The Nasdaq-100 Index®

A flexible index for changing times

Amid global uncertainty, the market has bounced back after rough market conditions following the Covid-19 pandemic. As we enter a new paradigm, many tools that investors have historically used to diversify their portfolio and maximize returns are falling out of favor. The combination of these factors has many investors reviewing their strategies to both participate in these returns and to protect from potential downside. With volatility beginning to bounce back from its lows in the summer of 2023, wise investors are looking for the best ways to navigate these new conditions. The question on everyone's minds is "How?"

When facing these conditions, one approach that may prove particularly helpful is to strive to "bulletproof" your portfolio by increasing diversification. But building a strategy that can accomplish this can be a challenge.

A changing strategy for changing times

If you ask almost anyone to name the biggest driver of change today, there's typically one common answer: technology. The pace of innovation has been increasing exponentially for decades. As a result, it is transforming nearly every industry and redefining how we live, work, and play. Companies like Apple, Microsoft, NVIDIA, Meta, and Alphabet have not only been revolutionizing our everyday lives, but they've been driving the growth of the technology sector and the broader market for years. And while the names of those in the forefront may change over time, one thing that is highly unlikely to change is the growing dependency on technology by businesses and consumers alike.

Manufacturers can no longer be competitive without investing in highly automated factories. Retailers who even hope to compete with Amazon are leveraging new technologies to reinvent every process—from marketing to distribution. Recent innovations in Generative AI and semi-conductors show that technological growth and reliance is not slowing down any time soon. Consumers have an insatiable desire for new tools to make their lives move faster, more efficiently, and just plain easier. In March 2022, Forrester Research reported that the global tech market will grow by 6% in 2022 and 2023 led by innovations in cloud software. The momentum is real, and the potential for growth is significant.[1]

For investors, this reality dictates the need for a different strategy—one that is designed to take full advantage of the rise of technology to not only capture potential returns from the sector, but also to increase diversification across their portfolios to help mitigate market risk.

Reaching beyond the S&P/ASX 200 Index

In Australia, the S&P/ASX 200 Index is often the go-to index for gaining broad sharemarket exposure. But while the index does offer much of the exposure investors in the region generally seek, the index is undeniably lacking in its technology exposure, which means that investors may risk missing out, from an investment point of view, on much of the global innovation changing our world. With technology currently the unchallenged driver when it comes to global growth, there is an investment case to focus on gaining

[1] Forrester, 2022

exposure to the technology companies behind that expansion. To do so requires reaching beyond the S&P/ASX 200 Index and adding a tech-rich component to the mix to enhance and diversify these holdings.

Introducing the Nasdaq-100 Index

From a performance perspective, the Nasdaq-100 Index is designed to capture the impressive growth of the technology sector. Known for its heavy weight in technology, tech-focused companies comprise 57.77% of the index as of October 31st, 2023. That's quite a contrast to the S&P/ASX 200 Index that is vastly underweight technology at 2.31%. Consumer Discretionary also plays an important contributing factor in the Nasdaq-100®, comprising 18.55% of the index (including key names such as Amazon, Costco, Netflix, Starbucks, and Airbnb) as does Healthcare, which comes in third in weighting at 6.84%

NDX®: Weights (as of 10/31/23) and Contributed Return (10/31/13- 10/31/23) **in AUD

Industry	Weight	Contributed Return
Technology	57.77%	387.20%
Consumer Discretionary	18.55%	115.52%
Health Care	6.84%	35.18%
Telecommunications	5.42%	33.37%
Industrials	4.76%	19.90%
Consumer Staples	4.14%	10.47%
Utilities	1.30%	1.25%
Energy	0.66%	-0.48%
Basic Materials	0.30%	2.14%
Real Estate	0.27%	1.01%
Financials	0.00%	0.00%

Source: Nasdaq/Bloomberg. Contributed returns are shown in Australian dollars, which might differ from returns in US dollars. Past performance is not indicative of future returns

To understand the impact the Nasdaq-100 can have on a diversified portfolio, it's important to look at the differences in weighting between this index and the S&P 500 Index, as well as the corresponding S&P/ASX 200 Index. As the numbers below illustrate, both indices have much lower exposure to the sectors that have been delivering the most positive returns, relative to the Nasdaq-100:

