2021 Stockspot ETF Report

Welcome

Welcome to the 2021 Stockspot ETF Report.

First launched in Australia in 2001, no one could have imagined there'd be over $100 billion held in exchange traded funds (ETFs) in 2021.

Over the last 12 months, the ETF market in Australia grew 79%, from $56.9 billion to $102.1 billion. This was the fastest year on year increase since 2010.

Over the last five years, the ETF market has increased by almost 500%. This means money invested in ETFs is growing at a whopping 37% per year.

The past 12 months saw 27 new ETF products being launched on the ASX and 19 ETFs closing down, giving us a total number of 220 ETFs on the ASX as of March 2021.

Given all the activity of 2020, this year's ETF report is particularly timely, and provides rich insights into one of the most watched areas of investing in Australia.

Stockspot has been researching ETFs since 2014, and we've always advocated for more investors to use ETFs in their portfolios. That's because ETFs offer a variety of benefits, including instant diversification, low costs, transparency, and ease of access.

Over the last year, broad indexed ETFs have continued to outperform most active fund managers and Listed Investment Companies (LICs) in Australia. Even during the COVID-19 induced market volatility, ETFs enjoyed inflows and superior performance compared to the majority of actively managed funds.

In this report, we present our findings after analysing over 200 ETFs, looking at factors like fees, performance, size and activity. We also analysed recent ETF market trends, the best performing ETFs, and the growth in certain ETF sub-sectors such as thematics and sustainable ETFs.

We hope you find our analysis useful, and we look forward to your feedback.

Chris Brycki
Founder and CEO

Marc Jocum
Investment and Business Initiatives Manager

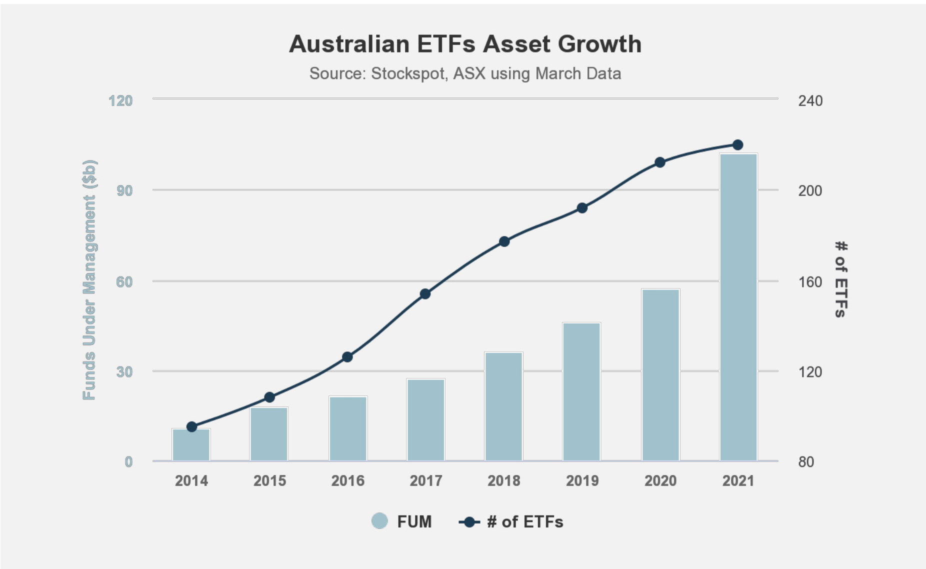
Contents

1. ETFs had their strongest growth rate since 2010

ETF funds under management (FUM) grew 79% over the last year – the fastest growth rate in over a decade. The growth was driven by large inflows, unlisted funds converting into the ETF structure, and strong returns following the COVID-19 market correction.

Investors saw the relative stability of low-cost ETFs throughout the market volatility of the past 12 months. While many unlisted managed funds saw outflows, ETFs continued to demonstrate strong resilience in providing liquidity. Because of this and other factors, ETFs are becoming the preferred investment vehicle for many investors.

After the launch of 27 new ETFs over the last year, there are now 220 ETFs available on the ASX, mainly focused on global share markets.



2. The best performers: technology ETFs

Over the last year, broad technology and niche technological themes were the best performers.

The ETFS Battery Tech & Lithium ETF (ASX: ACDC) took out top spot this year with a 96% return over the last 12 months. ACDC has benefited from the large demand in battery technology and lithium mining, which contribute to renewable energy and electric vehicle initiatives.

We also saw strong performance from the likes of Australian and U.S. technology ETFs, driven by the increase of digital adoption during the pandemic. The BetaShares S&P/ASX Australian Technology ETF (ASX: ATEC) and ETFS FANG+ ETF (ASX: FANG) were up 81.6% and 73% respectively over the last year.

Finally, we saw some active fund managers claw their way back from previous years of underperformance.

The K2 Australian Small Cap Fund (Hedge Fund) (ASX: KSM) was the second best performer this year (up 95%), but still significantly under-performed over the long term compared to a broad based index.

A noteworthy mention was active managers focused on sustainable investing like the eInvest Better Future Fund (Managed Fund) (ASX: IMPQ), which was up 70.9% for the year.

