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MVW VanEck Vectors Australian Equal Weight ETF

Over the five years since its 2014 launch, the first Australian equity equal weight ETF in Australia has outperformed the S&P/ASX 200 by 2.80% per annum

Equal weight investing was introduced to Australian investors in March 2014 when VanEck launched its VanEck Vectors Australian Equal Weight ETF on ASX (ASX code: MVW). Based on the evidence of it's first five years, MVW is an ideal core investment strategy for a broad based Australiam equities exposure.

Table 1: MVW performance

	1 Year (%)	2 Years (% p.a.)	3 years (% p.a.)	4 years (% p.a.)	5 years (% p.a.)	Since MVW inception (% p.a.)
MVW	10.33	8.66	11.92	8.77	10.29	10.11
S&P/ASX 200 Index	12.06	7.20	11.47	5.77	7.40	7.31
Excess	**-1.73**	**1.46**	**0.45**	**3.00**	**2.89**	**2.80**

Inception date is March 4, 2014.
Source: Morningstar Direct, as at 31 March 2019. Results are per annum, calculated daily to the last business day of the month and assume immediate reinvestment of all dividends. MVW results are net of management costs but do not include brokerage costs of investing in MVW. Past performance is not a reliable indicator of future performance.

In the highly concentrated Australian equities market, equally weighting a portfolio delivers investors significantly improved diversification and reduced stock and sector concentration, resulting in superior investment outcomes compared to tracking a market capitalisation weighted index, such as the S&P/ASX 200 Accumulation Index (S&P/ASX 200).

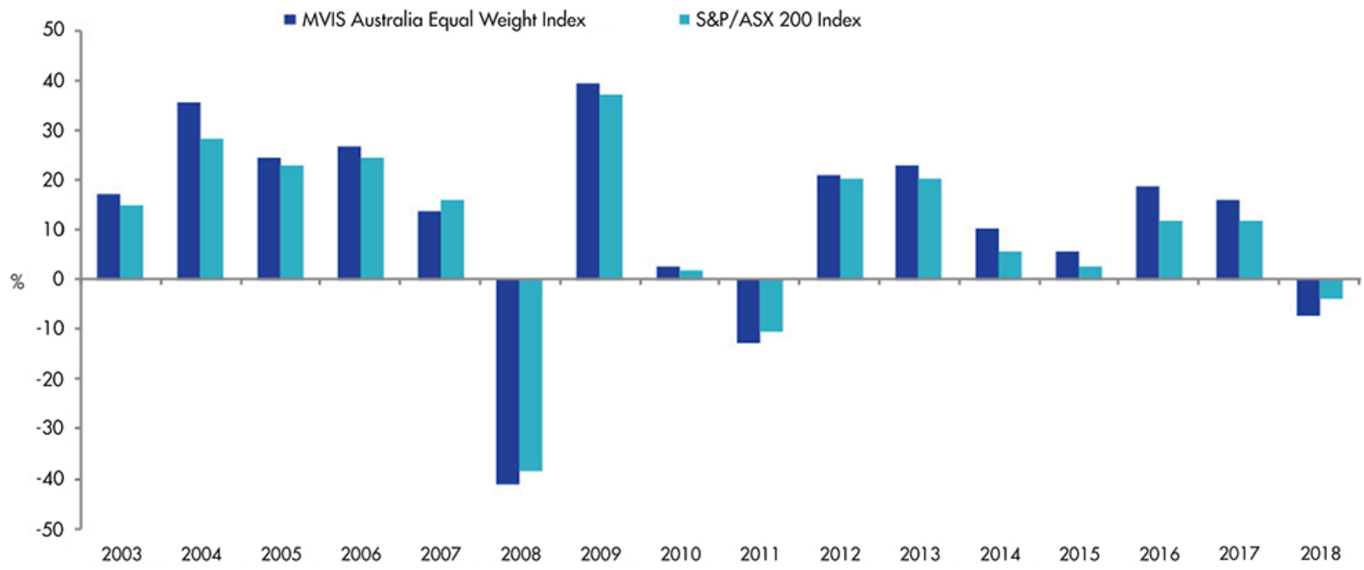
There is a large volume of academic and investment industry research that concludes equal weight outperforms market capitalisation for the following reasons:

- it provides exposure away from mega and larger caps to smaller cap with more growth potential;
- it provides exposure to value stocks; and
- it is an inherently contra trading strategy involving frequent rebalancing that takes profits from winners and increases exposure to losers to maintain equal weighting.

The index MVW tracks, the MVIS Australia Equal Weight Index (MVW Index) has demonstrated long term outperformance.

The MVW Index has outperformed the S&P/ASX 200 in 12 of the last 16 years.