S&P 500 / S&P ASX 200: Weight (as of 10/31/23) and Contributed Return (10/31/13-10/31/23) **in AUD

S&P 500	Weight	Contributed Return	S&P ASX 200	Weight	Contributed Return
Technology	32.20%	109.13%	Financials	28.86%	19.27%
Consumer Discretionary	13.90%	40.55%	Basic Materials	23.00%	23.23%
Health Care	12.52%	44.05%	Health Care	8.45%	10.43%
Industrials	11.99%	41.52%	Consumer Discretionary	8.13%	5.71%
Financials	9.95%	35.87%	Industrials	7.25%	9.35%
Consumer Staples	5.50%	18.97%	Energy	6.63%	2.48%
Energy	4.62%	8.01%	Real Estate	5.78%	6.44%
Utilities	2.75%	8.52%	Consumer Staples	4.50%	5.84%
Telecommunications	2.45%	11.00%	Telecommunications	2.47%	0.72%
Real Estate	2.35%	5.85%	Technology	2.31%	2.51%
Basic Materials	1.78%	5.28%	Utilities	1.47%	1.20%

Source: Nasdaq/Bloomberg. Contributed returns are shown in Australian dollars, which might differ from returns in US dollars. Past performance is not indicative of future returns

Nasdaq-100 Index and the Nasdaq 100 ETF

Creating a balanced blend

While the historical performance of the Nasdaq-100 Index is certainly impressive, it is important to recognize that diversification is critical to any balanced portfolio. In 2022, the market as a whole fell, and the Nasdaq-100 was comprised of companies that were more sensitive to rising rates resulting in poor performance. However, if someone decided to not hold the Nasdaq-100 after 2022, they would have missed out on one of its best years to date. As evidenced by past conditions, the need for diversification can't be understated. That's just as true when adding technology to the mix as it is when adding a deliberate mix of other industry sectors to a portfolio to create a robust, balanced blend that aims to capture alpha in different market cycles.

As the above illustrates, investors are able to use the Nasdaq-100 Index to create a more balanced portfolio blend that offers the exposure diversification investors seek today and the higher allocations towards technology and consumer services sectors. In Australia, BetaShares has created the BetaShares NASDAQ-100 ETF (ASX code: NDQ). Designed to track the performance of the Nasdaq-100 Index, NDQ gives Australian investors access to many of the world's most innovative technology companies.

The below table shows how using a 50/50 allocation between the Nasdaq-100 Index and the S&P/ASX 200 Index can target potential growth in a wide variety of sectors—putting technology growth to work within the portfolio, while also maintaining some level of exposure to financials.

Illustrative portfolio blend: 50% Nasdaq-100 Index, 50% S&P/ASX 200 Index:

Portfolio sector weightings as of 31 October 2023 EOD**in AUD

Industry	.50 NDX Exposure	.50 ASX Exposure	.50 NDX/.50 ASX Exposure
Technology	28.89%	1.15%	30.04%
Financials	0.00%	14.43%	14.43%
Consumer Discretionary	9.28%	4.06%	13.34%
Basic Materials	0.15%	11.50%	11.65%
Health Care	3.42%	4.23%	7.65%
Industrials	2.38%	3.63%	6.00%
Consumer Staples	2.07%	2.25%	4.32%
Telecommunications	2.71%	1.24%	3.94%
Energy	0.33%	3.31%	3.64%
Real Estate	0.13%	2.89%	3.02%
Utilities	0.65%	0.74%	1.38%

Source: Nasdaq/Bloomberg. Contributed returns are shown in Australian dollars, which might differ from returns in US dollars. Past performance is not indicative of future returns

Another key advantage of the 50/50 blend is that it takes advantage of the historical low correlation between the Nasdaq-100 Index and the S&P/ASX 200 Index. Assuming this persists, this low correlation could help provide additional risk management by reducing the potential for drawdowns while allowing investors to capture sector rotation across a much broader menu—regardless of the current market cycle. Looking at the numbers from 31 October 2013 through 31 October 2023 we are able to see that the lack of correlation persists through both market highs and lows.

