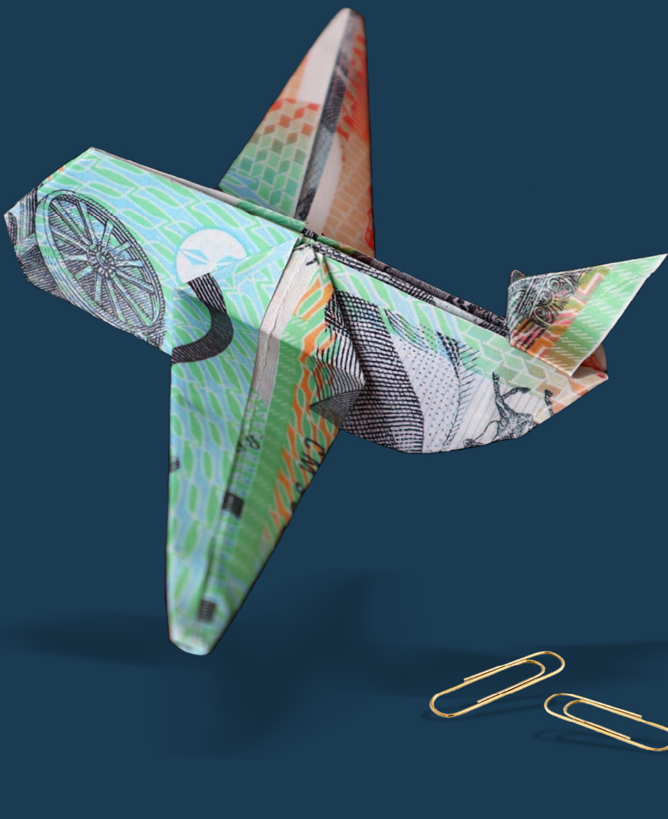
2020 Stockspot ETF Report



Welcome

Welcome to our 2020 ETF Report.

Stockspot has been researching ETFs and managing diversified ETF portfolios for clients since 2014. We've been advocating for more investors to use ETFs in their portfolios because of the benefits they offer – 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 market volatility in the first quarter of 2020, ETFs continued to enjoy inflows and superior performance to the majority of active alternatives.

The Stockspot portfolios which include a range of broad market ETFs outperformed over 99% of similar funds over 12 months. This has helped put to rest some common myths about ETFs.

This year the ETF market in Australia grew by 24% from $45.8 billion to $56.9 billion. Since 2015, the ETF market has tripled. Over the last year, we saw 23 new ETF products being launched taking the total number of ETFs in Australia to 212.

We've analysed over 200 ETFs by looking at factors like fees, performance, size and activity. We also look at recent ETF market trends including flows, which ETFs were the best performers, and the growth in certain ETF sub-sectors such as sustainable ETFs.

Looking ahead, we expect ETFs to continue their rapid ascent in Australia and reach $100b by 2022 driven by the combination of factors including

1. Australians having an increased focus on fees and transparency of their investments;
2. A move out of underperforming active fund managers;
3. Regulatory change pushing advisers to act in the best interest of their clients;
4. Product innovation; and
5. Increased financial awareness of the benefits of diversification.

We hope you find the report useful and please let us know your feedback.

