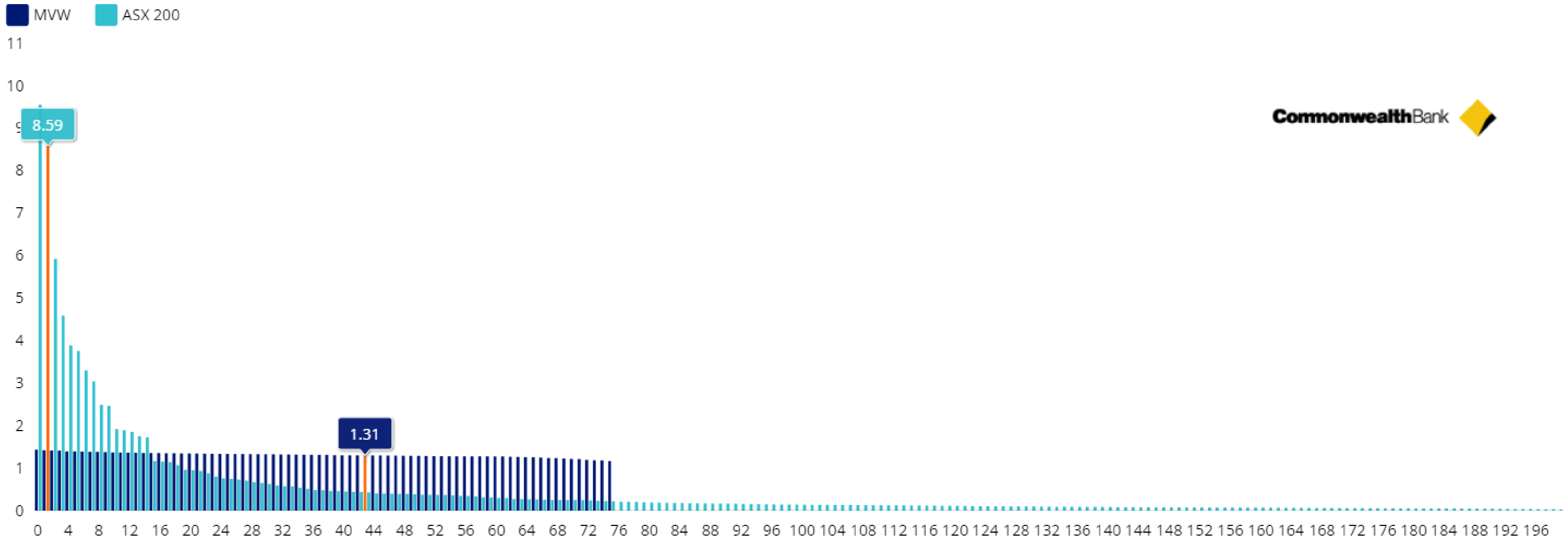
MVW versus S&P/ASX200 Index

Does it make sense to have 8.59% of a 200 company portfolio in one stock?

