

Vanguard ETF quarterly report

June 2021

In this edition:

- Vanguard had its second largest quarter on record attracting \$2.8b (46.7% of total market flow).
- The Australian ETF market attracted \$4.49b in Q2 in new investment.
- The Australian ETF market surpassed \$113b in AUM.
- Vanguard is the largest Australian ETF issuer by AUM with \$32b (28.2% of total market AUM).

Quarter in review

Despite concerns about rising inflation, global equity markets capped off the financial year with yet another strong quarter as economic activity rebounded, corporate earnings strengthened, and policy support remained accommodative. The rollout of vaccinations remains critical to the reopening of economies and continued to gain pace over the quarter, particularly in the euro area.

The progress on health outcomes saw European equity indices retain their year-to-date lead, while the U.S. market outperformed in the June quarter, supported by a strong earnings season and the Biden administration's announcement of an additional USD 1.2 trillion infrastructure stimulus plan. Strong economic data in Australia saw the S&P/ASX 300 reach new highs, closing the quarter 8.5% higher as investors cheered on the quick normalisation in the labour market and gross domestic product (GDP). A dovish Reserve Bank of Australia (RBA) helped to support a weaker Australian dollar, which ultimately saw international shares outperform the local market in AUD terms.

In fixed income markets, total returns for most bond classes were positive as yields declined modestly, marking a reversal from the first quarter. The decline in yields was driven by the market's view that recent increases in inflation are likely to be temporary and should moderate once pent-up demand fades and supply-chain issues are resolved. Australian yields also ended the quarter lower after rising through the March quarter as real yields were capped by the RBA's commitment to keep the cash rate on hold until 2024.

ETF FACT

+\$113b

The Australian ETF industry passed \$113b in AUM

Australian ETF Update

Cash Flow

The Australian ETF market recorded strong quarterly flows in Q2 2021 attracting \$4.49 billion down from \$5.47 billion in Q1 2021. In Q2, investors favoured international equities over Australian equities and fixed income ETF flows strengthened from Q1 to Q2.

Among ETF issuers, Vanguard attracted 46.7% of the total ETF cash flow in Q2 up from 28.4% in Q1 leading cash flow in 2021. The Vanguard Australian Shares Index ETF (VAS) attracted the largest cash flow of any ETF product listed on the market in 2021 with \$766m. Rounding out the top three ETFs for cash flow year to date were the Vanguard MSCI International Shares Index ETF (VGS) with \$404m and the Vanguard Diversified High Growth Index ETF (VDHG) with \$391m.

Assets under management (AUM)

The Australian ETF market AUM grew to \$113.5b as at 30 June up from \$102.25b as at 31 March. Inflows of \$4.49b in Q2 helped Vanguard ETF AUM grow to \$31.98b. Eight Vanguard ETFs achieved an AUM of greater than a billion dollars and the Vanguard Australian Shares Index ETF (VAS) is still the largest index ETF in the Australian market with \$8.78b in AUM.

Performance

All Vanguard ETFs produced positive returns in Q2. The second quarter of 2021 saw strong returns in both equities and fixed income. The best performing ETF of Q2 was the Vanguard Australian Property Securities Index ETF (VAP) returning 10.68%, followed closely by Vanguard U.S. Total Market Shares ETF (VTS) returning 9.85% and the Vanguard Global Infrastructure Index ETF (VBLD) returning 9.78%.

The best performing ETFs over the past 12 months are the Vanguard Global Value Equity Active ETF (Managed Fund) (VVLU, +49.71%),

Figure 2. Industry cash flow by asset class

ASSET CLASS	QUARTER		YTD	
	M		\$M	
Australian Equity	453	8.3%	1,545	28.2%
Global Equity	2,685	49.0%	6,007	109.7%
Infrastructure	81	1.5%	158	2.9%
Australian Fixed Income	392	7.2%	690	12.6%
Global Fixed Income	296	5.4%	608	11.1%
Cash	-62	-1.1%	-163	-3.0%
Australian Property	97	1.8%	236	4.3%
Global Property	19	0.3%	46	0.8%
Commodity	75	1.4%	74	1.4%
Currency	2	0.0%	-4	-0.1%
Multi Asset	400	7.3%	716	13.1%
Total	4,439	100%	9,914	100%

Source: ASX monthly report and Vanguard.

