ETFS Trade idea

ETF Securities | The intelligent alternative | January 2018

How the *Future Present* series fits your portfolio

Trade idea – ETF Securities Future Present series

1. ***ETFS Morningstar Global Technology ETF (TECH)***
2. ***ETFS ROBO Global Robotics and Automation ETF (ROBO)***

Key Takeaways:

- *Technology was the top performing sector in 2017, returning 39% for the calendar year and contributing 25% of the total global equity market return[1].*
- *The pace of innovation continues to grow and adoption of new technologies in fields such as robotics and AI is quickly spreading across many industries.*
- *Adding funds like **TECH** and **ROBO** to an otherwise diversified portfolio offers investors unique opportunities to capture any future growth in this sector, while also reducing overall portfolio risk.*

Future Proofing Portfolios

Investors looking to future-proof their portfolios in 2018 should consider the opportunities that are presented by investing in new technology and innovation. Fields such as robotics, automation and artificial intelligence (RAII), in particular, are forecast to grow massively in the coming years and impact almost every industry by providing key enabling technologies and new applications for existing technologies.

Investments in technology have traditionally been viewed as high return/high risk, however in recent years the established players in the technology world have become highly cash generative and broadly entrenched in our everyday lives. This has given many technology companies defensive, counter-cyclical characteristics that are traditionally more associated with utilities and real estate investments and has changed the way many investors look at the technology sector.

ET Securities *Future Present* Range

The *Future Present* range of ETFs allows investors to combine well-established technology firms with strong competitive advantages, using ***TECH***, with highly innovative firms from the exciting world of RAII, using ***ROBO***. The below study explores the impact of adding the *Future Present* range to a simple, diversified ETF portfolio consisting of Australian equities, international equities, fixed income, gold and property. Hypothetical portfolio allocations are detailed in Charts 1 and 2 below:

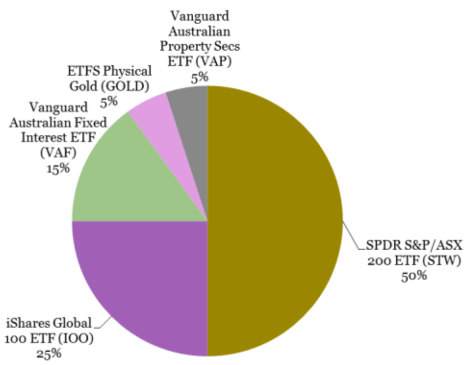

Chart 1: Simple ETF Portfolio

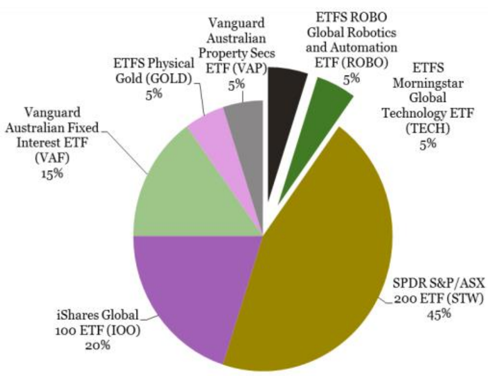

Chart 2: ETF Portfolio + Future Present

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[1] Source: Bloomberg data as at 18 January 2017. Information technology companies contributed 5.73% to the total return of 23.06% of the MSCI World Index in 2017.

Over the four years of available history, adding a 10% allocation to the *Future Present* range (5% each to ***TECH*** and ***ROBO***), while keeping the allocation to equities constant, not only improves the overall total return by 0.84% per annum, but also reduces the portfolio volatility by 0.95%[2]. Charts 3 to 6, below, show the risk return characteristics of the two portfolios as well as each of the constituents over 1, 2, 3 and 4 years.

Benefits to Your Portfolio

Apparent from the four charts below is the strong historical performance of the *Future Present* ETFs, with the two funds ranking first and second on the basis of returns across all tenors. With regards to volatility or risk, as measured by standard deviation, ***TECH*** and ***ROBO*** are at the higher end, though not substantially more volatile than either the Australian or international equity ETFs or gold. In all four cases, however, diversification benefits are seen in that adding above average risk investments lowers the overall portfolio risk in all cases, providing investors with better risk/return profiles. This is particularly true for Australian investors with high portfolio allocations to the domestic market, which is very underweight the technology sector.