Constituent rank and weightings



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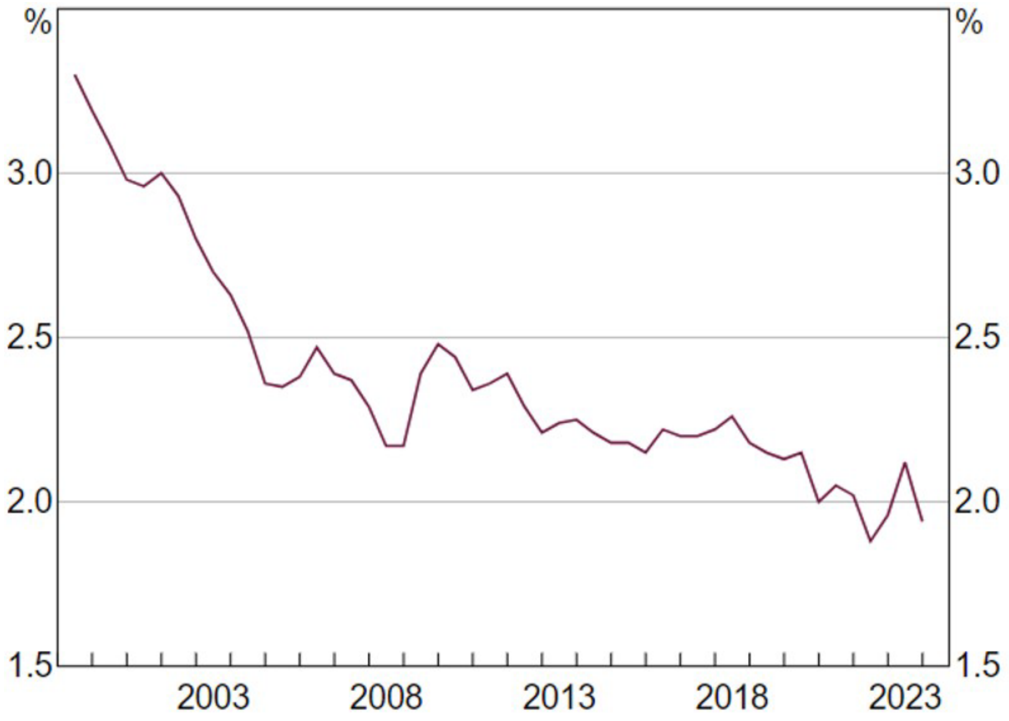
Source: VanEck, as at 31 March 2024

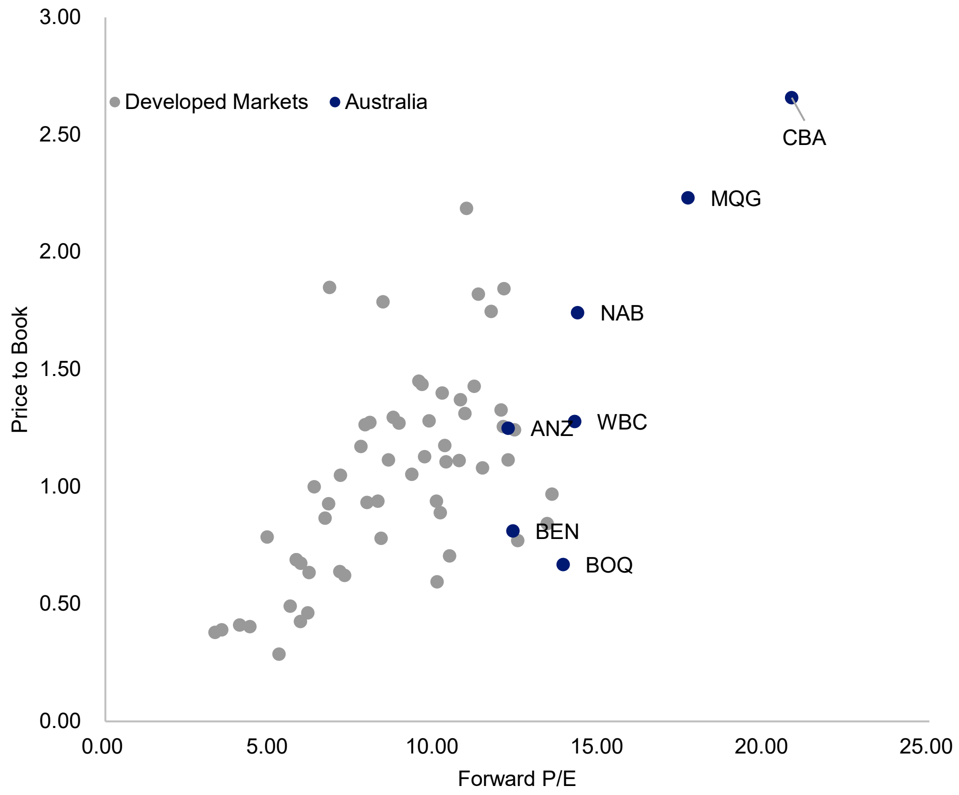
Australia's 'Big 4' banks face continuing headwinds in 2024

Major Banks' NIM* (Domestic, half yearly)
While NIMs rose as rates went up last year, they have dipped below 2% again.