Figure 3. Industry cash flow by issuer

ISSUER	CASH FLOW		AUM
	\$M		\$M
Beta Shares	1,210.6	27.3%	17,713.7
ETFs	226.5	5.1%	3,732.4
Fidante	176.9	4.0%	714.5
Fidelity	35.5	0.8%	273.6
Hyperion / Pinnacle	270.5	6.1%	1611.7
InvestSMART	0.9	0.0%	158.1
iShares	-208.2	-4.7%	21,934.1
K2	5.8	0.1%	20.6
Legg Mason/BetaShares	39.4	0.9%	291.8
Loftus Peak/EQT	5.2	0.1%	196.8
Magellan	-107.4	-2.4%	15,900.9
Monash	31.5	0.7%	31.5
Montgomery	-6.3	-0.1%	122.9
Morningstar	6.7	0.2%	136.7
Munro / GSFM	35.4	0.8%	94.0
Perennial	7.0	0.2%	46.6
Antipodes/Pinnacle	1.3	0.0%	23.7
Russell	15.1	0.3%	994.6
Schroders	5.0	0.1%	51.3
State Street	23.7	0.5%	7,983.7
Switzer	24.9	0.6%	386.9
The Perth Mint	14.6	0.3%	553.4
Platinum	2.3	0.1%	513.7
VanEck	555.1	12.5%	8,041.5
Vanguard	2,076.6	46.8%	31,989.2
XTB	-10.1	-0.2%	141.1
Total	4,439	100%	113,659

followed by Vanguard Ethically Conscious Australian Shares ETF (VETH, +40.27%) and Vanguard MSCI Index International Shares (Hedged) ETF (VGAD, +35.72%).

The best performing fixed income ETF over Q2 was the Vanguard International Credit

Securities Index (Hedged) ETF (VCF, +5.85%). The best performing fixed income ETF of the past 12 months has been the Vanguard Australian Corporate Fixed Interest Index ETF (VACF) returning 2.27% followed by the Vanguard International Credit Securities Index (Hedged) ETF (VCF, +1.85%).

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 \$
Australian Equity ETFs								
Broad Market	VAS	94.04	0.10	8.46	28.46	9.74	427.8	8,780.8
Property	VAP	90.49	0.23	10.68	33.67	8.12	71.6	2,155.3
High Yield	VHY	67.08	0.25	8.12	34.25	10.32	60.4	1,872.9
Large Companies	VLC	76.21	0.20	8.65	30.39	10.62	3.2	137.6
Small Companies	VSO	70.43	0.30	8.54	33.67	11.26	50.7	596.7
Ethical Australian Equities	VETH	59.38	0.16	6.42	40.27	N/A	107.9	146.1
International Equity ETFs								
Developed Markets	VGS	96.92	0.18	9.34	27.57	14.60	26.3	3,455.7
Developed (AUD hedged)	VGAD	91.74	0.21	7.55	35.72	13.55	23.5	1,771.1
All World Ex US	VEU	84.79	0.08	6.87	24.66	9.26	74.2	2,261.0
Total US Market	VTS	296.61	0.03	9.85	32.35	18.12	252.6	2,640.6
Developed Europe	VEQ	64.68	0.35	9.25	25.09	7.98	86.0	220.6
Asia ex Japan	VAE	83.75	0.40	5.06	28.11	11.40	90.9	387.9
Emerging Markets	VGE	80.61	0.48	6.23	27.67	10.29	133.1	648.8
Global Infrastructure	VBLD	57.70	0.47	9.78	27.85	N/A	28.5	149.2
International Small Companies	VISM	64.60	0.32	4.04	9.52	N/A	10.3	127.4
Ethical International Equities	VESG	70.68	0.18	8.92	N/A	N/A	54.4	335.5
Minimum Volatility - Active	VMIN	55.70	0.28	2.88	16.41	6.68	0.6	12.4
Global Value - Active	VVLU	57.10	0.28	7.04	49.71	6.65	87.4	205.7
Multi Factor - Active	VGMF	54.33	0.33	6.88	34.56	N/A	4.8	29.8
Fixed Interest ETFs								
Australian Composite	VAF	50.57	0.20	1.45	-1.02	4.03	-27.6	1,450.5
Australian Government	VGB	51.53	0.20	1.59	-1.54	4.13	-18.0	542.0
Australian Corporate	VACF	53.24	0.26	0.95	2.27	4.41	61.8	582.5
International Treasury (AUD hedged)	VIF	44.36	0.20	0.61	-1.67	3.38	32.1	606.9
International Credit (AUD hedged)	VCF	45.57	0.30	1.87	1.85	4.93	6.7	203.7
Global Aggregate (AUD hedged)	VBND	48.59	0.20	1.05	-0.23	4.05	55.7	382.9
ESG	VEFI	49.50	0.26	0.93	-0.58	N/A	7.1	59.0
Diversified ETFs								
Conservative	VDCO	54.47	0.27	3.14	8.04	6.28	16.0	182.7
Balanced	VDBA	56.44	0.27	4.67	13.99	8.19	60.2	456.4
Growth	VDGR	58.60	0.27	6.11	20.31	9.80	69.7	475.4
High Growth	VDHG	61.11	0.27	7.58	26.96	11.36	218.7	1,112.2
TOTAL							\$2,076.6	\$31,989

