



Available on Apple Podcasts,
Spotify and Podcast Addict

Subscribe to our
YouTube Channel

www.youtube.com/morningstaraus

A collage of YouTube video thumbnails from the Morningstar Investing Compass channel. The thumbnails are arranged in a grid and feature various topics related to investing and finance. The titles and subtitles of the videos are:

- ASX Dividend Stocks for 2025: The Picks for Income Investors
- Should You Reinvest Dividends or Spend Them? The Great Debate!
- Portfolio Diversification Explained: My mistakes & what I wish I knew sooner
- Do you qualify as 'rich' in Australia? The ambiguous and wide ranging definitions of what it means to be "rich"
- Superannuation Unfair? The Benefits & Who Gets Left Behind
- ASX Stocks 2025 Outlook: Where Value Still Exists on the ASX
- Buffett Has \$325 BILLION IN CASH: What will he do with it?
- HECS Loans Explained: Should You Pay It Off Early or Invest Instead?

The webinar will begin shortly

Important Information

© Morningstar, Inc. All rights reserved. Neither Morningstar, its affiliates, nor the content providers guarantee the data or content contained herein to be accurate, complete or timely nor will they have any liability for its use or distribution. No part of this document may be reproduced or distributed in any form without the prior written consent of Morningstar. This presentation has been prepared for clients of Morningstar Australasia Pty Ltd (ABN: 95 090 665 544, AFSL: 240892) and/or New Zealand wholesale clients of Morningstar Research Ltd, subsidiaries of Morningstar, Inc.

Any general advice has been provided without reference to your financial objectives, situation or needs. For more information refer to our Financial Services Guide at www.morningstar.com.au/s/fsg.pdf. You should consider the advice in light of these matters and if applicable, the relevant Product Disclosure Statement before making any decision to invest.

This presentation may contain certain forward-looking statements. We use words such as “expects”, “anticipates”, “believes”, “estimates”, “forecasts”, and similar expressions to identify forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results to differ materially and/or substantially from any future results, performance or achievements expressed or implied by those projected in the forward-looking statements for any reason.

Our publications, ratings and products should be viewed as an additional investment resource, not as your sole source of information. Past performance does not necessarily indicate a financial product’s future performance. Morningstar’s full research reports are the source of any Morningstar Ratings and are available from Morningstar or your adviser. To obtain advice tailored to your situation, contact a financial adviser. Some material is copyright and published under licence from ASX Operations Pty Ltd ACN 004 523 782. .

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 - Using ETFs to generate income

Learning objectives

1. Understand how to evaluate a traditional passive ETF and the different drivers of returns

What is an index

An index measures the performance of a basket of securities intended to replicate a certain area of the market.....the problem is that there are lots of indexes.



A traditional index aligns to John Bogle's idea of passive investing:

- Buy and hold a broad index
- Minimise cost
- Minimise tax through low turnover
- Simplicity

This differs from thematic or factor ETF that tracks a specially designed index that is intended to represent a certain investment characteristic or theme.

Four step process for researching an ETF

- 1. Identify the exposure that you are interested in and a hypothesis of how this will help you achieve your goals:** You are answering the 'what' and 'why'. Ideally you define and understand your goal for investing to find investments that align with your goal.
- 2. Assess the ETF to determine if it provides the desired exposure:** This involves going beyond the name and high-level description of an ETF and understanding the underlying index rules (passive) or the investment process (active) and how those rules are implemented by exploring current holdings.
- 3. Review the drivers of end investor returns:** Fees and taxes play an underappreciated role in the end outcome for investors. Fees can be the tie breaker for two similar ETFs. Tax outcomes are driven by high turnover and should be considered based on tax circumstances.
- 4. Distill the ETF performance drivers:** This will help you understand why this ETF will perform in a certain way going forward and can be compared to your original hypothesis.

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 which generally is based on company size or certain fundamental / thematic criteria.
3. Review index weighting and rebalancing criteria. These are often related and come in three categories:
 - Market capitalization weighted meaning the proportion of each constituent is based on the size of the company (share price multiplied by shares outstanding). Constituents will be replaced as market capitalization varies but no rebalancing and generally low turnover.
 - Equal weighted where each constituent has the same weight. Rebalancing occurs at set intervals which means higher turnover as shares with relative outperformance are sold for share with relative underperformance.
 - Fundamental weighted index where each constituent is weighted by a desired characteristic such as dividend yield, valuation, etc. Rebalancing occurs at set intervals which may mean high turnover.