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3. The worst performers: inverse ETFs and currency ETFs

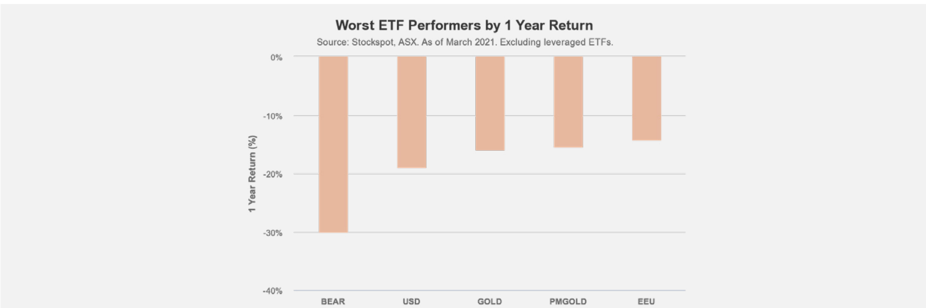
The worst ETF performers were specialised products rather than broad market ETFs. Volatile products with higher than average fees such as inverse ETFs and currency ETFs lost investors money, while some precious metal ETFs struggled.

The BetaShares Australian Equities Bear (Hedge Fund) (ASX: BEAR) was the worst performing ETF over the last year, down over 30%. It demonstrates how ETFs that are designed to do the opposite of the market can be risky trading tools.

We have excluded geared and leveraged funds from our chart below, but inverse funds that use leverage like the BetaShares Australian Strong Bear (Hedge Fund) (ASX: BBOZ) were down almost 60% over the year.

Since the lows of March 2020, the Australian dollar rose against global currencies, which led to currency ETFs (such as the U.S. dollar and Euro) delivering negative returns for investors.

After a strong previous couple of years, physical gold ETFs were in the bottom five this year. Both the ETFS Physical Gold (ASX: GOLD) and Perth Mint Gold (ASX: PMGOLD) were down over 15%.



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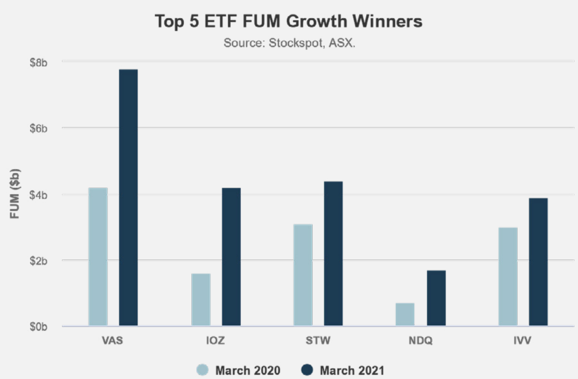
4. The most popular: broad based Australian and U.S. ETFs

The Vanguard Australian Shares Index (ASX: VAS) continues to be the most popular ETF for Australians in terms of size and flows. VAS increased its funds under management (FUM) by $3.6b and took in $1.9b of flows. Since 2014, we've recommended VAS to our clients for Australian share market exposure.

Other Australian share ETFs such as the iShares Core S&P/ASX 200 ETF (ASX: IOZ) were also popular, with the second highest FUM growth and flows. We also saw more Australians seeking international diversification through the U.S. markets with both the tech-heavy BetaShares NASDAQ 100 ETF (ASX: NDQ) and iShares S&P 500 ETF (ASX: IVV) coming in fourth and fifth place respectively for asset growth.



Note: The Magellan Global Fund - Open Class Units (Managed Fund) (ASX: MGOC) was excluded as it merged it's listed and unlisted managed fund to form a new ETF structure which has $13.6b in FUM. The Hyperion Global Growth Companies Fund (Managed Fund) (ASX: HYGG) was also excluded given it only launched in March 2021 with $1.1b in FUM.

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5. Rise of thematic ETFs, growing by over 400%

Thematic ETFs invest in particular market groupings or trends (e.g. renewable energy), targeting areas and sectors that their issuers believe have an opportunity for significant growth.

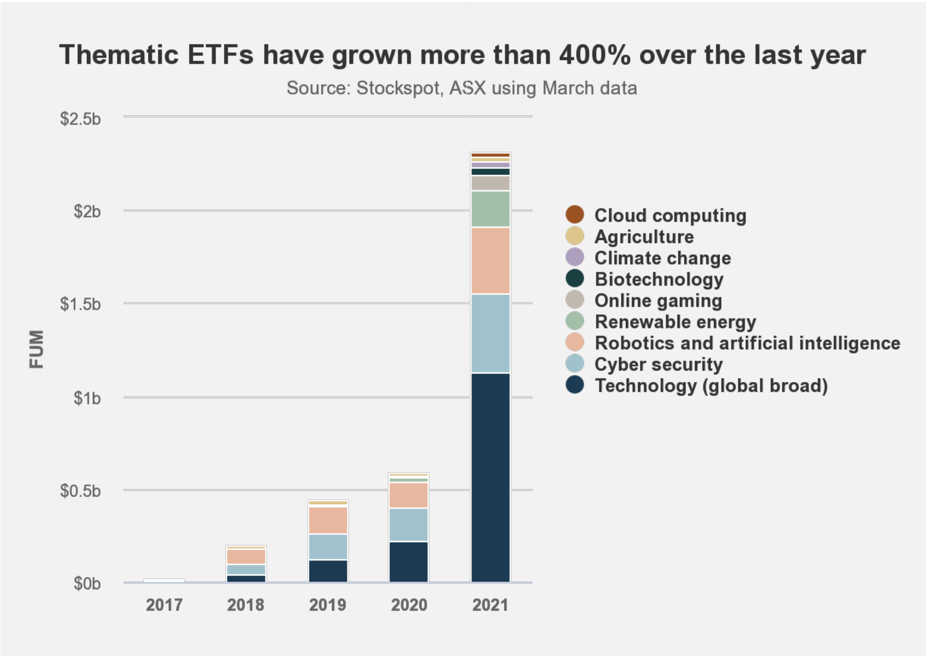
Thematic ETFs have rapidly increased in popularity, growing by 400% over the last year, with technology being a particular area of focus. Over the last 12 months we saw ETFs launched in areas such as cloud computing, video gaming and clean energy.