Chris Brycki
Founder and CEO

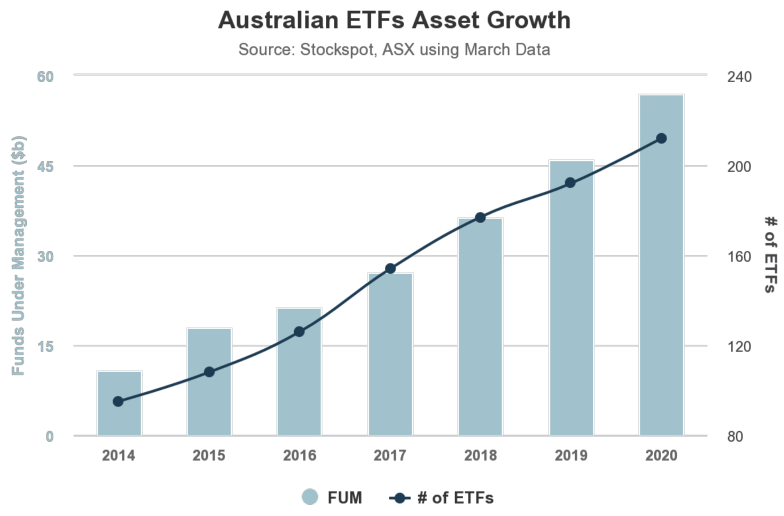
Marc Jocum
Investment Associate

Contents

REPORTS

#1 On the way to $100b

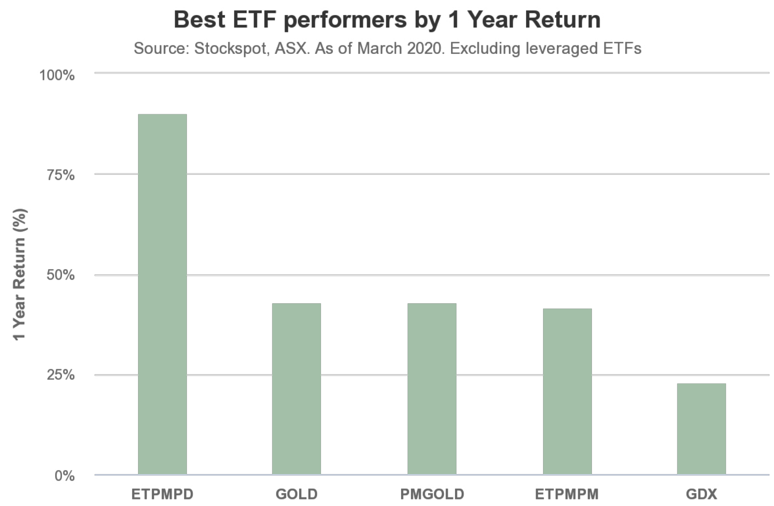
ETF funds under management (FUM) grew 24% over the past year to $56.9b. The growth was driven by strong inflows despite the March 2020 share market correction. Investors continue to move into passive (index) funds over active managers in the wake of growing evidence that active managers underperform their benchmarks across most asset classes. There are now 212 ETFs after the launch of 23 new ETFs over the last year, mainly focused on global share markets.



#2 Palladium takes out number 1 spot for a 2nd year in a row!

After returning 52.4% in our 2019 ETF Report, the metal has returned 90.2% over the last year. Over the last 5 years the total return of the fund has been a staggering 363%.

The strong growth in the metal has come from consistent demand increases for carbon efficient automatible use (such as electric vehicles) particularly in China, and tighter supply constraints including large producers halting productions in response to COVID-19.



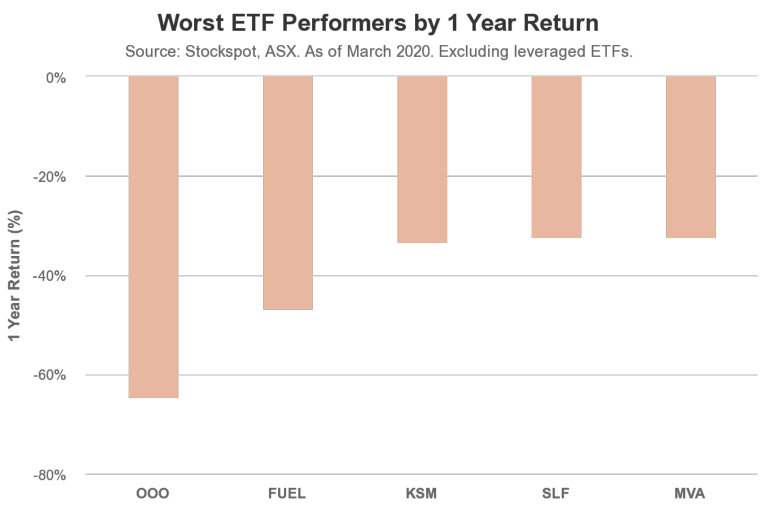
LEARN MORE

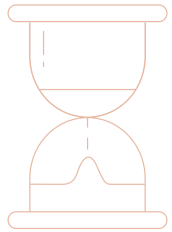
Most popular ETFs of 2020

#3 Active ETFs, oil, energy and property perform worst

The worst ETF performers were from niche products and particular market sectors rather than major share markets or asset classes. Active ETFs continued to be amongst the worst performers. The average performance over the last 12 months of a non-active ETF was -2.6% vs active of -6.6%.

ETFs that aimed to track the oil price or companies exposed to the energy industry were hit hard over the last year, as oil prices plummeted on the back of a global demand glut and supply constraints. The Betashares Crude Oil Index ETF-Currency Hedged (Synthetic) (OOO) was down almost 65%. The





BetaShares Global Energy Companies ETF - Currency Hedged (FUEL) lost 47%.