Example: Global ETFs

iShares S&P 500 ETF IVV vs Vanguard MSCI International ETF VGS

Identify the exposure that you are interested in and a hypothesis of how this will help you achieve your goals:

The goal is to earn the market return on global shares to diversify into companies, sectors and markets that are not available from the narrowly focused Australian share market. The hypothesis is that the diversification will be beneficial, and returns may be higher globally than in Australia given the different mix of companies.

Example: Global ETFs

iShares S&P 500 ETF IVV vs Vanguard MSCI International ETF VGS

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

IVV tracks the S&P 500 index which is the 500 largest companies in the US weighted by market capitalization.

VGS tracks the MSCI World ex-Australian Index which is the 1341 largest companies across 22 developed market countries.

On the surface these look to be very different exposure, but we need to dig deeper to see the results of the implementation.

Example: Global ETFs

iShares S&P 500 ETF IVV vs Vanguard MSCI International ETF VGS

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

IVV country exposure

Exposure Sector Region Country vs. Category %

Country	Investment %	Cat %
United States	99.41	84.32
Switzerland	0.29	0.11
Netherlands	0.11	1.78
United Kingdom	0.10	8.48
Ireland	0.05	0.02
Singapore	0.04	0.02
Argentina	0.00	0.00
Australia	0.00	0.00
Austria	0.00	0.00
Belgium	0.00	0.00

VGS country exposure

Exposure Sector Region Country vs. Category %

Country	Investment %	Cat %
United States	74.68	68.10
Japan	5.36	4.16
United Kingdom	3.58	4.45
Canada	3.09	2.50
Switzerland	2.67	2.69
France	2.35	3.41
Germany	2.28	2.29
Netherlands	1.27	1.88
Sweden	0.77	0.42
Spain	0.68	0.70

IVV sector exposure

Exposure Sector Region Country vs. Category %

Sectors	Investment %	Cat %
Cyclical Basic Materials	1.80	1.50
Cyclical Consumer Cyclical	10.51	11.04
Cyclical Financial Services	13.79	11.85
Cyclical Real Estate	2.23	1.41
Sensitive Communication Services	9.57	14.65
Sensitive Energy	3.24	1.88
Sensitive Industrials	7.42	7.97
Sensitive Technology	31.67	28.43
Defensive Consumer Defensive	6.03	11.29
Defensive Healthcare	11.20	7.35
Defensive Utilities	2.54	1.63

VGS sector exposure

Exposure Sector Region Country vs. Category %

Sectors	Investment %	Cat %
Cyclical Basic Materials	2.72	3.10
Cyclical Consumer Cyclical	11.24	11.21
Cyclical Financial Services	15.59	17.14
Cyclical Real Estate	2.02	1.45
Sensitive Communication Services	8.81	9.04
Sensitive Energy	3.57	2.65
Sensitive Industrials	10.10	10.39
Sensitive Technology	26.79	25.85
Defensive Consumer Defensive	5.84	6.00
Defensive Healthcare	10.77	11.74
Defensive Utilities	2.54	1.44

Example: Global ETFs

iShares S&P 500 ETF IVV vs Vanguard MSCI International ETF VGS

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

IVV top 10 holdings (28/2)

Holdings

Portfolio Holdings	No.	%	% Assets in Top 10 Holdings	Reported Turnover %	Women Directors %	Women Executives %
Equity Holding	504	99.61	35	—	35	27
Bond Holding	0	0.00		As of —		
Other Holding	2	0.40				

Holdings	% Portfolio Weight	First Bought	Market Value AUD as of Feb 28, 2025	1-Year Return	Forward P/E	ESG Risk Rating Assessment
Apple Inc	7.18	Jul 31, 2024	44,512,146,034	42.05	32.57	@@@
Microsoft Corp	6.01	Jul 31, 2024	37,243,947,303	-3.10	26.18	—
NVIDIA Corp	5.80	Jul 31, 2024	35,942,727,120	21.64	25.51	@@@
Amazon.com Inc	3.93	Jul 31, 2024	24,357,537,574	12.69	30.30	@@@
Meta Platforms Inc Class A	2.89	Jul 31, 2024	17,877,001,544	22.45	24.63	@@
Alphabet Inc Class A	2.04	Jul 31, 2024	12,626,781,879	29.83	19.61	@@@
Berkshire Hathaway Inc Class B	1.84	Jul 31, 2024	11,414,293,083	23.17	24.75	@@@
Broadcom Inc	1.80	Jul 31, 2024	11,177,641,226	40.11	30.67	@@@
Alphabet Inc Class C	1.68	Jul 31, 2024	10,403,597,875	30.40	19.84	@@@
Tesla Inc	1.57	Jul 31, 2024	9,737,045,709	47.03	88.50	—