New thematic ETFs tend to follow themes that have performed well over the short term. That's because many ETF issuers try to ride the momentum of current trends. A large majority of investors gravitate towards these trends due to recency bias. ETF issuers generally won't launch a thematic ETF within an area that has not performed well because they won't attract investors.

Most 'hot' sectors of the market eventually lose their shine which is why investors in thematic ETFs need to be cautious. Despite this, we predict that thematic ETFs will overtake sector ETFs (which focus on broad industry groupings such as healthcare, property and financials) over the next couple years. Thematic ETFs currently make up 3% of the total market, but could overtake sector ETFs (7% of the market) as investors shift to products with concentrated exposure.

Investors are attracted to these innovative, well-marketed products, but niche products can have shorter life spans and may be terminated if they don't attract enough investor interest.

Thematic ETFs also charge higher fees, usually due to greater costs of construction. The average thematic ETF charges 0.59% per year in fees which is five times the cost of a broad based share ETF.



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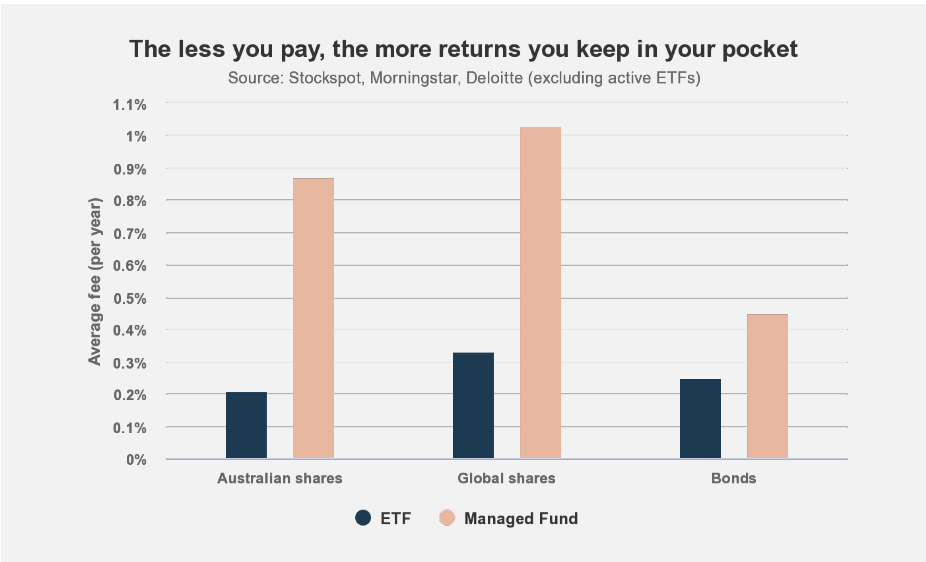
6. ETFs have saved Australian investors half a billion dollars in fees

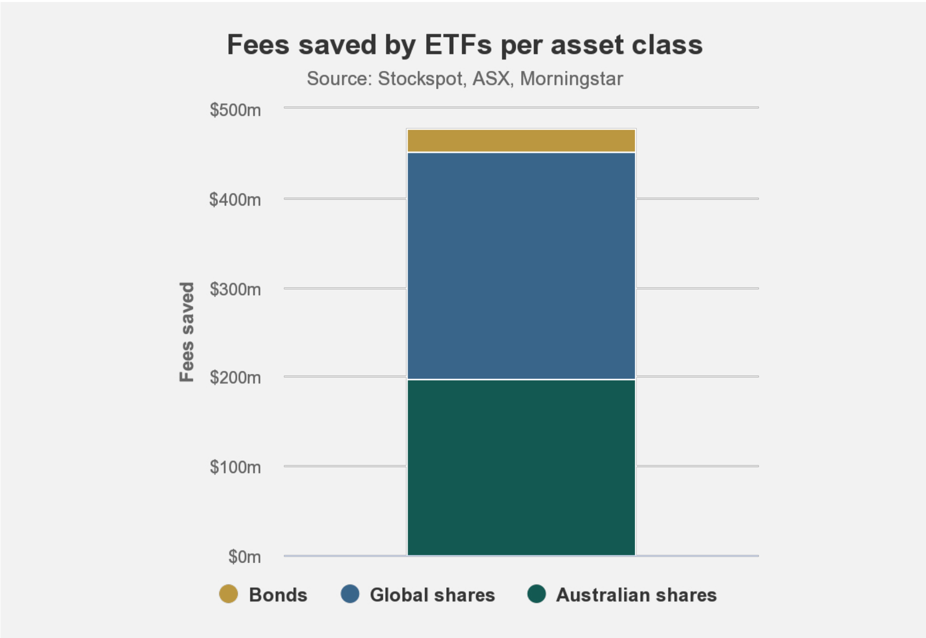
Despite the weighted average passive ETF fee slightly increasing to 0.28% per year, Australians have saved almost $500 million in fees per year compared to investing through expensive and underperforming actively managed funds.

