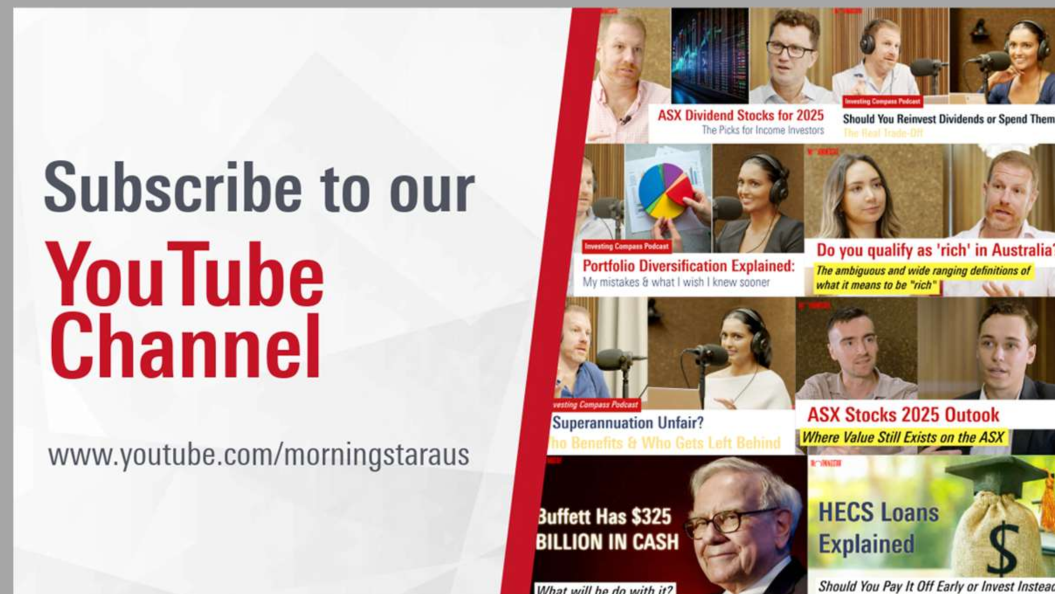

Available on Apple Podcasts, Spotify and Podcast Addict

The webinar will begin shortly

Important Information

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Morningstar retirement bootcamp

Webinar 1 - Everything you wanted to know about ETFs and were scared to ask

Webinar 2 - Traditional passive ETFs

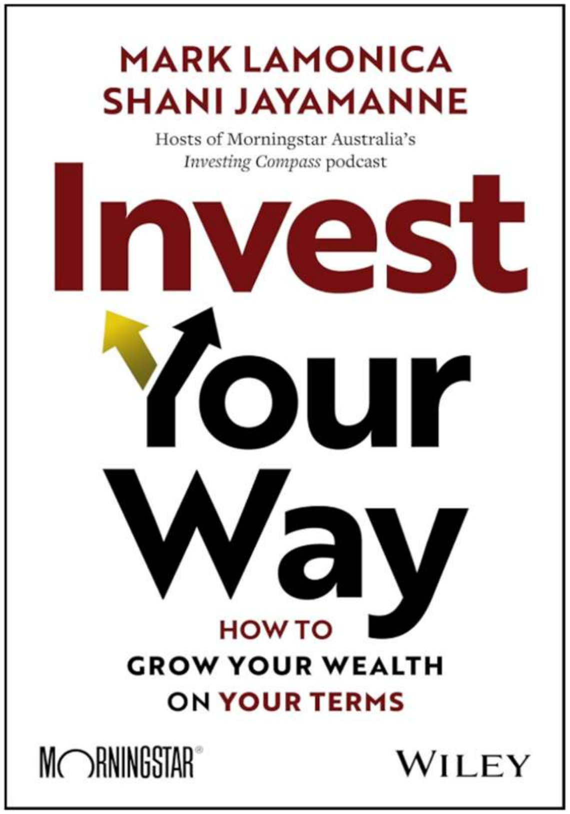
Webinar 3 - Thematic and factor ETFs

Webinar 4 – Building an ETF portfolio

Learning objectives

1. Learn about thematic and factor ETFs and how you can use them within your portfolio to achieve your goals

Getting the foundations right



- The biggest issue many investors face is undermining their own outcomes by letting emotions influence decision making and making mistakes
- ETFs exacerbate these tendencies given the ease of trading, the proliferation of new ETFs and compelling marketing based on recent performance
- The key is adding structure to decision making by establishing goals, setting an investment strategy and developing a process to guide decision making

Thematic and passive ETFs

There is no established definition of different types of ETFs however they broadly fall in three categories but there are lots of grey areas:

'Traditional' passive ETF: An ETF that tracks a broadly diversified representative index that in most cases aligns with a long-standing geographically aligned benchmark that can be accessed at a low cost.