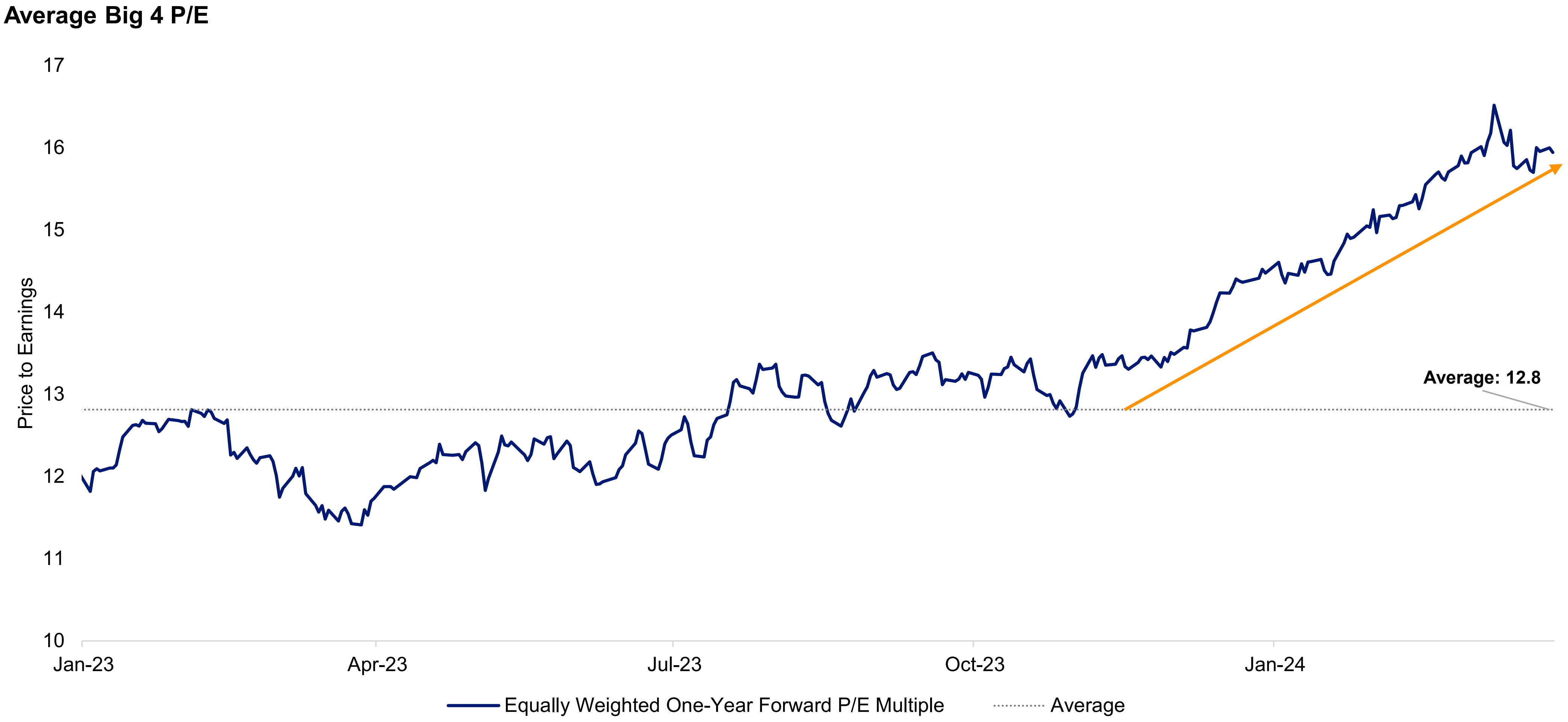
* Data for a given period relate to banks' public profit reports released in that half; IFRS basis from 2006, AGAAP prior; excludes St George Bank and Bankwest prior to the first half of 2009.

Global bank valuations
Australian banks, on a global basis are the most expensive in the developed world on a 12-month forward price-to-earnings and price-to-book basis.



Source: LHS - RBA. Data to 1 February 2023, released 7 February 2024. RHS - Bloomberg, as at 31 March 2024.

Australian bank valuations stretched



Source: Bloomberg, 31 March 2024.