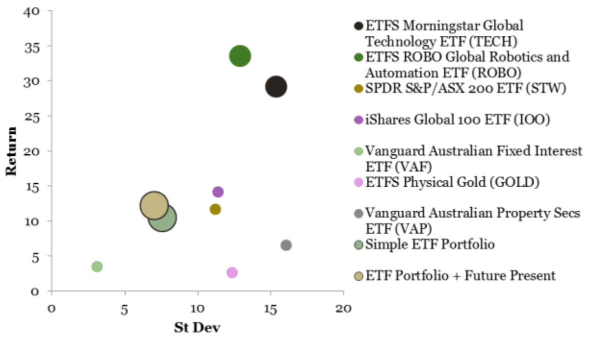

Chart 3: 1 Year Risk-Reward

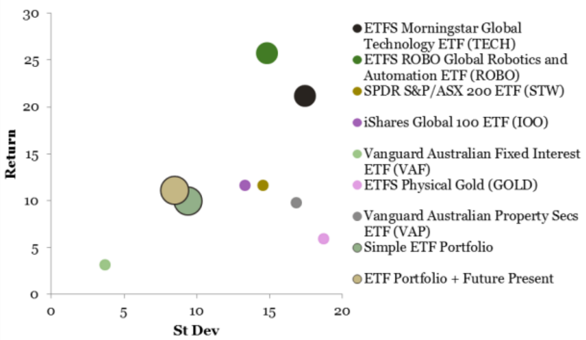

Chart 4: 2 Year Risk-Reward

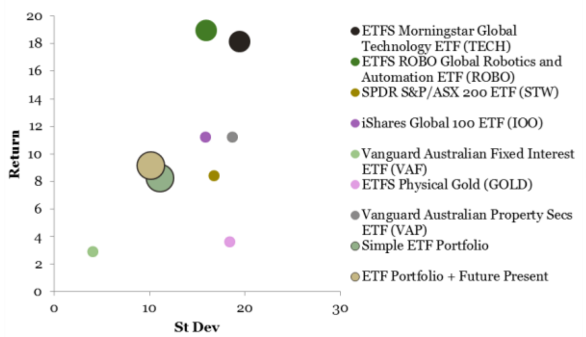

Chart 5: 3 Year Risk-Reward

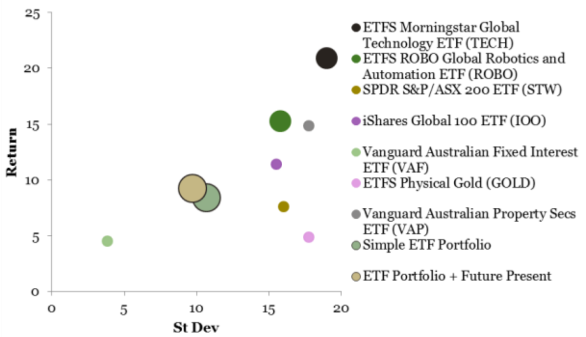

Chart 6: 4 Year Risk-Reward

Source: Morningstar Direct as at 31 December 2017. Benchmark index returns are used as a proxy for TECH and ROBO due to insufficient fund history. Returns in AUD. Past performance is not an indicator of future performance.

These graphs illustrate the trade-off between risk (standard deviation or volatility around the mean) and reward (expected or average return). The ideal position is within the upper left quadrant of the graphs. Placement here indicates that the portfolio returned more than the risk-free benchmark (typically the yield on high quality government bonds) with lower volatility. The bottom right corner is the least desirable, since this represents highest risk with lowest return.

Future Present Product information

ETFS Morningstar Global Technology ETF download factsheet

ETFS ROBO Global Robotics and Automation ETF download factsheet

[2] Source: Morningstar Direct as at 31 December 2017. Benchmark index returns are used as a proxy for TECH and ROBO due to insufficient fund history. Returns in AUD. Past performance is not an indicator of future performance.

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