K2 once again proved to be one of the worst performers with the K2 Australian Small Cap Fund (KSM) strategy returning -33.4%. This is the 2nd year in a row they make the bottom 5.

Over the past year KSM underperformed a broad based index like the Vanguard Australian Shares Index ETF (VAS) by 20%. Considering K2 had on average 30% of its portfolio in cash over the past year, investors should consider why they are paying K2 fees of over 2% p.a.

Property ETFs were hit hard this year as shopping centres and commercial property faced mounting challenges in light of the uncertain economic impact of COVID-19 including lack of retail spending and landlords waiving rents. The SPDR S&P/ASX 200 Listed Property Fund (SLF) and VanEck Vectors Australian Property ETF (MVA) were down over 32% for the year.

LEARN MORE

Worst performing ETFs of 2020

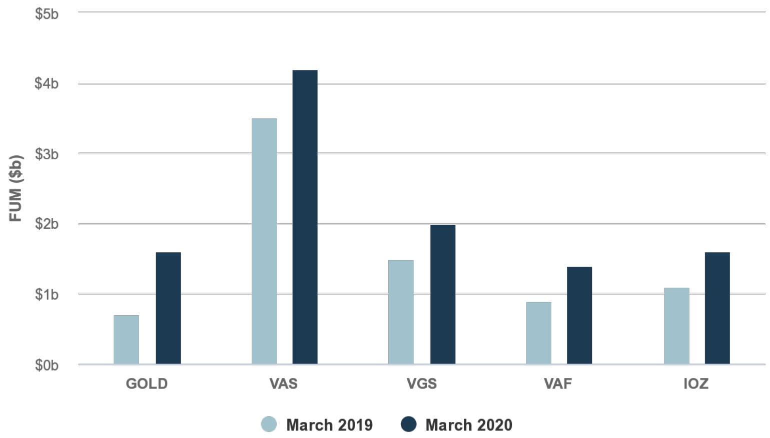
#4 Gold becomes the most loved asset

There is now $2.3b in physical gold ETFs listed on the ASX, which is more than double the 2019 figure ($906m). The ETFS Physical Gold (GOLD) assets grew by almost $1b over the past 12 months on the back of strong performance (up 43% for the year) and $629m of new money from investors into the ETF. Gold is a key store of value playing an important role in any investment portfolio.

Gold offers diversification benefits, especially when share markets fall or during periods of economic uncertainty. Gold is an important diversifier in the Stockspot portfolios and we are proud to be the only online investment advisor to hold gold.

Top 5 ETF FUM Growth Winners

Source: Stockspot, ASX. As of March 2020.



LEARN MORE

Most popular ETFs of 2020

YOU MIGHT ALSO BE INTERESTED IN

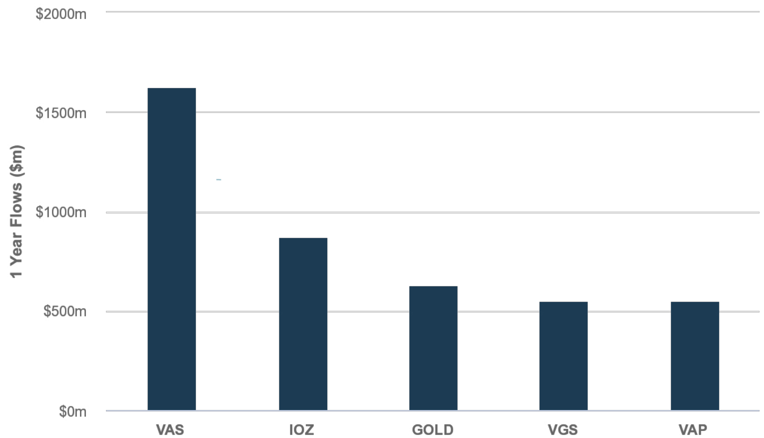
Seven myths about ETFs

#5 Broad market ETFs take the majority of new inflows

The Vanguard Australian Shares Index ETF (VAS) continued to attract investor flows and retained its crown as the largest ETF with $1.6b in net flows and increasing its FUM by $741m (a 21% increase). VAS now manages $4.2b of Australian's ETF money. Since 2014 it has been the ETF we recommend to our clients for Australian share market exposure.

Top 5 Flows Winners

Source: Stockspot, ASX. As of March 2020.