The average share ETF is one quarter of the cost of a traditional managed fund.

While some actively managed funds charge over 1% in fees, over 80% of ETFs listed on the ASX charge less than 0.50%.

70% of investor money flowed into ETFs charging less than 0.50% in fees over the past year, indicating Australian investors are moving towards low-fee investing options.




Fees saved by ETFs per asset class
Source: Stockspot, ASX, Morningstar
Fees saved
$500m
$400m
$300m
$200m
$100m
$0m
Bonds
Global shares
Australian shares

7. Greenwashing: how sustainable is your sustainable ETF?

Sustainable ETFs grew by 125% over the past year, with the launch of five new sustainable products on the ASX, and BetaShares converting their diversified ETFs into sustainable solutions.

There is now $3.3 billion in sustainable ETFs on the ASX, which is 3% of the total Australian ETF market. We expect this figure to increase as more investors align their investing with their ethics and values.

Unfortunately, the rise of sustainable investing has also seen the rise of 'greenwashing', which is the practice of making a misleading claim about the sustainable benefits of a product.

Seventy-eight percent of sustainable investors prioritise environmental impact over social and governance factors[1], and opt for sustainable ETFs to reduce their overall carbon footprint and contribute to lower emissions.

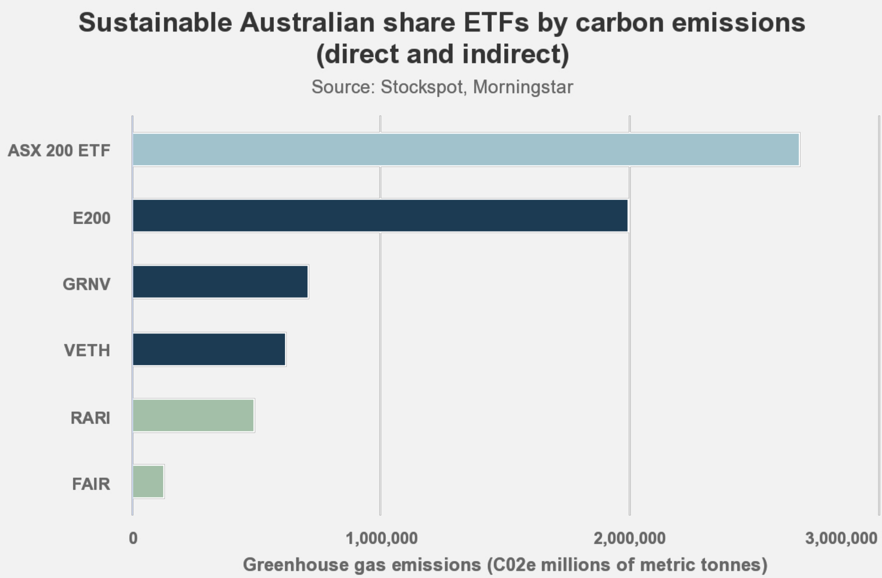
However, a deeper dive shows that only some of the ETFs available in Australia truly achieve their objectives. Because of this, it's important that investors examine the underlying holdings of their ETFs. There are no established standards of what 'sustainable' means, so investors need to decide on their own definition and make sure their chosen ETFs adhere to this criteria.

DID YOU KNOW...

Stockspot launched our Sustainable Portfolios in July 2020 to enable investors to invest in a way that prioritises companies who are creating a more sustainable future.

We went through the Australian ETF universe with a microscope to ensure the ETFs we chose had strong environmental, social and governance (ESG) screens and integration.

[1]Investment Trends and Australian Ethical Report (2021)



Direct Emissions (Scope 1) are sources owned or controlled by the company. Indirect Emissions (Scope 2) are generated by the production of energy used by the company. Graphs in green are the Stockspot chosen ETFs for our Sustainable Australian share exposure and socially responsible Australian shares theme. Graph in light blue is represented by the benchmark (an ETF tracking the S&P/ASX 200).

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The growth of sustainable ETFs in 2021 ›

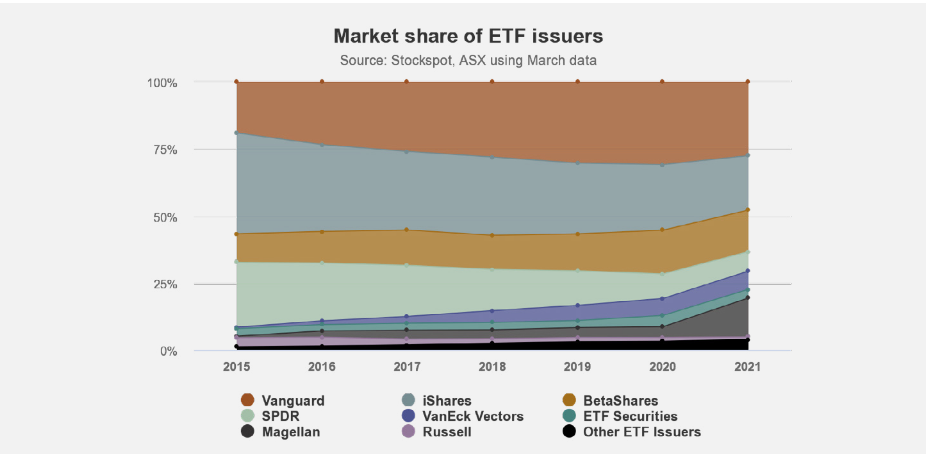
8. Fund managers are turning to ETFs

Vanguard continues to dominate the ETF issuer landscape in Australia, while BetaShares keeps increasing their presence at the expense of iShares and SPDR.

