

ETF quarterly report

June quarter 2022



In this edition



The Australian ETF market attracted \$3.1 billion in new investments during Q2.



Vanguard attracted the highest cash flow among issuers in Q2 with \$2.09 billion.



Market volatility saw the Australian ETF industry drop in assets under management.



Vanguard maintained its position as the largest Australian ETF issuer by assets under management with \$36.58 billion (30.7%).

Quarter in review

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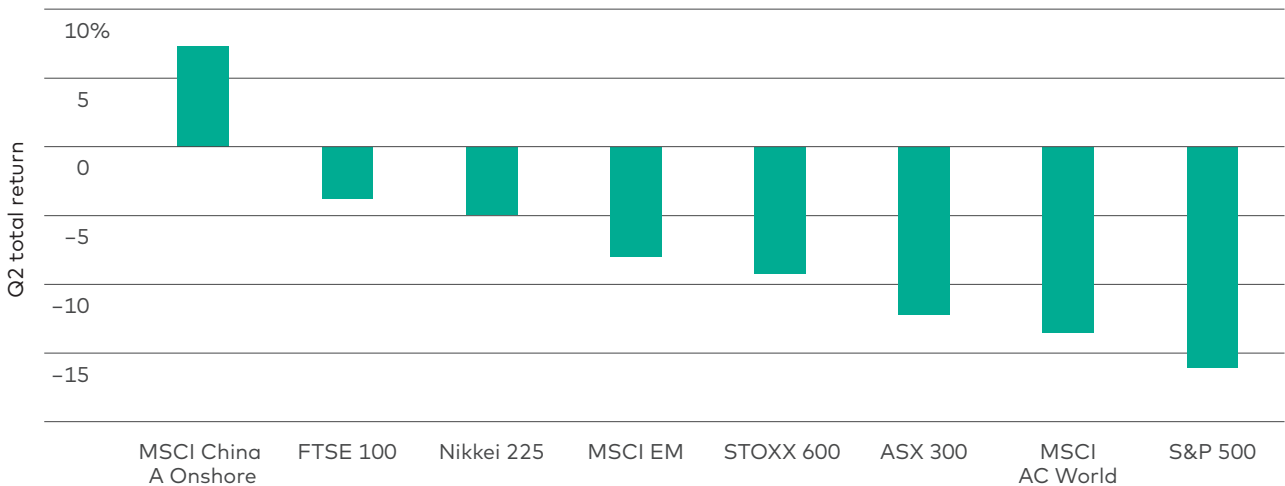
Investors navigated yet another volatile quarter as a deteriorating economic outlook saw risk appetite take a downward turn. Inflation remained a key focus as central banks aggressively hiked rates in efforts to contain it. Equity and bond markets continued to sell off as recession risks emerged, with global equities returning their first negative financial year in a decade (as measured by the MSCI World Index AUD).

Equities were once again led lower by tech stocks and other interest rate-sensitive sectors, while concerns over corporate earnings and slowing economic growth weighed on the broader market. Global equities fell 14% over the quarter, with Australian equities following developed market peers down by 12% (see chart below). European markets remained

concerned over energy supply disruptions and elevated inflation, while China's easing of COVID lockdowns spurred a rebound in Chinese markets from the first quarter's woes. A weaker Australian dollar provided some respite from declines in global equities, dampening losses to 8% for AUD investors.

Bond markets continued to endure the near-term pain of tightening monetary policy as central banks persisted with hiking interest rates. Yields trended upwards as markets weighed the prospects of increasingly hawkish policy against a picture of slowing growth and recession fears. Global bonds fell a further 4.7% and Australian bonds fell 3.8% over the last quarter as yields on U.S. and Australian 10-year government bonds rose by 66 basis points (0.66%) and 83 basis points (0.83%) respectively.

Figure 1. Global equities broadly declined



Notes: Returns are cumulative total returns in local currency.

Source: FactSet, as of 30 June 2022.

Australian ETF update

ETF FACT

\$2.09b

Vanguard attracted the highest cash flow in Q2 2022.

Cash flow

Q2 saw \$3.1 billion flow into ETFs down from \$4.68 billion in Q1. Across all issuers, Vanguard had the strongest Q2 cashflow, bringing in \$4.26 billion since the beginning of 2022.