LEARN MORE

Most popular ETFs of 2020

#6 Passive ETFs continue to outperform Active ETFs

Over the last year the average Australian shares (broad market) ETFs returned -12.9% outperforming the average Australian shares (active) ETF which returned -16.6%. This continues a trend that has been apparent for many years.

Active managers often justify their high fees by saying that they can protect investors during market corrections. Morningstar data shows that it's a flip of a coin whether active managers beat the market index during down markets. 48% of active managers were beaten by the market index during the March 2020 sell off.

LEARN MORE
Best ETFs to buy and hold

YOU MIGHT ALSO BE INTERESTED IN
We compare LICs vs ETFs

#7 Sustainable ETFs growing at triple the rate of other ETFs

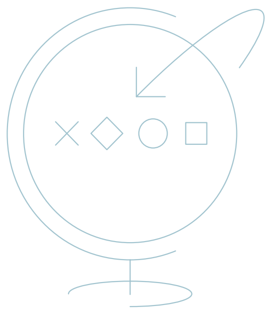
Sustainable ETFs increased 73% over the last year as investors continue to migrate into strategies that are aimed at investing in an ethical and sustainable way. These investments have been growing at 79% p.a. over the last 5 years (compared to 26% p.a. for other ETFs). Sustainable ETFs have also been able to deliver good returns amid market turbulence, particularly for global strategies. The average global sustainable ETF returned 8.2% vs avg broad based global ETF of 2.2% thanks to a higher weighting towards healthcare shares and a lower (or zero) allocation to energy shares.

LEARN MORE
The growth of sustainable ETFs in 2020

YOU MIGHT ALSO BE INTERESTED IN
Are ethical ETFs really that ethical?

#8 Investors turn to ETFs during volatile markets

ETFs have become a saving grace during economic downturns like COVID-19. ETF trading volume in March 2020 grew to $17.8b setting an all time record month of trading that is almost triple the previous monthly record. There were almost 800,000 ETF trades in March 2020, 8 times the historical 5 year average of 110,000 per month. The liquidity and transparency of ETFs have allowed investors to express their investment views, while also being a valuable tool to provide real time pricing when markets are volatile. During the market sell-off there was consistent inflows into ETFs both in Australia and other parts of the world, whereas actively managed funds experienced significant outflows.



LEARN MORE
Best ETFs for volatile markets

#9 Happy 30th birthday to ETFs!

The world's first ETF was created in March 1990 in Canada. ETFs around the world now manage USD $5.4T in over 7000 products (source: ETFGI). Australia is still small at 0.6% of the total ETF market. ETFs have democratised investing, allowing anyone to access investments previously available to sophisticated investors in a flexible, low cost and easy to access way.

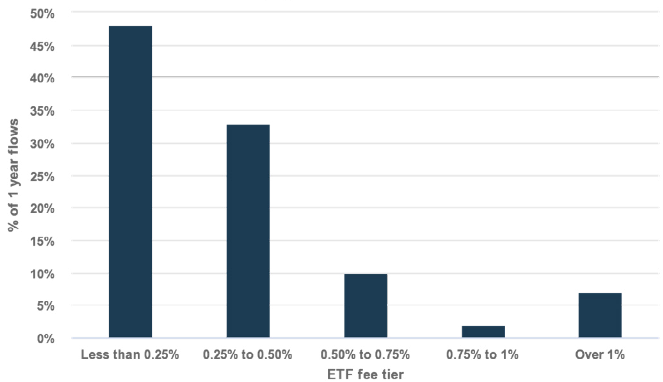
#10 Fee wars persist as competitive pressures mount

Three of the major issuers reduced their fees for their Australian share ETFs over the last year. Following the launch of BetaShares Australia 200 ETF (A200) in mid 2018 that charges a small 0.07% fee, Vanguard, Blackrock and State Street cut their fees to ensure they remain competitive. These fee cuts were warranted given the data shows ETFs charging the lowest fees are attracting the greatest sum of money.

Almost half of investors' money (48%) is flowing into funds charging less than 0.25% in fees. In 2015, 33% of the money in ETFs were in products charging less than 0.25%, now in 2020 it's 51%. The average ETF fee is 0.49% and average weighted fee is 0.34%. Despite the fee reduction, ETF issuers raked in almost $200m in ETF fees.