Chart 1: Annual Returns of MVIS Australia Equal Weight Index vs S&P/ASX 200 Index 2003 to 2018



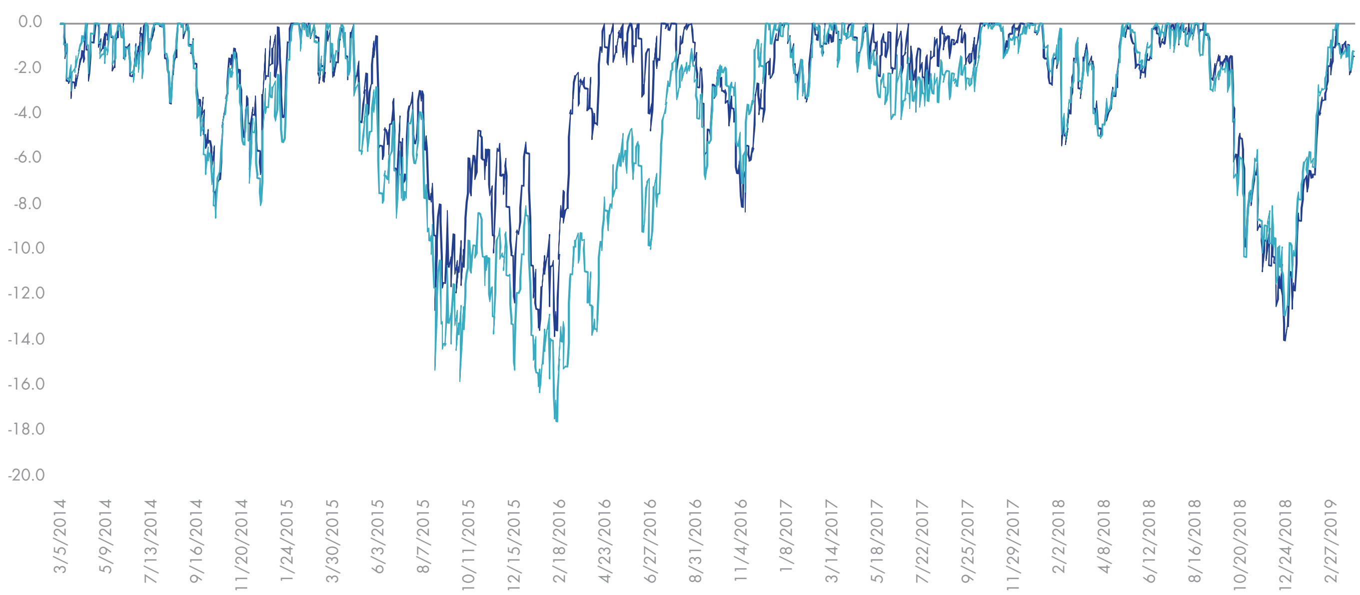
Source: VanEck, FactSet, as at 31 December 2018. Results are calculated to the last business day of the month and assume immediate reinvestment of all dividends and exclude costs associated with investing in MVW. You can't invest directly in an index. Past performance of MVW's Index is not a reliable indicator of future performance of MVW.

Volatility

Volatility is often measured by standard deviation in returns however for investors negative outcomes or the potential for losses are the true 'risk' they consider. A measure called 'drawdown' is useful for investors to assess this volatility. It demonstrates both the depth of a fall from an historical peak and the pace of the recovery to a new peak. The maximum drawdown is the distance from the highest peak to the deepest valley. Investments that fall less and recover faster are more desirable.
Chart 2 below shows the drawdown of MVW versus the S&P/ASX 200 since MVW's inception. In summary:

- The maximum drawdown of MVW was 13.82% versus the S&P/ASX 200 17.57%
- MVW generally recovers from its previous low faster than the S&P/ASX 200