All ETF issuers have had their market share shrink by the Magellan restructure, which could see active ETFs become a trend in the next few years. It seems fund managers and Listed Investment Companies (LICs) are now turning to ETFs because of their transparency, tax advantages and liquidity. ASIC has also created a favourable environment for active managers including changing the disclosure requirements of portfolio holdings.

Magellan merged its original listed funds with its unlisted managed fund to form a new structure (ASX: MGOC) in November 2020. MGOC now trades as an exchange traded product wrapper, and manages $14.8 billion. Magellan's market share increased from 4% to 14% over the past year through this structural migration.

With other active fund managers such as Hyperion entering the ETF market in 2021, we will likely see the non-major ETF issuers try to grab a piece of the $100 billion ETF pie. These smaller ETF issuers may create their own ETFs, or may work with an existing ETF provider (similar to BetaShares who work with active managers such as Legg Mason).



However, investors need to be aware of the high fees that come with active ETFs. They should also keep an eye on average performance and the lack of transparency around their holdings. Additionally, when active ETFs struggle to perform or lose assets, there is risk of closure. Over the last 12 months, five active ETFs shut down (three from AMP Capital and two from Pinnacle) because of disappointing performance and high fees.

Over the last year, many of the well known active fund managers failed to outperform an index ETF. These results have been repeated over the long term, with active managers such as MGOC not delivering any outperformance over the last five years, and underperforming IOO (Stockspot's chosen global share ETF) by 16% over the last 12 months.

In the coming year, we believe consumers will continue to gravitate towards ETFs, which will likely attract more fund managers to incorporate an ETF-like structure in their strategies.

ASX CODE	FUND NAME	1 YEAR	3 YEARS (P.A.)	5 YEARS (P.A.)
MGOC	Magellan Global Fund (Managed Fund)	4.5%	13.0%	12.6%
IOO	iShares Global 100 ETF	20.4%	15.5%	15.5%
ETF outperformance		**+15.9%**	**+2.5%**	**+2.9%**

Data as of 31 March 2021. Source: Blackrock iShares, Magellan

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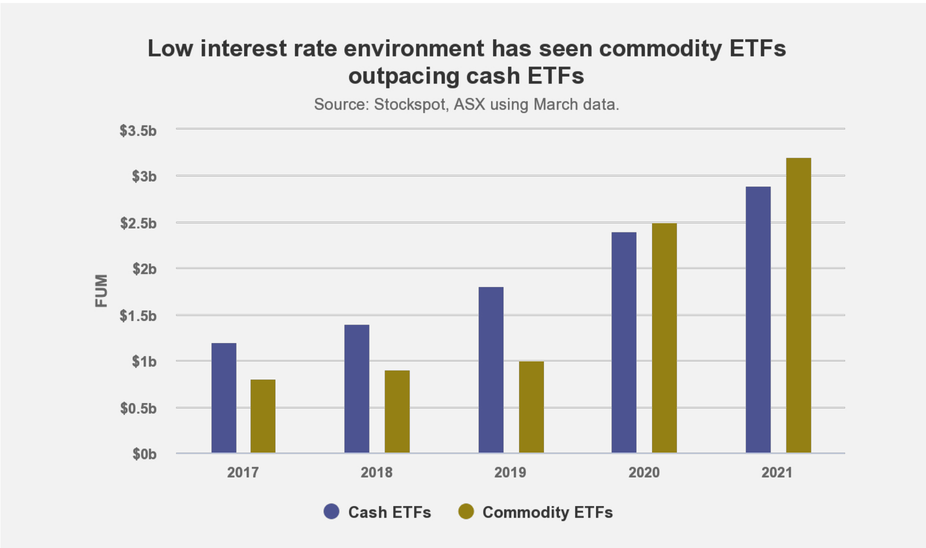
9. Cash ETFs slow down while commodity ETFs gain traction

Commodity ETFs (including gold, silver, platinum, palladium and oil) have grown 37% p.a. over the last five years, outpacing cash ETFs that are growing at 24% p.a.

Investors leaving money in savings accounts are currently earning minimal returns given the Reserve Bank of Australia (RBA) has set interest rates to a record low of 0.1%. This means many investors are looking for alternatives to cash so they can keep up with inflation.

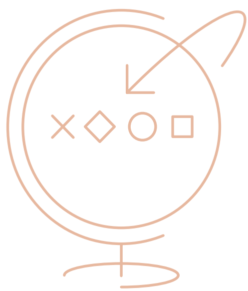


Commodity ETFs have been sought as an alternative to cash, but not all of these ETFs are physically backed and are instead created synthetically. These ETFs have experienced some problems due to the process of rolling futures contracts. An example is the BetaShares Crude Oil Index ETF - Currency Hedged (synthetic) (ASX: OOO), that changed the fund's investment strategy in response to the negative impact of COVID-19 on the oil price. Additionally, BetaShares shut down two synthetic commodity ETFs after these ETFs struggled to attract investors.

Our view is that physically backed commodity ETFs, such as the ETFS Physical Gold (ASX: GOLD) are better investments than synthetic commodity ETFs because they limit financial risk, minimise expenses, and investors retain full ownership of the underlying asset.