Money has been flowing into the lower cost ETFs

Source: Stockspot, ASX. Data as of 31 March 2020



LEARN MORE

How the ETFs issuers have performed

YOU MIGHT ALSO BE INTERESTED IN

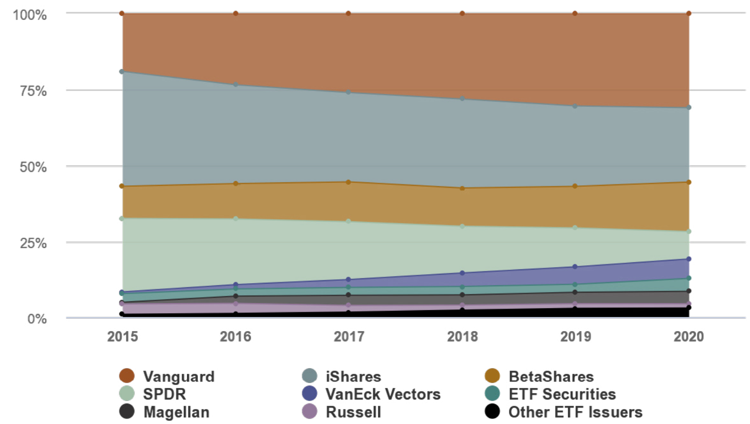
Should I buy hedged or unhedged ETFs

#11 The big 3 in Australia continue to dominate

BetaShares increased their market share by 3% to now account for 16% of all ETFs in Australia (~$9.3b in assets). Vanguard and iShares hold the number 1 and 2 spots with 31% and 24% market share respectively. VanEck and ETF Securities are hot on the heels of SPDR for the number 4 spot. 75% of new money is going into the big 3 providers. Vanguard is still taking 38% of all new money into their ETF suite after taking in $6b over the last year.

Market share of ETF issuers

Source: Stockspot, ASX using March data



LEARN MORE

How the ETFs issuers have performed

#12 Best performers can turn into worst performers

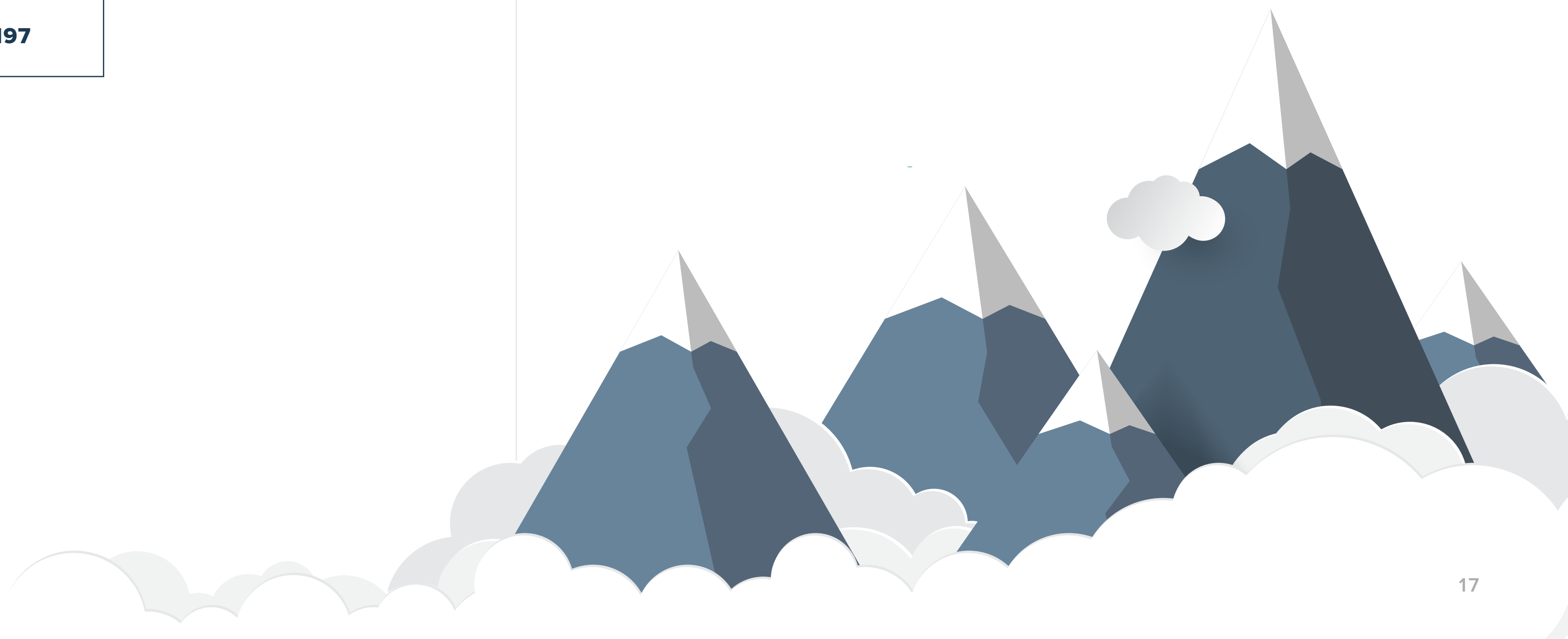
Australian listed property was one of the best performers in 2019 with the average property ETF up 29%. Fast forward 1 year, and this was the hardest hit sector being one of the worst performers with the average property ETF down 32%. It's fall from grace into the bottom performers demonstrates the unpredictability and perils of chasing last year's winners.