Factor ETF: An ETF that tracks a rules-based index that is representative of a security characteristic that may help drive desired risk, return or other outcomes. Examples include momentum, income, low volatility and / or growth / value.

Thematic ETF: An ETF that tracks an index that may be representative of a particular industry or trend that investors believe will result in higher returns.

Difference between passive investing and thematic or factor investing

There are key components of the theory behind passive investing that do not align with thematic or factor investing – this may be good or bad but thematic and factor investing is not passive in the traditional sense.

Markets are mostly efficient, and it is almost impossible over the long-term to outperform an index through stock picking and market timing: The underlying assumption of factor and thematic ETFs is that certain strategies can beat the market through either the superiority of a strategy over the long-term or by enabling investors to time the market by moving nimbly between strategies that will outperform in the short-term.

Investors should seek to limit turnover to limit trading fees and taxes: Many factor and thematic ETFs have significant turnover due to rebalancing and re-factoring of indexes. In a rising market this will trigger capital gains taxes.

Investors should minimise fees: Most factor and thematic ETFs charge management fees that significantly exceed low-cost broad index funds and may approach the level of active management.

Difference between passive investing and thematic or factor investing – example of higher fees and turnover

- FANG ETF's 2026 June distribution was ~$2.35 which equated to a 6.55% yield based on the 30 June price of $35.84 even though 5 of the 10 holdings don't pay a dividend and the highest yielding share yields ~1%. Approximately 65% of the distribution was capital gains.

How to pick thematic ETFs – be sceptical

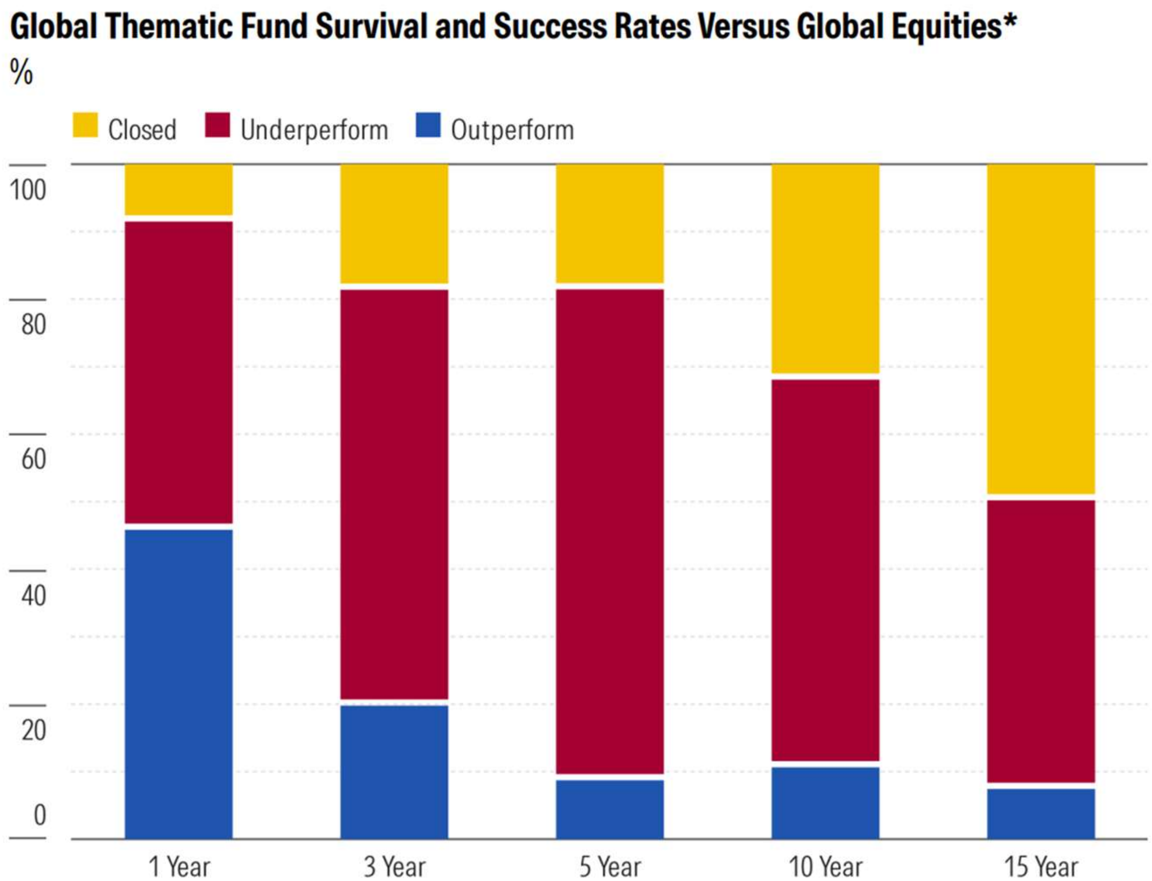
As fees on traditional passive products have come down ETF providers have searched for ways to maintain fee levels. There are implications on investors for how and why ETF providers pick new thematic and factor ETFs to release.