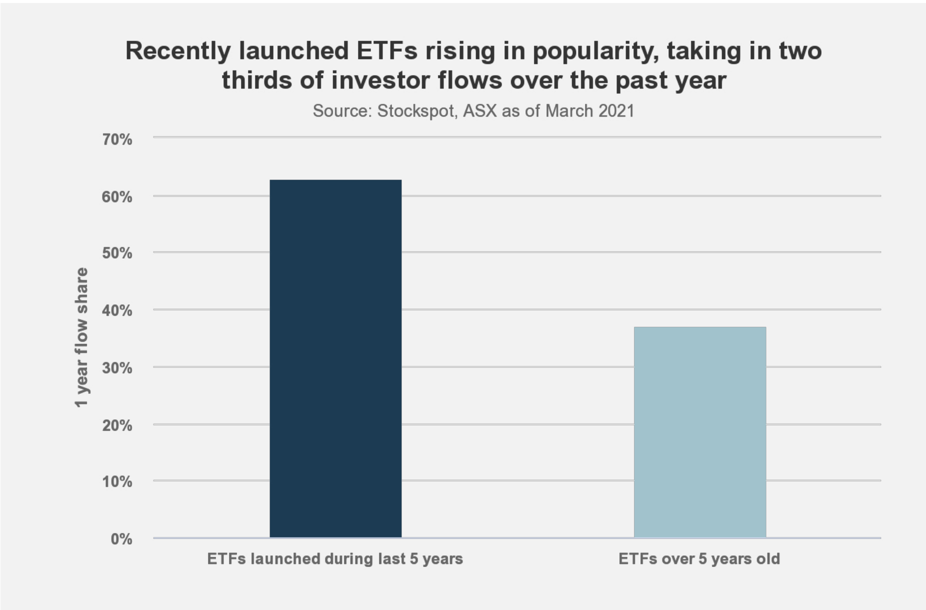
Investors were optimistic after the economic recovery, and this led to share ETFs performing well. On the flipside, the GOLD ETF lost its title as the most popular ETF from 2020. Despite this, we still believe that it is vital for clients to hold gold in their portfolio as it acts as protection against currency debasement and inflation.

While commodities like gold are not a direct substitute for cash, there's an increasing number of ETF investors looking at alternatives to cash. We may even see a cryptocurrency ETF like Bitcoin launch in Australia after the successful launches in Canada and Europe.



10. New ETFs: things to consider for investors

65% of ETF money in Australia is invested in ETFs that existed prior to 2016. However, investors seem to be favouring newly launched ETFs that were created in the past five years. 63% of ETF money has flowed into these products over the last year.



These are our top tips for investors who are considering new ETFs:

1. Go beyond the name and ASX code. Analyse the underlying holdings, exposure and allocation. Most ETFs track an underlying index, so investigate the index methodology to understand how the holdings are chosen. We found that ETFs with shorter names have better performance than those with long complicated names (shorter names generally reflect a simpler product).

2. Monitor the liquidity. Look at the daily volume traded and how liquid the underlying holdings are. Larger and more liquid markets generally have a lower bid/ask spread meaning less transactional costs.

3. Portfolio suitability. Assess how adding a new ETF to your existing portfolio will impact its risk profile, sector, geographic diversification, and cost.

4. Be cynical of ETF issuer marketing. ETF issuers market new products heavily, but it's important to analyse the time period referenced for returns, whether fees or tax are included, and how the new ETF compares with existing products available.

5. Patience is key. ETF issuers tend to launch new products when the underlying index has performed well and can paint a compelling narrative. Investors should wait and see how the ETF performs and see if the ETF builds up sufficient size and liquidity to reduce the risk of closure.

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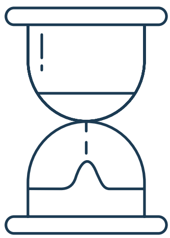
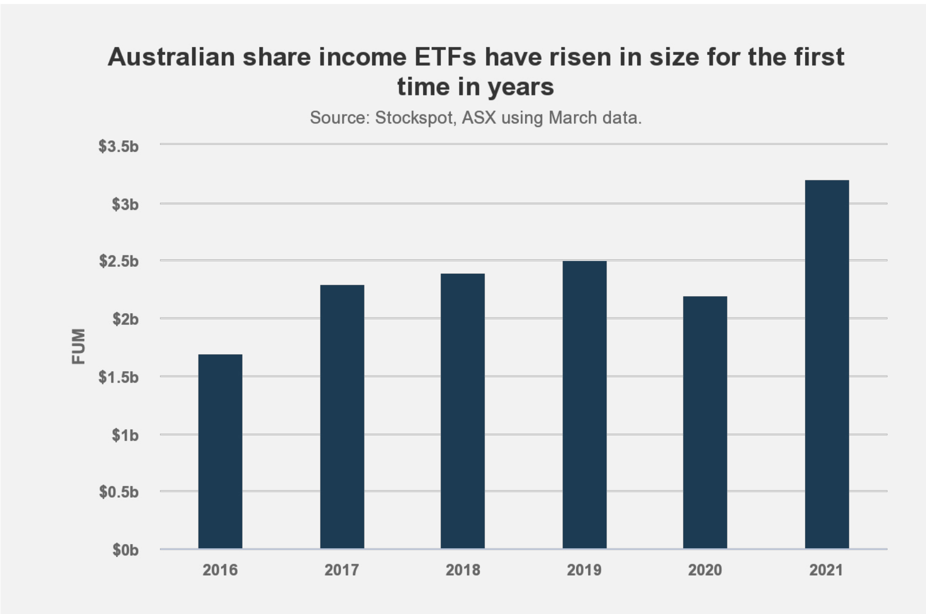


11. Income ETFs deliver results – but there are still traps

With interest rates at record lows, investors may be interested in investing with high dividend yields as the end goal. There are 12 income-focused Australian share ETFs on the ASX, half of them actively managed. We review these high dividend ETFs on a regular basis.