It's one reason we advise clients to own a diversified portfolio, and rebalance occasionally. Despite the market turmoil, the Stockspot ETF portfolios outperformed 99% of similar funds over the year.

	MARCH '19 RANK	MARCH '20 RANK	CHANGE
VAP	5th best	202nd best	**-197**

LEARN MORE

What are the best high dividend ETFs



Four reasons why Australians are investing ETFs with a robo advisor

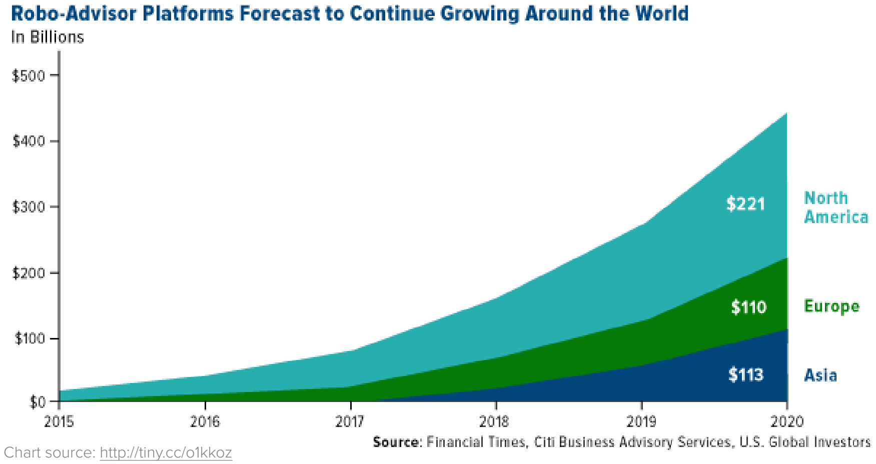


Chart source: http://tiny.cc/o1kkoz

DID YOU KNOW...

Robo advice has grown by **more than 1,000%** globally over the past 5 years as a way to access a professionally managed portfolio of ETFs. It is one of the fastest growing areas of asset management globally as more people manage their investments with the assistance of digital tools. There is over $400 billion invested in robo advice. Stockspot was Australia's first robo adviser, having launched in 2014.

Four reasons more people are using robo advice...

1. DIVERSIFICATION

Building your own diversified investment portfolio takes a lot of time and effort to research the best ETFs across different regions and across different asset classes. A robo adviser will build a personalised, diversified portfolio for you instantly – and you don't need hundreds of thousands to start.

Robo adviser portfolios aim to minimise risk while maximising returns through diversification. Nobel Prize winning research has shown that spreading your money across different assets is the most reliable way to grow your wealth in good times and bad.

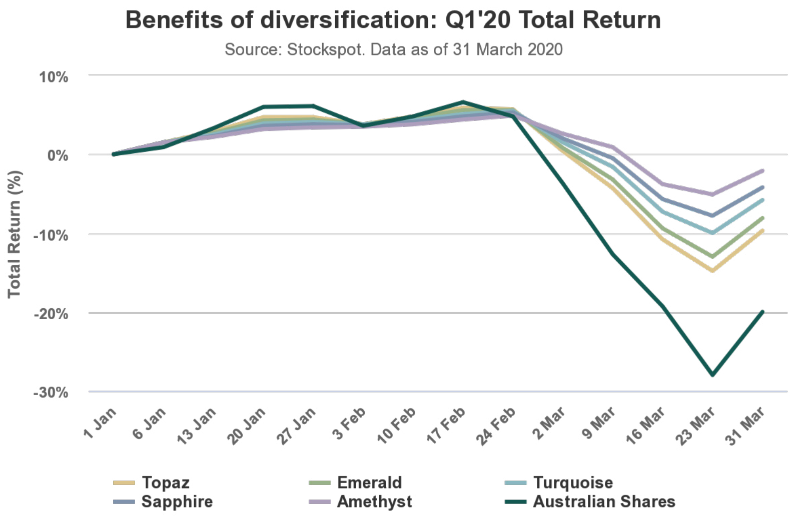
DID YOU KNOW?