For the quarter, investors favoured Australian equities (54.6%) over international equities (15.7% of total cash flow), reversing the trends in Q1. Strong flows into fixed interest revealed investors' preference for domestic (25.9%) over international bonds (-1.1%).

The Vanguard Australian Shares Index ETF (VAS) attracted \$972 million in Q2, up from \$730 million in Q1, making it the most popular in Vanguard's product suite. Strong inflows were also observed, with \$214 million into the Vanguard MSCI International Shares Index ETF (VGS), \$147 million into the Vanguard Australian Fixed Interest Index ETF (VAF), and \$136 million into the Vanguard Australian Shares High Yield ETF (VHY).

Assets under management (AUM)

As of 30 June, there were 252 ETF products available in the Australian market, totalling \$121.45 billion. Vanguard retained its position as the top ETF issuer in Australia, managing 30.7% of funds, totalling over \$36.6 billion in AUM.

Figure 2. Industry cash flow by asset class

ASSET CLASS	Q1		YTD	
	\$M	%	\$M	%
Australian Equity	1,701	54.6	2,781	35.7
Global Equity	489	15.7	2,116	27.2
Infrastructure	36	1.1	91	1.2
Australian Fixed Income	806	25.9	1,131	14.5
Global Fixed Income	-36	-1.1	242	3.1
Cash	-313	-10.1	-868	-11.1
Australian Property	51	1.6	173	2.2
Global Property	75	2.4	1,390	17.8
Commodity	107	3.4	232	3.0
Currency	1	0.0	-3	0.0
Multi Asset	197	6.3	507	6.5
Total	3,113		7,792	

Source: ASX monthly report and Vanguard.

Performance

International equities outperformed Australian shares, but fixed income performed best overall in Q2. The Vanguard Global Infrastructure Index ETF (VBLD) was the best performing ETF over the quarter, returning -0.48%, followed by the Vanguard FTSE Asia ex Japan Shares Index ETF (VAE) with -0.57%, and the Vanguard FTSE Emerging Markets Shares ETF (VGE) with -0.88%.

Figure 3. Industry cash flow by issuer

ISSUER	Q2 CASH FLOW		AUM
	\$M	%	\$M
Beta Shares	543.3	17.5	20,270.1
Daintree / Perennial	3.3	0.1	17.7
ETFS	130.6	4.2	2,192.1
Fat Prophets	0.3	0.0	3.2
Fidante	-4.3	-0.1	917.9
Fidelity	0.1	0.0	289.9
Franklin Templeton / Betashares	26.0	0.8	383.1
Hyperion / Pinnacle	56.9	1.8	1,695.7
InvestSMART	10.2	0.3	220.0
iShares	700.9	22.5	23,086.5
Janus Henderson	-0.2	0.0	1.0
K2	0.2	0.0	23.0
Loftus Peak/EQT	-7.1	-0.2	169.8
Loomis /IML	5.8	0.2	27.5
Magellan	-1,037.7	-33.3	11,322.8
Monash	-1.6	-0.1	24.2
Montaka/Perpetual	-6.2	-0.2	83.9
Morningstar	-0.8	0.0	129.0
Munro / GSFM	-0.4	0.0	184.9
Nanuk	58.2	1.9	635.2
Perennial	2.7	0.1	61.7
Perpetual	1.5	0.0	4.5
Antipodes/Pinnacle	-34.5	-1.1	372.3
Resolution/Pinnacle	49.8	1.6	1,191.3
Russell	-16.2	-0.5	847.2
Schroders	0.6	0.0	63.9
State Street	66.3	2.1	7,242.2
Associated Global Partners	0.3	0.0	337.4
Switzer	0.0	0.0	0.0
The Perth Mint	-0.5	0.0	682.5
Platinum	-8.7	-0.3	413.2
VanEck	485.0	15.6	9,551.5
Vanguard	2,088.5	67.1	36,585.3
Vaughan IML	9.5	0.3	9.5
XTB	-8.4	-0.3	63.8
	3,113	100.0	119,104

Sources: ASX monthly report and Vanguard, as of 30 June 2022.