Snapshot

VanEck Australian Equal Weight ETF

Core Australian equity strategy

An award-winning Australian equity strategy backed by significant research investing in the largest and most liquid Australian listed companies.

Diversification across companies and sectors

A portfolio which offers true diversification by equally weighting across companies and reducing sector concentration.

Outperformance potential

Equally weighting has been proven to produce long-term outperformance compared to a market capitalisation approach.

Key risks: An investment in the ETF carries risks associated with: ASX trading time differences, financial markets generally, individual company management, industry sectors, foreign currency, country or sector concentration, political, regulatory and tax risks, fund operations and tracking an index. See the PDS for details.

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ASX code:	MVW
ASX commencement:	4 March 2014
Management fee:	0.35% p.a.*
Index:	MVIS Australia Equal Weight Index
Stock number:	76
Bloomberg index ticker:	MVMVWTRG
AUM as at 28 March 2024	$2,267.11 million

*Other costs may apply. Please refer to the PDS.

Snapshot

VanEck Geared Australian Equal Weight Fund (Hedge Fund)

Geared Australian equity strategy

An Australian equity strategy that combines investors' funds and borrowed funds to invest in the VanEck Australian Equal Weight ETF (MVW).

Simple and convenient

One trade diversified access on ASX that avoids the costs and complications of margin loans and CFDs, with no margin calls.

Enhanced return potential

The return potential, in both directions, is boosted by gearing.

Key risks: Gearing means that GMVW borrows money to increase the amount it can invest. While this can result in larger gains in a rising market, it can also magnify losses in a falling market. The greater the level of gearing in GMVW, the greater the potential loss of capital. GMVW is considered to have a higher investment risk than a comparable fund that is ungeared. Investors should actively monitor their investment as frequently as daily to ensure it continues to meet their investment objectives. The key risks are outlined in the PDS.

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GMVW

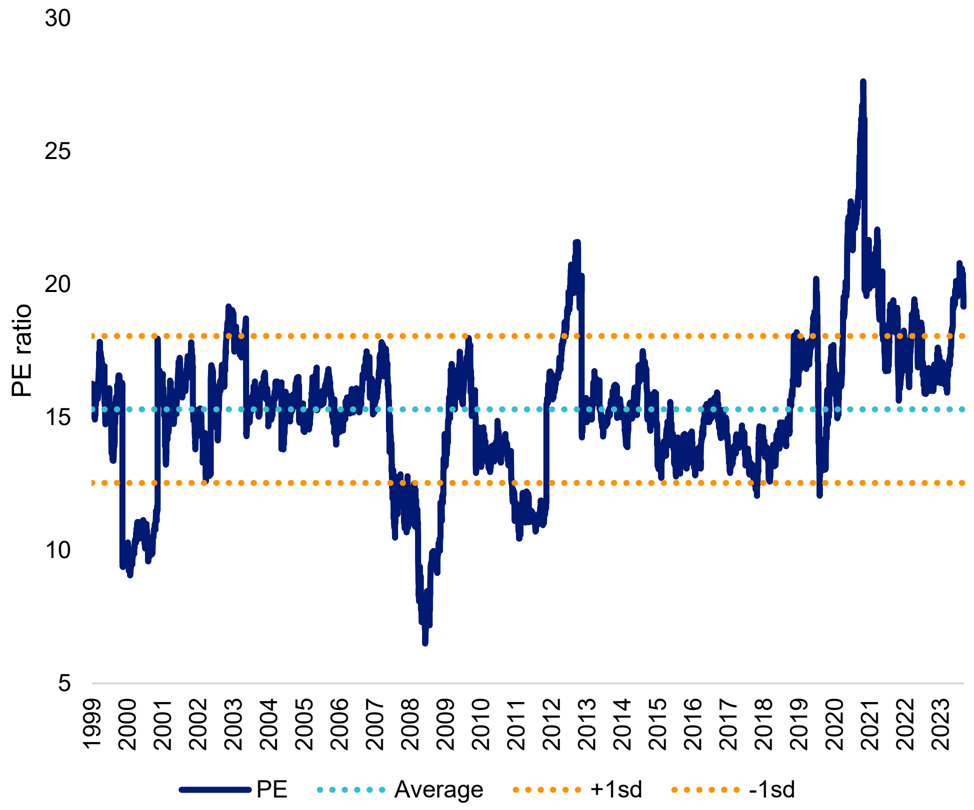
ASX code:	GMVW
ASX commencement:	29 February 2024
Management fee/cost*:	0.35% p.a.
Gearing ratio:	45% to 60%
Stock number:	76
Dividend frequency:	Semi-annually