A robo adviser can protect your investments from **50-80% of share market falls**.

2. SAVES COSTS

Fees can be the biggest drag on your portfolio's return. So the trick to getting ahead is to leverage a robo advisor so you can avoid costs like brokerage and traditional adviser fees. Investing is one of the few areas in life where the less you pay, the more you get.

→



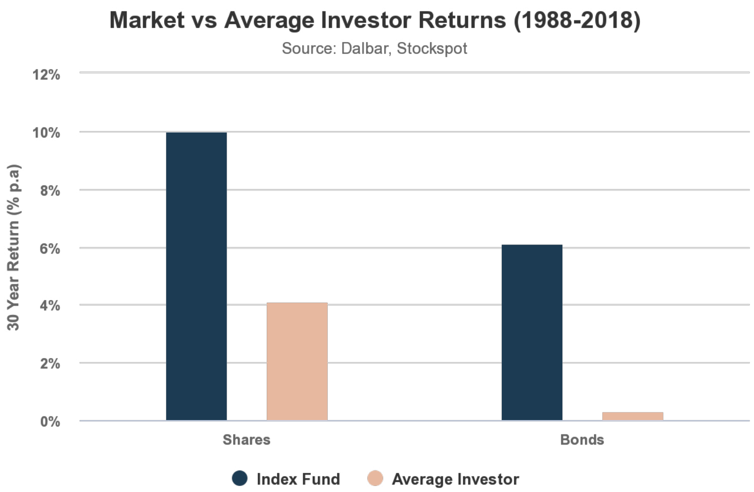
3. EASY TO USE

All you need to do is answer a few quick questions about yourself, your age, your approach to risk and need for regular cashflow. Using that information the robo adviser will recommend a strategy with the right mix of growth and defensive assets to match your personal situation and goals. A good robo adviser will continually research and review the best investments for your portfolio, automatically reinvest your dividends and precisely rebalance your portfolio as markets change. It's much better to automate these processes than rely on a human adviser who is prone to herd mentality & emotions when markets are high or low.

4. ALGORITHMS ARE OFTEN BETTER AT DECISION MAKING

In practice most of us make common costly behavioural mistakes when we have to make lots of investment decisions.

A US investment research firm analysing individual investor behaviour for more than 20 years compared this to just matching the index (via an ETF), consistently found the average investor loses approximately 4% per year from these common behavioural mistakes. One of the benefits of using a robo adviser is that you won't be making these common errors – you let the algorithms precisely manage reinvesting dividends and re-balancing.



Looking for a simple and personalised way to invest in ETFs?

Stockspot is Australia's largest online investment adviser (robo adviser) specialising in ETFs. We can help set up and manage an ETF portfolio tailored for your goals. There's no paperwork and no need to be an expert. It's ETF investing on autopilot.

1. PERFORMANCE

In 2019 when share markets were rallying, the Stockspot portfolios returned 13.9% to 19.9%. Then when markets turned down in the first quarter of 2020, the portfolios protected clients against 50% to 80% of the share market falls. The Stockspot portfolio has beaten 99% of similar funds over the 12 months to 31 March 2020 thanks to their broad diversification across different countries, sectors of the economy and assets.