Chart 2 – Drawdown: MVW vs S&P/ASX 200 Index



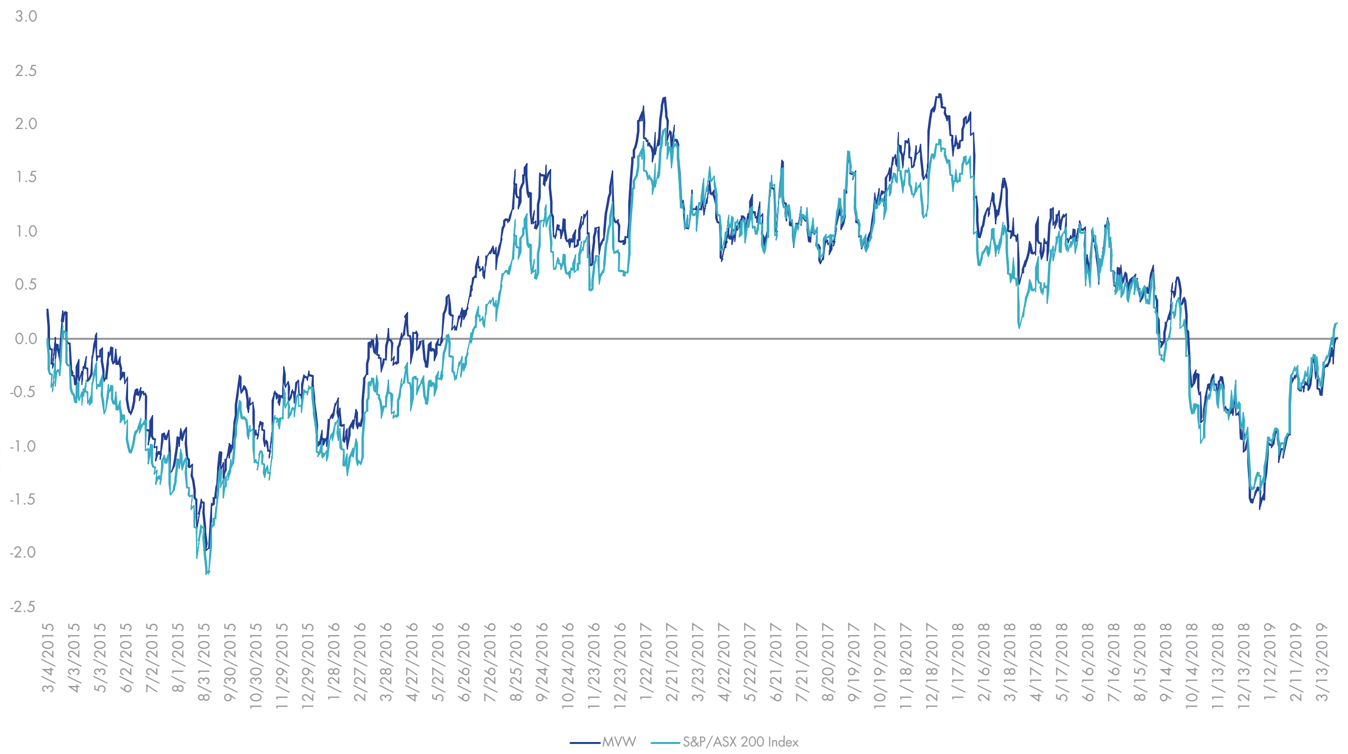
Source: Morningstar Direct, as at 31 March 2019. Results are calculated daily to the last business day of the month and assume immediate reinvestment of all dividends. MVW results are net of management costs but do not include brokerage costs of investing in MVW. Past performance is not a reliable indicator of future performance.

Risk-adjusted performance

The Sharpe ratio combines a return measure with a volatility measure to quantify the relationship between the returns and risk[1]. It provides a measure of risk-adjusted performance. As can be seen in Chart 3, MVW consistently has a higher Sharpe ratio than the S&P/ASX 200. This means MVW has a better risk/return trade-off.

MVW has delivered better returns without increasing the risk.

Chart 3. Sharpe Ratio: MVW vs S&P/ASX 200



Source: Morningstar Direct, as at 31 March 2019. Results are calculated daily to the last business day of the month and assume immediate reinvestment of all dividends. MVW results are net of management costs but do not include brokerage costs of investing in MVW. Performance on is not a reliable indicator of future performance.

To asses this over a longer time period we calculated 12 month Sharpe ratios of the MVW Index and the S&P/ASX 200 at the end of each month starting with the period ended December 2003 and continuing up to the period ended March 2017. There are 184 data points. In 136 instances the MVW Index Sharpe Ratio is higher.

The S&P/ASX 200 Sharpe ratio is higher in only 48 instances. At the data point where MVW Index ratio had its biggest gap over the S&P/ASX 200 ratio, the excess is 0.99. The biggest gap the S&P/ASX 200 ratio ever had over the MVW Index ratio is 0.41. The conclusion that can be drawn is that the better returns of MVW Index over the long term, identified above, is not the result of greater risk-taking.

MVW Index consistently achieved better risk adjusted performance than the S&P/ASX 200.

Conclusion

Equal weight investing via MVW in Australia has led to significant outperformance since its inception. MVW's outperformance has been achieved due to its unique style, its contrarian trading and its superior diversification, with less risk than the market benchmark index. Based on the evidence of its first three years, MVW is an ideal core investment strategy for broad based Australian equities exposure.

[1]The Sharpe Ratio takes the excess return against a relevant risk-free and divides it by the standard deviation of the return. The risk free rate used is the RBA Cash Rate.

INVESTMENT OBJECTIVE: MVW invests in a diversified portfolio of ASX-listed securities with the aim of providing investment returns before fees and other costs that track the performance of the MVIS Australia Equal Weight Index.

INDEX DESCRIPTION: The index is a pure-play rules-based index that combines benchmark with blue-chip characteristics by tracking the performance of the largest and most liquid ASX-listed companies across all sectors, including offshore companies which generate at least 50% of their revenues or assets from the Australian market. Companies in the Index are weighted equally.

ASX code	MVW
Inception date	4 March 2014
Management cost	0.35% p.a.
Index	MVIS Australia Equal Weight Index
Number of holdings	88

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