VGS top 10 holdings (31/1)

Holdings

Portfolio Holdings	No.	%	% Assets in Top 10 Holdings	Reported Turnover %	Women Directors %	Women Executives %
Equity Holding	1,354	99.19	26	1.38	35	26
Bond Holding	0	0.00		As of 06/30/21		
Other Holding	11	0.81				

Holdings	% Portfolio Weight	First Bought	Market Value AUD as of Jan 31, 2025	1-Year Return	Forward P/E	ESG Risk Rating Assessment
Apple Inc	5.04	Mar 31, 2010	2,189,902,173	42.05	32.57	@@@
NVIDIA Corp	4.14	Mar 31, 2010	1,797,634,911	21.64	25.51	@@@
Microsoft Corp	4.12	Mar 31, 2010	1,788,869,673	-3.10	26.18	—
Amazon.com Inc	3.15	Mar 31, 2010	1,370,369,332	12.69	30.30	@@@
Meta Platforms Inc Class A	2.12	Jun 29, 2012	919,344,575	22.45	24.63	@@
Alphabet Inc Class A	1.68	Mar 31, 2010	729,382,866	29.83	19.61	@@@
Tesla Inc	1.63	Sep 30, 2013	710,018,351	47.03	88.50	—
Alphabet Inc Class C	1.45	Oct 31, 2015	630,993,734	30.40	19.84	@@@
Broadcom Inc	1.38	Sep 30, 2016	599,266,916	40.11	30.67	@@@
JPMorgan Chase & Co	1.07	Mar 31, 2010	494,225,213	31.52	13.18	@@@

Example: Global ETFs

iShares S&P 500 ETF IVV vs Vanguard MSCI International ETF VGS

Review the drivers of end investor returns: Neither ETF will have significant turnover given the market capitalization weighted nature of the index. VGS charges 0.18% and IVV charges 0.04%.

If an investor started with \$10,000 and invested \$10,000 a year for 20 years and earned an 8% pre-fee return they would end up with \$957,459 in IVV and \$942,273.99 in VGS.
















Example: Global ETFs

iShares S&P 500 ETF IVV vs Vanguard MSCI International ETF VGS




















Distill the ETF performance drivers:



Morningstar Gold Medallist Rated passive ETFs

Name	Morningstar Medalist Rating 
 Betashares Global Shares Ccy Hdg ETF HGBL	 Gold
iShares Core Composite Bond ETF IAF	 Gold
iShares S&P 500 ETF IVV	 Gold
iShares S&P Mid-Cap ETF IJH	 Gold
iShares U.S. Treasury Bond AUDH ETF IUSG	 Gold
SPDR® S&P World ex Aus Crb Ctrl ETF WWOZ	 Gold
SPDR® S&P World ex Aus Cb Ctrl H ETF WWHG	 Gold
Vanguard Australian Fixed Interest ETF VAF	 Gold
Vanguard Australian Property Secs ETF VAP	 Gold
Vanguard Etclly Cons Intl Shrs ETF VESG	 Gold
Vanguard MSCI Intl ETF VGS	 Gold
Vanguard MSCI International SC ETF VISM	 Gold
Vanguard US Total Market Shares ETF VTS	 Gold

Morningstar Silver Medallist Rated passive ETFs

Name	Morningstar Medallist Rating 
BetaShares Australian Quality ETF AQLT	 Silver
BetaShares FTSE RAFI Australia 200 ETF 00Z	 Silver
Betashares Global Shares ETF BGBL	 Silver
iShares 20+ Year US Treasury Bd AUDH ETF ULTB	 Silver
iShares MSCI World ex Australia Momt ETF IMTM	 Silver
iShares MSCI Wld ex AUS Qual AUD H ETF IHQL	 Silver
iShares MSCI World ex Australia Qual ETF IQLT	 Silver
iShares MSCI World ex AUS Val AUD H ETF IVHG	 Silver
iShares MSCI World ex Australia Val ETF IVLU	 Silver
iShares S&P 500 AUD Hedged ETF IHVV	 Silver
iShares S&P Small-Cap ETF IJR	 Silver
SPDR® MSCI World Quality Mix ETF QMIX	 Silver
SPDR® S&P 500 ETF SPY	 Silver
SPDR® S&P/ASX 200 Listed Property ETF SLF	 Silver
Vanguard Diversified Balanced ETF VDDBA	 Silver
Vanguard Diversified Growth ETF VDGR	 Silver
Vanguard Diversified High Growth ETF VDHG	 Silver
Vanguard MSCI Intl (Hdg) ETF VGAD	 Silver