Figure 4. Vanguard product summary

ASSET CLASS	ASX TICKER	LAST PRICE \$	MER %	QUARTER RETURN	1 YEAR RETURN	3 YEAR RETURN P.A.	QUARTERLY CASH FLOW \$M	FUM \$M
Australian Equity ETFs								
Broad Market	VAS	83.75	0.10	-12.22%	-6.71%	3.49%	972.8	10,411.2
Property	VAP	76.00	0.23	-17.52%	-11.47%	-2.10%	45.7	2,074.7
High Yield	VHY	62.70	0.25	-10.24%	-2.07%	4.80%	136.9	2,201.9
Large Companies	VLC	69.06	0.20	-10.48%	-3.98%	4.34%	15.7	150.8
Small Companies	VSO	58.72	0.30	-18.50%	-12.85%	4.72%	16.9	603.4
Ethical Australian Equities	VETH	51.54	0.16	-14.28%	-10.64%	N/A	24.7	368.2
International Equity ETFs								
Developed Markets	VGS	88.61	0.18	-8.39%	-6.46%	7.89%	214.6	4,404.1
Developed (AUD hedged)	VGAD	74.50	0.21	-15.08%	-12.42%	6.42%	95.8	1,626.4
All world Ex US	VEU	72.43	0.08	-4.41%	-11.22%	2.75%	57.4	2,131.0
Total US Market	VTS	273.52	0.03	-9.19%	-6.37%	10.37%	54.5	2,741.3
Developed Europe	VEQ	55.39	0.35	-5.89%	-11.67%	1.70%	-9.4	289.6
Asia ex Japan	VAE	68.21	0.40	-0.57%	-16.79%	3.18%	-8.0	361.7
Emerging Markets	VGE	66.99	0.48	-0.88%	-14.45%	1.99%	0.5	602.3
Global Infrastructure	VBLD	62.95	0.47	-0.48%	12.52%	6.25%	-0.9	300.2
International Small Companies	VISM	52.14	0.32	-9.14%	-14.81%	4.81%	19.0	183.2
Ethical International Equities	VESG	62.74	0.18	-9.54%	-9.79%	8.19%	31.9	598.9
Minimum Volatility - Active	VMIN	50.92	0.28	-5.40%	-5.16%	1.97%	1.0	15.0
Global Value – Active	VVLU	55.34	0.28	-6.27%	-0.77%	7.03%	32.6	540.1
Fixed Interest ETFs								
Australian Composite	VAF	44.19	0.15	-3.84%	-10.65%	-2.76%	147.5	1,383.4
Australian Government	VGB	45.38	0.20	-4.02%	-11.13%	-3.03%	93.2	620.8
Australian Corporate	VACF	47.55	0.20	-3.29%	-9.10%	-1.35%	-22.5	560.8
International Treasury (AUD hedged)	VIF	39.79	0.20	-4.44%	-9.00%	-2.01%	11.4	620.2
International Credit (AUD hedged)	VCF	38.71	0.30	-6.47%	-12.70%	-2.32%	-3.8	185.1
Global Aggregate (AUD hedged)	VBND	42.52	0.20	-5.31%	-10.74%	-2.18%	26.5	471.1
Ethical International Bonds	VEFI	43.52	0.26	-5.12%	-10.44%	-2.09%	-24.0	58.0
Diversified ETFs								
Conservative	VDCO	47.91	0.27	-6.22%	-9.04%	0.35%	-5.4	231.5
Balanced	VDBA	48.80	0.27	-7.93%	-9.66%	1.63%	16.8	596.2
Growth	VDGR	50.93	0.27	-9.12%	-9.30%	3.18%	21.9	586.4
High Growth	VDHG	52.90	0.27	-10.28%	-8.96%	4.68%	134.7	1,637.1
TOTAL							2,088.5	36,585.3

Note: Returns assume that an investor purchased shares at Net Asset Value and do not reflect transaction costs imposed on the creation and redemption of ETF units, the brokerage or the bid-ask spread that investors pay to buy and sell ETF securities on the Australian Securities Exchange. Total returns are after management costs.

How to get the indexing edge for your clients

When it comes to choosing an index fund for your clients' portfolios, it may be tempting to pick the lowest-fee product. But not all indexers are the same. Below the surface there's a lot that fund managers need to get right.



Minh Tieu
Head of ETF Capital
Markets – APAC,
Vanguard Australia

Consistent performance, close index tracking and replication of risk exposures all require careful and sophisticated work. Fees are an important consideration, but it's long-term investment outcomes that really count.