High yielding ETFs had remained relatively stagnant for the past five years, but have shot up by 42% growth in assets over the last 12 months.



Four income ETFs actually had investor outflows over the last year, signalling that investors may be hesitant to invest in income ETFs because of poor long term historical returns. More recently, the average passive income focused Australian share ETF had more positive results and was up an average of 40% over the last year.

A TOTAL RETURNS APPROACH

Investors can achieve an income focused strategy by adopting a total return approach to their portfolio. Often an ETF with a high dividend yield may have lower capital returns. An example of this is the actively managed BetaShares Australian Dividend Harvester Fund (managed fund) (ASX: HVST) which has an attractive dividend of 9.2% p.a, but has lost -8.5% p.a. in capital value over five years, meaning the total return is a only 0.7% p.a. This is why complex ETFs can cause investors a lot of disappointment.

Alternatively, the Vanguard Australian Shares High Yield ETF (ASX: VHY), which is offered to clients in our Stockspot Themes, returned 9.0% total return (6.5% dividend and 2.5% capital) over the last five years.

ASX CODE	FUND NAME	5 YEAR DIVIDEND RETURN P.A.	5 YEAR CAPITAL RETURN P.A.	5 YEAR TOTAL RETURN P.A.
VHY	Vanguard Australian Shares High Yield ETF	6.5%	2.5%	9.0%
VAS	Vanguard Australian Shares Index ETF	4.1%	6.2%	10.3%
HVST	BetaShares Australian Dividend Harvester Fund (Managed Fund)	9.2%	-8.5%	0.7%

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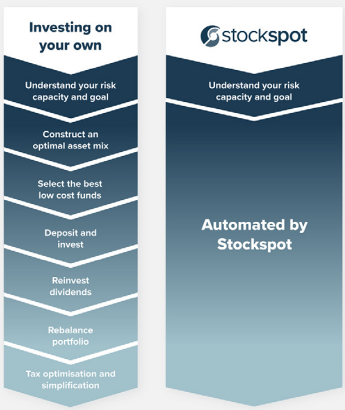
Four reasons why Australians are automating their ETF investing

In the USA, 23% of investors use an automated investment advisor (also called a robo advisor). Australia lags behind, with 7% of investors using an automated platform[2] – but the market is set to grow. Deloitte predicts that the automated investment/robo advice market will be $16 trillion by 2025, up from $3.7 trillion today[3]. We outline the reasons why.

1. SELECTION OF THE BEST ETFS FOR YOUR PORTFOLIO

Building your own diversified investment portfolio isn't easy. You need to research the best ETFs across different regions and across different asset classes, and that takes time. It's also hard to know when different assets will perform well or badly. The best strategy is to have an allocation to different assets that counterbalance each-other (one goes up, while another goes down). This gives you the best chance of overall success.

A platform like Stockspot will build a personalised, diversified portfolio for you instantly – and you don't need hundreds of thousands to start.



[2]Investment Trends (2020) | [3]Deloitte - The Expansion of Robo-Advisory in Wealth Management

2. AUTOMATED PORTFOLIO REBALANCING

Portfolio rebalancing involves selling investments that have grown faster than others in your portfolio and buying more of the investments that have lagged behind. It sounds counterintuitive, but helps you to buy investments when they're low and sell when they're high. This ensures that you're not taking more or less risk than you should.

Rebalancing involves a lot of manual work, which is why automation is crucial. By rebalancing in March 2020 and in November 2020, Stockspot has added around 0.9% to 1.7% to the Stockspot Model Portfolios 2020 calendar year returns.

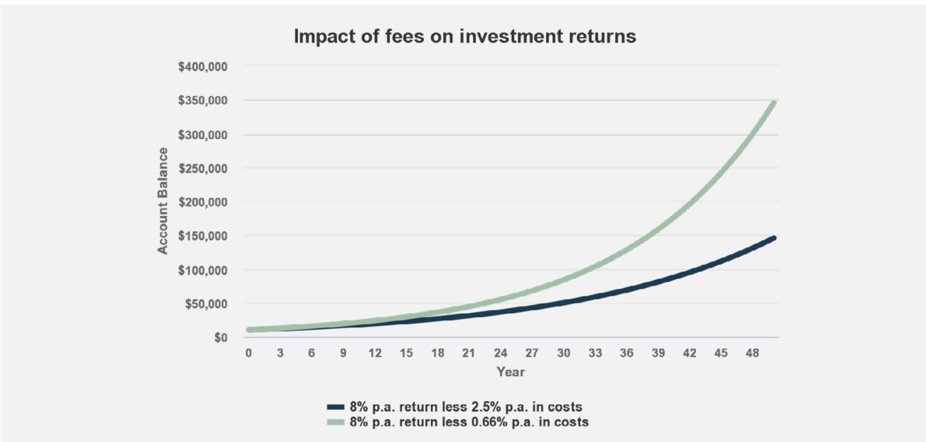
3. SAVES COST

Fees can be a huge drag on your overall returns. The trick to getting ahead is to leverage technology driven platforms, so you can avoid costs like brokerage and traditional advisor fees. Investing is one of the few areas in life where the less you pay, the more you get.