* GMVW charges a nil management fee. This is the indirect cost represented as a percentage of the gross asset value. If the average gearing level is 50%, the indirect cost will be 0.70% of the net asset value. Other fees and costs may apply. Please refer to the PDS.

Australian banks looking overvalued

MVW can be used to reduce concentration risk to the banks

CBA price to 12m forward earnings

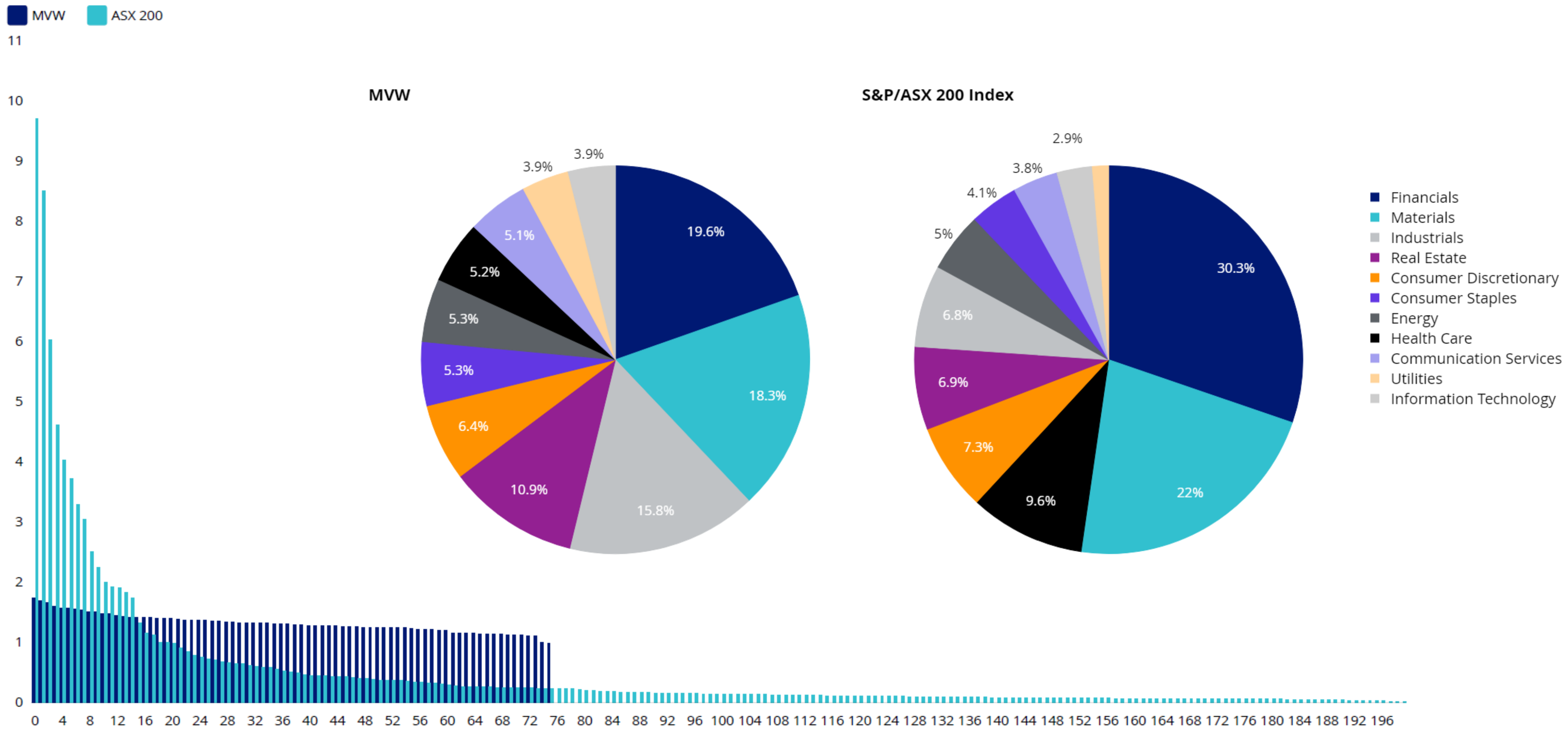


Attractive valuations for MVW

	MVW	S&P/ASX 200
ROE (%)	12.50	14.97