Correlation between equities indices: 31 October, 2013 - 31 October, 2023 **in AUD

	NDX (TR)	ASX S&P 200 (TR)	SPX (TR)	MSCI (TR)
NDX (TR)	1.00			
ASX S&P 200 (TR)	0.16	1.00		
SPX (TR)	0.93	0.21	1.00	
MSCI (TR)	0.88	0.96	0.96	1.00

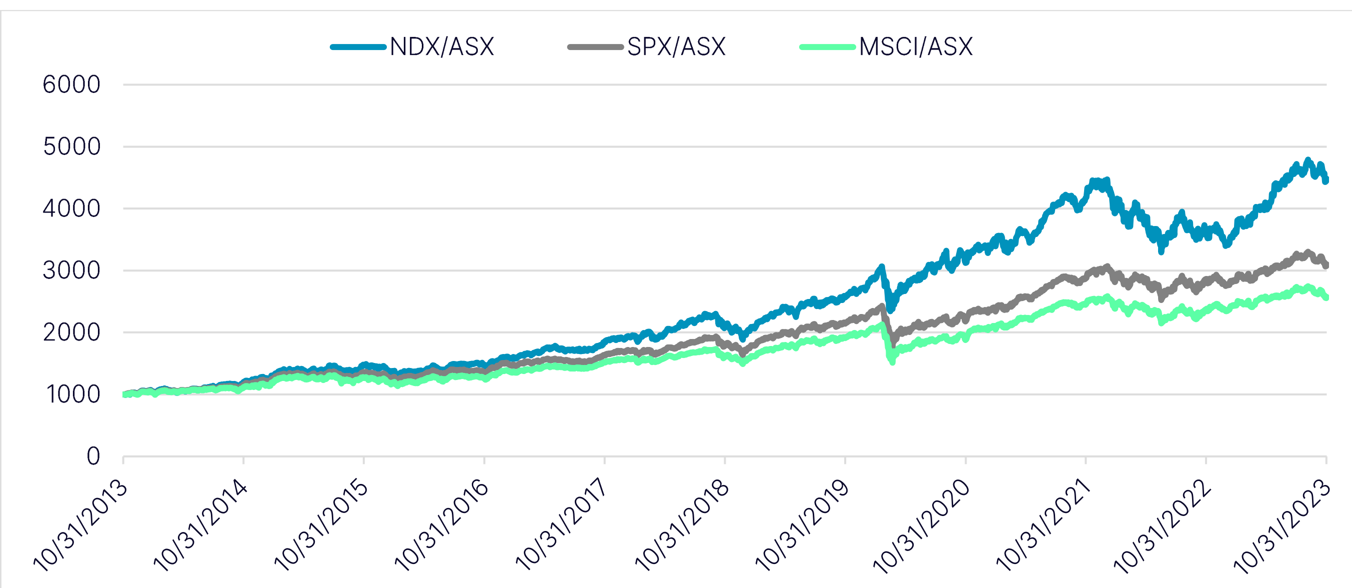
Source: Nasdaq/Bloomberg. Contributed returns are shown in Australian dollars, which might differ from returns in US dollars. Past performance is not indicative of future returns

While low correlation is particularly important in a volatile market environment, even more critical is the ability to select a blend that can perform over the long term. Yes, the Nasdaq-100 Index offers exposure to coveted technology stocks, but what is the potential for outperforming other comparable mixes?

When comparing a 50/50 blend of Nasdaq-100 Index and S&P/ASX 200 Index to similar blends of other indices, the historical outperformance is significant. In the below study, we analyzed the time period between 31 October 2013 – 31 October 2023. The portfolio was rebalanced annually keeping consistent with our 50/50 blend. Where a 50/50 blend of Nasdaq 100 and the S&P/ASX 200 delivered annualized returns of 16.21%, the same blend of SPX/ASX 200 and S&P 500 Index delivered 12.00% annual returns, and a blend of MSCI World & S&P/ASX 200 delivered even less impressive performance with returns of 9.93% per year. This difference is largely attributable to the sheer outperformance of the Nasdaq-100 Index which, again, has been fueled largely by growth in the technology sector. With historical cumulative returns of the Nasdaq 100 over six times higher than that of the S&P/ASX 200 and nearly double the S&P 500 Index returns, it is clear why the Nasdaq 100 can be an important component of a balanced core portfolio focused on growth.