4. KEEPING YOU ON TRACK

Managing your own ETF portfolio is like going to the gym on your own. You may skip the gym on a rainy day, or just copy what others are doing. An automated investment advisor is like a financial personal trainer who'll keep you accountable to your investment goals.

A U.S. investment research firm analysing individual investor behaviour for more than 20 years, found the average investor loses approximately 2-3% per year from common behavioural mistakes[4]. One of the benefits of using a robo advisor is that you won't make common errors – you let algorithms precisely manage reinvesting dividends and rebalancing.



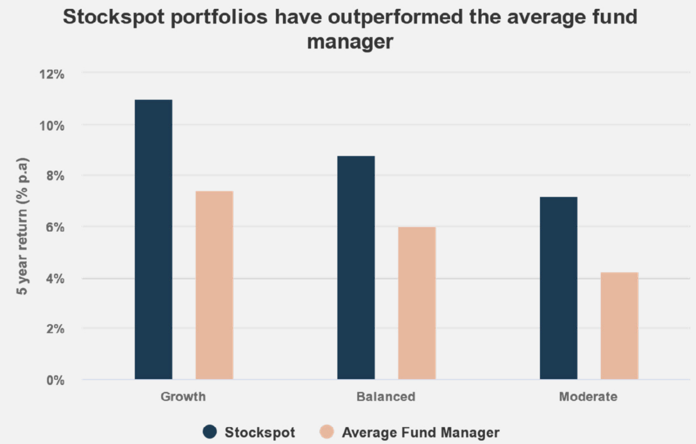
[4]DALBAR's Quantitative Analysis of Investor Behavior 2020

Looking to automate your investment in ETFs?

Stockspot is Australia's largest automated investment advisor (robo advisor). We specialise in ETFs, with over $400m of client money under management. We can help set up and manage an ETF portfolio tailored to your goals. There's no paperwork and no need to be an expert. It's ETF investing on autopilot.

1. HIGH PERFORMANCE

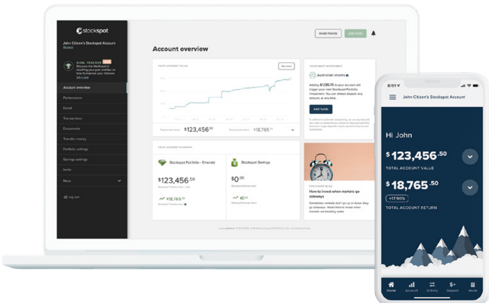
During COVID-19 pandemic, the Stockspot portfolios cushioned client money against the market downturn. We've also beaten over 98% of similar funds over the five years to 31 March 2021, thanks to broad diversification across different asset classes, smart rebalancing, and superior ETF selection.



Source: Stockspot, Morningstar website comparison group of investment funds across growth, balanced and moderate multi-sector categories to 31 March 2021. Stockspot Amethyst, Turquoise and Topaz portfolios used for comparison.

2. PERSONALISED DASHBOARD AND APP

You get a personalised dashboard where you can see all of your investments, and make deposits or withdrawals whenever you need. You can also keep track of your investing goals.



3. AUSTRALIA'S LEADING AUTOMATED INVESTMENT ADVISOR

Since 2013, Stockspot has helped over 10,000 of Australians grow their wealth, and we actively campaign to increase transparency in the financial industry for consumers. We make investing easy and affordable, and we've saved clients over $13.5 million in fees compared to using a traditional advisor and actively managed funds.

This year, we're celebrating our 7th birthday. We've had seven years of positive returns and we've attracted a diverse group of clients.

Whether you're growing your wealth, saving for a home, a family, or retirement – we help you do it with the right investment portfolio and guidance.

FinTech Awards 2020 – Winner, Best FinTech Wealth Management Platform

Finnies 2020, 2021 – Finalist, Excellence in Wealth Management

Finnies 2020 – Finalist, FinTech Organisation of the Year

Finder Awards 2020 – Finalist, Best Investment Innovation

"Having other investments with ETF based portfolios, I can confidently say that **the Stockspot platform is the easiest, most transparent and most informative that I've experienced**, and really reduces any barriers to investment that might have traditionally existed."

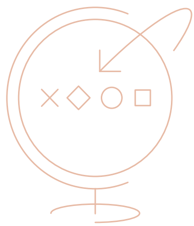
– ANDREW, QLD
STOCKSPOT CLIENT

"We have increased our investment with them each year, because of the financial gains we've made. We also have investments in other funds, but **our investments in Stockspot give a much better return**. Stockspot is led by Chris Brycki and his experience gives us security in investing with Stockspot."

– BOB AND VICKI, NSW
STOCKSPOT CLIENTS SINCE 2017

"I started with Stockspot over 2 years ago. With having little knowledge on how to invest, Stockspot were able to help in a simple, no fuss professional manner. **Excellent customer service always with low fees and good returns**."

– BELINDA, VIC
STOCKSPOT CLIENT SINCE 2019



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Our expert team of investment advisors are available to help when you need it.

Visit our website to schedule a call

www.stockspot.com.au

Email us with any questions

enquiries@stockspot.com.au

Call us to chat with one of our team

(02) 8091 8090

Monday - Friday, 9am - 5pm AEST

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