Long term debt to Capital (%)	33.13	35.51
Historic 3Yr EPS Growth (%)	24.26	19.68
Historic 3Yr Sales Growth (%)	16.49	15.88
Price to Earnings (x)*	18.28	19.86
Dividend Yield (%)*	3.54	3.68
Price to Book (x)*	1.87	2.30
Price to Sales (x)*	1.62	2.05

Source: LHS - Bloomberg, As at 22 April 2024. RHS - VanEck, FactSet, as at 31 March 2024. *Weighted harmonic average.

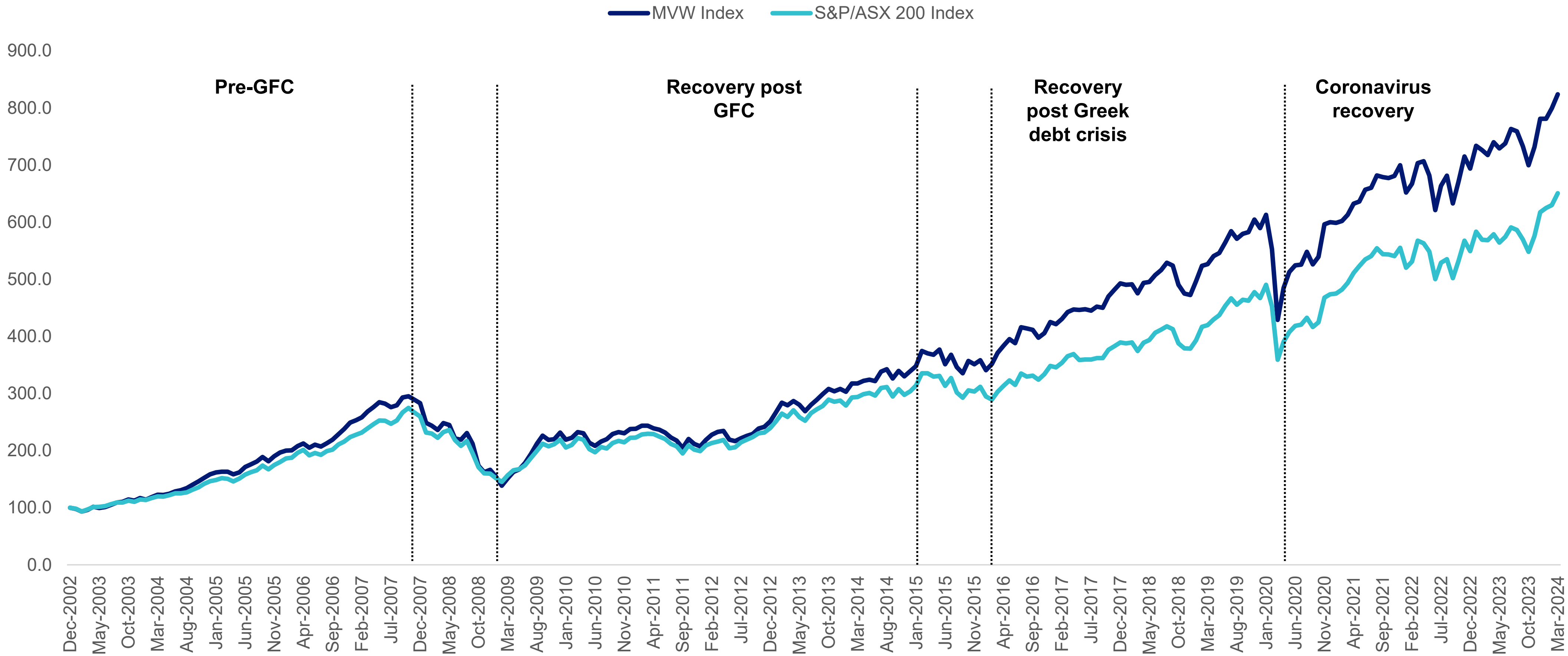
Equal weighting reduces stock and sector concentration risk



Source: VanEck, as at 31 March 2024.