Historical performance of portfolio blends: 31 October 2013 – 31 October 2023 **in AUD

	NDX (50%)/ ASX (50%)	SPX (50%)/ASX (50%)	MSCI (50%)/ASX (50%)
Cumulative Returns	348.24%	210.04%	157.46%
Annualized Returns	16.21%	12.00%	9.93%
Annualized Volatility	16.68%	13.66%	12.11%

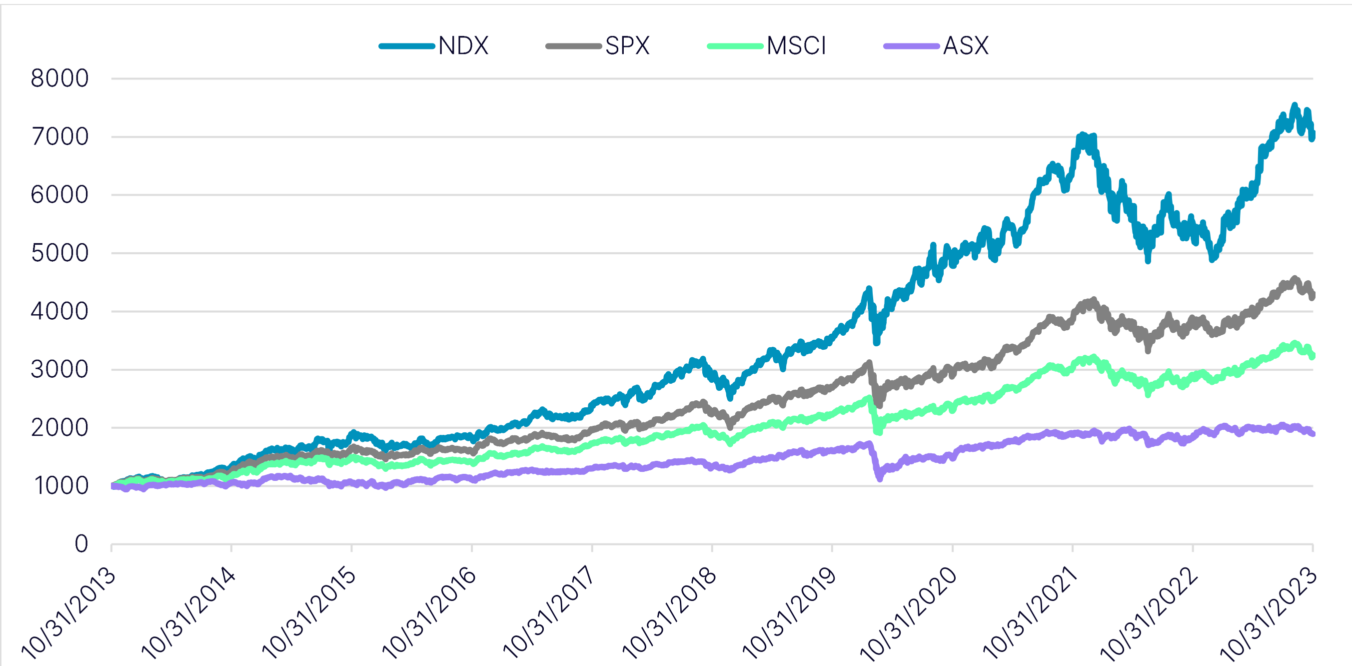


Source: Nasdaq/Bloomberg. Contributed returns are shown in Australian dollars, which might differ from returns in US dollars. Past performance is not indicative of future returns

Today's technology growth is clearly being fueled by much more than investor exuberance. While the tech-heavy Nasdaq-100 took a plunge in 2021 it has recovered with an impressive 42.66% year to date return in 2023 in AUD. A market downturn may certainly have the potential to dampen this growth, but there is little doubt that technology stocks are an important component of a balanced, blended portfolio.

Performance of global equity indices: 31 October 2013 – 31 October 2023 **In AUD

	NDX (TR)	ASX S&P 200 (TR)	SPX (TR)	MSCI (TR)
Cumulative Returns	607.04%	89.45%	330.63%	225.46%



Source: Nasdaq/Bloomberg. Contributed returns are shown in Australian dollars, which might differ from returns in US dollars. Past performance is not indicative of future returns

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