To attract assets, themes chosen for a new ETF are likely to have board investor agreement that the theme is attractive. Since investors naturally chase performance, it is likely that this consensus is based on past performance.

- Given the widespread acceptance of investors that a theme is attractive and the use of strong backdated performance as a selling point it is likely that valuation levels will be elevated. Valuation levels are indicative of investor expectations and high valuation levels indicate high expectations – these high expectations tend to get ahead of themselves which can be hard to meet.
- For a thematic ETF to be successful three things need to occur:
  - Investing in the theme must lead to the desired outcome – typically outperformance
  - The index the ETF tracks must successfully capture the upside of the theme
  - The ETF must be released before the theme upside is captured

How to pick a thematic ETF – be sceptical

Most thematic fail: Over the long-term only 10% of thematic ETFs survive and outperform



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How to pick a thematic ETF – be sceptical

Global X Silver Miners ETF (ASX: SLVM)

How to pick a thematic ETF – be sceptical

Bitcoin ETFs

How to pick factor ETFs – focus on the long-term

Popular factors for investors include equal weighted, income, volatility, quality, momentum, value and growth.

- Backdated performance is often used to induce investors. Past performance is not indicative of future performance and there is the tendency for markets to revert to the mean.
- Factor investing tends to be cyclical so chasing performance can be problematic for investors. Factor investing is inherently a long-term strategy and works best when aligned to an individual investor's goals.

Key return metrics

	World	Equal weighted	High div. yield	Minimum volatility	Momentum	Quality	Enhanced value	Growth	Balanced mix
Total return* (%)	10.6	11.2	11.6	10.6	13.5	12.1	13.3	10.6	12.0
Total risk (%)	14.7	15.5	13.9	11.6	15.7	14.4	16.1	15.1	14.0
Return / risk	0.72	0.73	0.83	0.92	0.86	0.84	0.82	0.70	0.86
Active return (%)		0.7	1.0	0.0	2.9	1.5	2.7	-0.0	1.4
Tracking error (%)		4.9	6.1	6.3	7.8	5.5	6.6	3.0	3.1
Information ratio		0.14	0.16	0.00	0.38	0.27	0.40	-0.01	0.46
Historical beta		1.00	0.86	0.72	0.93	0.91	1.00	1.01	0.93

MSCI data from Nov 28, 1975 to May 30, 2025. *Returns annualized in USD.

Long-term correlation between MSCI World factor indexes

	Equal weighted	High div. yield	Minimum volatility	Momentum	Quality	Enhanced value	Growth
Equal weighted	1.00						
High div. yield	0.30	1.00					
Minimum volatility	0.09	0.52	1.00				
Momentum	-0.17	-0.06	0.12	1.00			
Quality	-0.24	0.29	0.18	0.23	1.00		
Enhanced value	0.61	0.53	0.01	-0.11	0.00	1.00	
Growth	-0.14	-0.24	-0.01	0.31	0.09	-0.11	1.00

MSCI data from Nov. 28, 1975, to May 30, 2025. Based on monthly returns in USD relative to the MSCI World Index.