10 years of equal weighting

Performance over the cycles

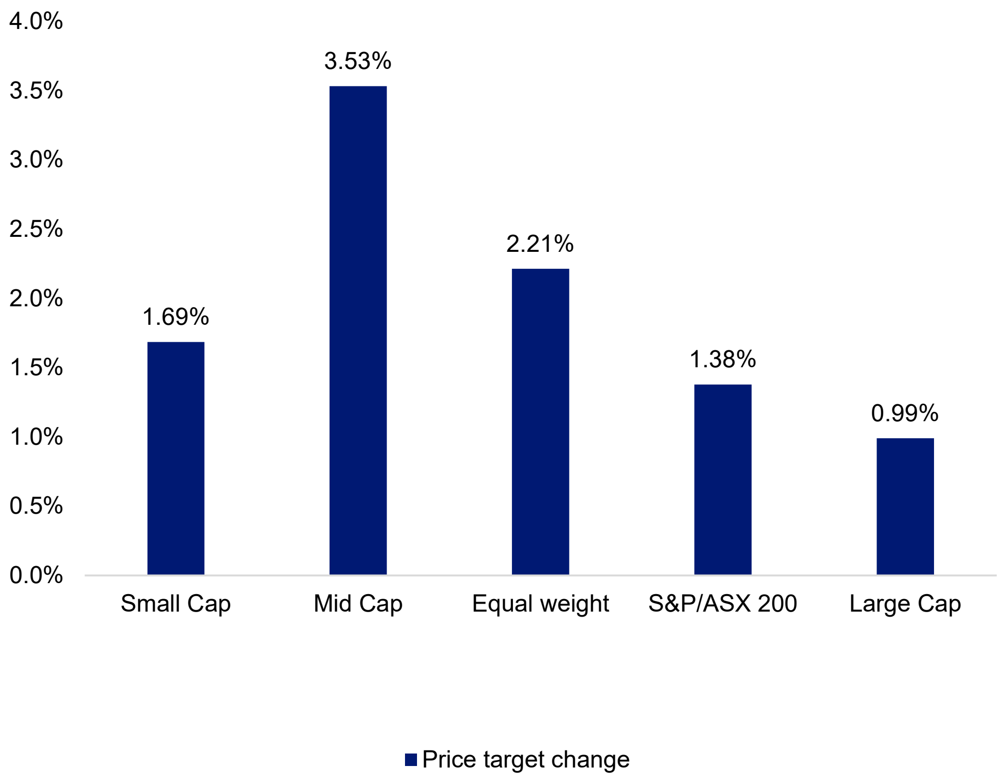


Source: VanEck, Bloomberg, as at 31 March 2024. MVW inception date is 4 March 2014. The chart shows the past performance of MVW's Index and of the S&P/ASX 200 Index. You cannot invest directly in an index. Results are calculated to the last business day of the month and assume immediate reinvestment of distributions. Results are calculated to the last business day of the month and assume immediate reinvestment of all dividends and exclude costs associated with investing in MVW. Past performance is not a reliable indicator of future performance. The S&P/ASX 200 Index is shown for comparison purposes as it is the widely recognised benchmark used to measure the performance of the broad Australian equities market. It includes the 200 largest ASX-listed companies, weighted by market capitalisation. MVW's index measures the performance of the largest and most liquid ASX listed companies, weighted equally at rebalance. MVW's index has fewer companies and different industry allocations than the S&P/ASX 200.