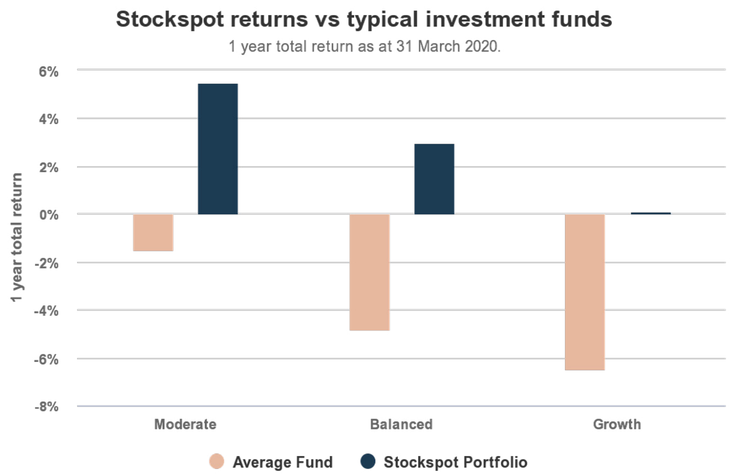


Chart source: https://blog.stockspot.com.au/performance-march-2020/

2. PERSONALISED DASHBOARD AND APP

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

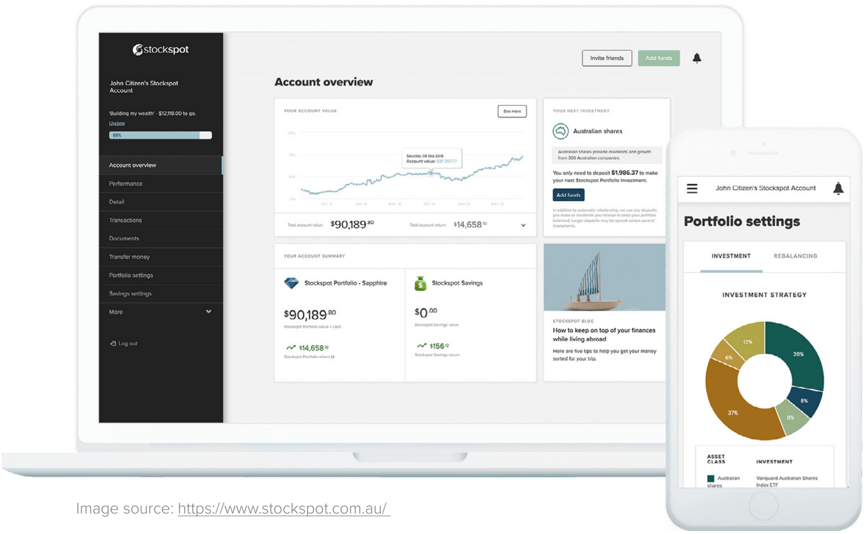


Image source: https://www.stockspot.com.au/

3. AUSTRALIA'S LEADING ROBO ADVISOR

Founder Chris Brycki started Stockspot to help Australians invest better and achieve financial freedom. As a professional fund manager he saw too many people getting ripped off by bad investment advice and high fees. Chris left his career to build Australia's first personalised online investing platform. Chris was voted in the Top 35 Influencers of Financial Planning by Adviser Ratings. Chris is a member of the ASIC Financial Advisers Consultative Panel and ASIC Digital Finance Advisory Panel.

Today, Stockspot has a team of qualified professionals who help guide thousands of clients to build wealth with a proven investment strategy. Stockspot was selected in the 50 Best Financial Technology (Fintech) Innovators globally by KPMG and named Asia's most innovative new financial technology business.

Clients can access Stockspot's advisers by phone, email or online chat whenever they need.

4. TRUSTED BY THOUSANDS OF AUSTRALIANS.

In our most recent client survey, 90% of our clients said they were satisfied or very satisfied with our service. Here's what some clients had to say about us:

> "Love how easy Stockspot is to use, the team is always ready to help answer any questions and the dashboard shows me exactly how my money is being invested in a simple format."
> – MELISSA

> "They are genuinely sincere people who want to help their clients invest safely. I started investing with Stockspot in 2015 and introduced them to a friend in Melbourne who is also very happy."
> – SAM

> "Stockspot represents, in my view, a really simple strategy of diversity and risk management coupled with technology to motivate and inform investors that really allows those of us unable to invest the time in stock research to achieve confident, diversified investment results."
> – ANDREW

Learn more

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

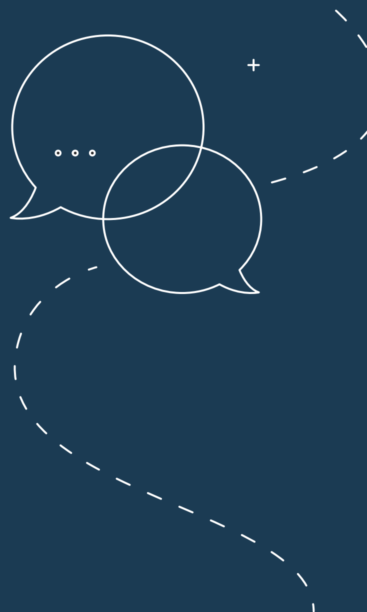
Email us with any questions

enquiries@stockspot.com.au

Call us to chat with one of our team

(02) 8091 8090

Monday - Friday, 9am - 5pm AEST



stockspot