Source: Factor Indexing Through the Decades, MSCI

How to pick factor ETFs – focus on the long-term

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Example: Assess the ETF to determine if it provides the desired exposure

1. Identify underlying index on ETF provider website
2. Go to index website to review index selection criteria
3. Review existing holdings to understand how the rules are implemented

Example: Assess the ETF to determine if it provides the desired exposure

Example: Bronze rated income ETFs

Vanguard Australian Shares High Yield (ASX: VHY)

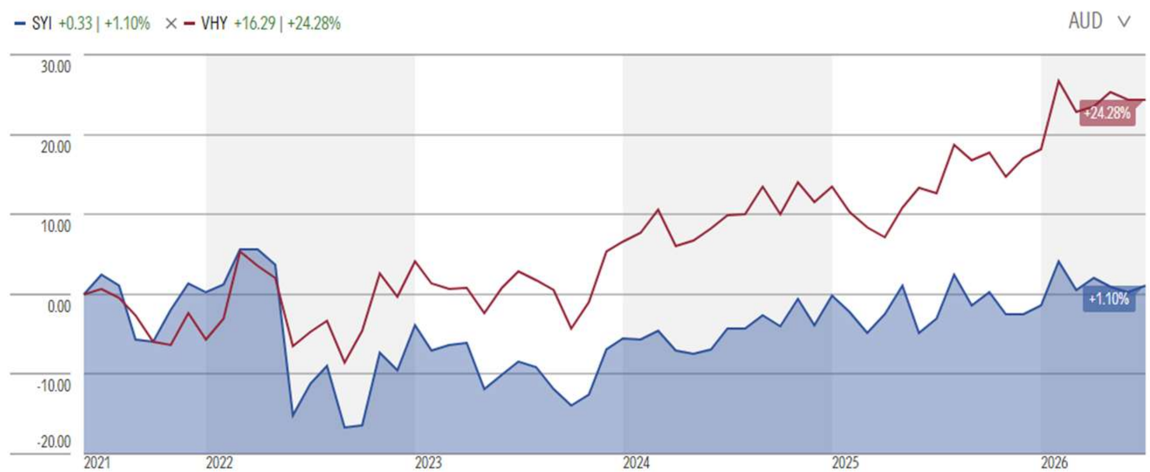
Vanguard Australian Shares High Yield attempts to fully replicate the FTSE Australia High Dividend Index. The index ranks all dividend-paying stocks in the FTSE Australia 200, excluding property trusts, based on their one-year forward dividend yield (typically from the Institutional Brokers' Estimate System). Selecting stocks to include until approximately 50% of the float-adjusted market capitalization is reached. Following, a market-cap-weighted approach is applied to determine individual position sizing, and a proprietary screen is applied, which aims to balance the high-yield objective with turnover.

State Street SPDR MSCI Australia Select High Dividend (ASX: SYI)

Australian shares are screened for durable and persistent dividends and has a minimum cutoff for return on equity, debt/equity, and earnings volatility. A price-performance screen removes the lowest 5% of securities with a negative one-year price return. To make the final cut, securities must carry a dividend yield greater than the broader MSCI Australia Shares Investable Market Index based on a combination of historical dividend yields and forward-looking one-year dividend yields.

Example: Assess the ETF to determine if it provides the desired exposure

Between 2006 through 2025 SPI grew income 190.33% and VHY grew income 78.50%



Morningstar Gold Medallist Rated thematic / factor ETFs

ETF	Category
State Street SPDR MSCI World Quality Mix ETF (ASX: QMIX)	Global shares
State Street SPDR S&P World ex-AU Carbon Aware ETF (ASX: WXOZ)	Global shares
State Street SPDR S&P World ex-AU Carbon Aware Hedged ETF (ASX: WXHG)	Global shares
Vanguard Ethically Conscience International Shares ETF (ASX: VESG)	Global shares

Morningstar Silver Medallist Rated thematic / factor ETFs

ETF	Category
BetaShares FTSE RAFI Australia 200 ETF (ASX: OOZ)	Australian shares

Morningstar Bronze Medallist Rated thematic / factor ETFs

ETF	Category
iShares Core MSCI World ex-AU ESG ETF (ASX: IWLD)	Global shares
iShares S&P/ASX Dividend Opportunities ESG ETF (ASX:IHD)	Australian shares
iShares World Equity Factor ETF (ASX: WDMF)	Global shares
State Street SPDR Australian Select High Dividends ETF (ASX: SYI)	Australian shares
State Street SPDR S&P Global Dividend ETF (ASX: WDIV)	Global shares
VanEck MSCI International Quality ETF (ASX: QUAL)	Global shares
VanEck MSCI International Quality Hedged ETF (ASX: QHAL)	Global shares
Vanguard Australian Shares High Yield ETF (ASX: VHY)	Australian shares
Vanguard Ethically Conscious Australian Shares ETF (ASX: VETH)	Australian shares