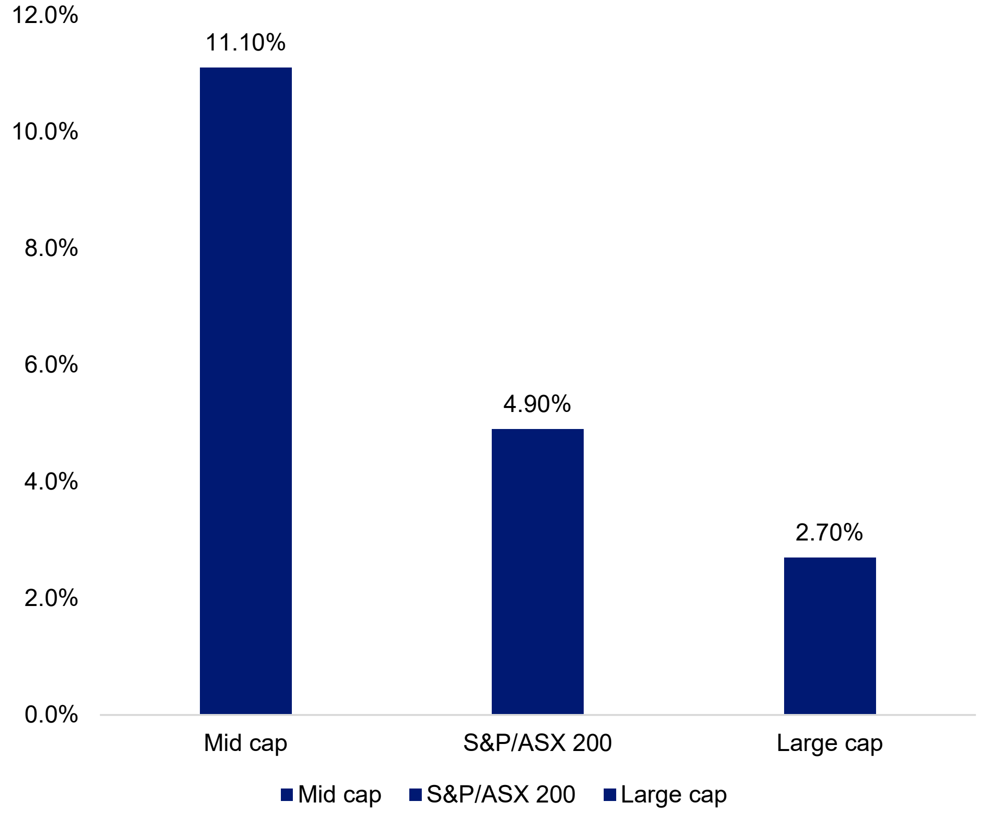
Mid caps via equal weighting is the sweet spot

Equal weighting allows you to harness the size premium

12-month consensus price target revisions during Feb earnings season



Estimated 3 to 5 years earnings (EPS) per share growth



Source: Bloomberg, 31 January to 29 February 2024 (price change). FactSet, 6 March 2024 (EPS growth). Large Cap as S&P/ASX 20, Mid Cap as S&P/ASX Mid Cap 50, Small Cap as S&P/ASX Small Ordinaries, Equal Weight as MVIS Australia Equal Weight. The ASX index series is shown for comparison purposes as it is the widely recognised benchmark series used to measure the performance of the Australian equities market. It weights companies by market capitalisation. MVW's index (MVIS Australia Equal Weight) measures the performance of the largest and most liquid ASX-listed companies, weighted equally at rebalance. MVW's index has a different amount of companies and different industry allocations than the S&P/ASX indices.

Key takeaways

A simple way to access a geared portfolio

- A wealth accumulation strategy and a portfolio diversification tool.
- Gearing can be difficult, but some fund managers do the work for you, creating 'geared' versions of their Australian equity funds.

Flavour, recipe & provider matters

- Not all geared Australian equity strategies are equal in terms of research backing and performance track record
- The recipe or rules that determine what goes into the fund needs to make investment sense

Diversification & mid-caps exposure for ASX equities

- A sizeable allocation makes sense if you are confident a sector will do well. If you are not, it may not be prudent risk management.
- Australian mid-caps could be set to shine during the next stage of the cycle and an optimal way to gain exposure is via equal weighting.

Q&A

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Thankyou

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