So what should you look for when choosing

an index fund? Whether it's exchange traded funds (ETFs) or traditional managed funds you're looking for, the following six considerations will help you get the edge when making your decision.

1. Sophisticated portfolio management

The primary objective of an index fund is to closely mimic its benchmark's return year after year. Matching an index's performance involves transaction costs and other frictions that exist in the real world. Expert portfolio managers can minimise these frictions to produce better index tracking.

Vanguard seeks to minimise market impact and costs, while ensuring we continue to track the benchmark closely. The process of minimising costs and adding incremental value through various initiatives such as sophisticated portfolio management, participating in corporate actions and securities lending has in the past offset some or even all of the funds' expense ratio.

2. Global trading infrastructure

Fund managers with trading desks in regions around the world are able to carefully execute their funds' trades in ways that best align with the strategies of the portfolios.

In contrast, those funds with only a domestic trading desk often rely on outsourcing to regional brokers, who are paid commissions based on trade volume. These external parties may not value the idea of managing market impact, instead trading in a way that is indifferent to maximising value for your clients.

Vanguard manages its trades in-house from start to finish, so we can invest according to our time-tested investment philosophy and highly optimised processes.

Our equity portfolio managers package trades and pass them to Vanguard's regional traders, who leverage their local market expertise and broker relationships to deliver high quality, low-cost executions.

3. Prudent securities lending

Globally, securities lending is a widely used value-adding investment strategy involving the loan of portfolio securities to financial institutions that have a need to borrow them. While this basic framework exists across the globe, the approach or lending philosophy can vary significantly.

For example, Vanguard's securities lending program is designed to generate incremental value for your clients. Unlike some other fund

managers, Vanguard returns 100% of the program's profits to the funds, which helps reduce the overall cost of investing.

4. A focus on lowering the total cost of investing

The cost of investing in ETFs is more than just the management fee. The total cost includes all costs associated with buying, selling and owning the investment. This means the bid/ask spread must be factored in.

Bid/ask spreads are determined by the market. ETFs with deep liquidity and market maker support will generally have tighter bid/ask spreads. Vanguard's ETF Capital Markets Team work closely with our market makers and are constantly monitoring the trading and liquidity of our ETFs. We have among the widest market maker coverage in the region, meaning our team can ensure bid/ask spreads regularly trade within a tight range and the team is always here to support you with your ETF trading and liquidity questions.

5. Scale

Whether it's manufacturing cars or managing index funds, greater scale means increased efficiency and reduced costs.

In funds management, scale is a key differentiator, and one that is increasingly difficult for new entrants to achieve. Scale enables managers to more closely replicate quality indexes with a high number of securities. Smaller scale managers may need to opt for less diversified benchmarks with fewer securities, or optimise portfolios through representative sampling that may not match the risk characteristics of the benchmark.

With AUD 10.3 trillion in assets under management globally (as at 30 June 2022), Vanguard uses its size to maximise value for your clients. Our global scale gives us the ability to negotiate better deals, bringing institutional rates to your client's portfolio and advocate on the investors behalf. Our strong relationships with investment banks and brokers give us comprehensive access to corporate actions, IPOs and other market offerings.

6. Alignment with your clients' interests

Index fund managers come in all shapes and sizes. The details are important because a fund manager's ownership structure and philosophy define the incentives that drive their business strategy.

What sets Vanguard apart—and lets Vanguard put investors first around the world—is the ownership structure of The Vanguard Group in the United States.

Rather than being publicly traded or owned by a small group of individuals, The Vanguard Group is owned by Vanguard's U.S.-domiciled funds and ETFs. Those funds, in turn, are owned by their investors. This unique mutual structure aligns our interests with those of our investors and drives the culture, philosophy, and policies throughout the Vanguard organisation worldwide.

Not all indexers are the same

Index funds are not commodities that compete purely on price. You may be able to squeeze out an extra two or three basis points in fee savings by going with the cheapest fund. But in an era of ultra-low expense ratios, advisers need to look beyond the headline fee to get the best investment outcomes for their clients.

Vanguard's proven core ETF products are much more than low cost. They deliver consistent performance and tight tracking, backed by best-in-class portfolio management and the benefits of scale.

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