Best practice tips to manage your ETF trading costs



Minh Tieu

Head of ETF Capital Markets – APAC, Vanguard Australia

As ETFs continue to gain popularity globally, a wider range of investors are choosing to adopt them as part of their investment strategies.

While ETFs can be an effective way to gain low-cost exposure to markets, investors still

need to be conscious of how their trading activity affects the total cost of ownership.

As direct costs—such as expense ratios—continue to compress globally, one of the most effective ways to reduce total cost of ownership is by limiting indirect costs—such as transaction costs—when trading ETFs.

Whether an investor is purchasing 100 shares of a domestic equity ETF or selling \$200 million of an international fixed income ETF, choosing the appropriate order type

Low-touch orders: For on-exchange trades



Be mindful of the time of day

Global ETFs typically trade with narrower bid-ask spreads when their underlying markets are open and overlap with Australian trading hours. In addition, avoid trading near the open or close as bid-ask spreads tend to be wider around these times.



Watch out for spikes in volatility

Key earnings reports and economic releases (such as inflation data and central bank rate decisions) can cause heightened market volatility. It's best to avoid placing trades during these times.



Place limit orders

Limit orders allow the investor to select a price limit at which they are comfortable to execute, offering increased price control and protection relative to a market order. The key consideration is where to set the limit, based on the balance of priorities between price and execution certainty.



Keep an eye on liquidity

ETFs with substantial trading volume may appear to offer superior liquidity. However, an ETF's bid-ask spread may provide a much better indication of liquidity. This is because the spread reflects the liquidity in the underlying securities as well as the associated costs for authorised participants to engage in the creation and redemption process. Tighter ETF premiums and discounts can also provide an indication of greater liquidity.

for that ETF exposure can greatly reduce transaction costs.

While there are some general best practices that can be applied to ETF trading, each trade may require a customised strategy depending on both external factors and investor preferences.

ETF trading practices for different order types

Just as a carpenter has unique tools in their toolbox for specific jobs, an investor has different order types at their disposal for different transactions. Trades can essentially be classified into two main categories: low-touch and high-touch orders.

Low-touch orders involve little (or no) human interaction. These orders are typically used for trades that are small relative to the ETF's average daily volume (ADV). While market orders are popular among individual investors who want to purchase or sell without delay, limit orders offer greater price control and can help investors protect themselves from unexpected market volatility. The most common low-touch order types take place

intraday on-exchange and can be placed using market or limit order instructions.

Alternatively, high-touch orders are typically used when the trade size is large relative to an ETF's on-exchange ADV. After choosing the best execution strategy to deliver their intended objective, investors should also consider the following best practices to help minimise market impact and reduce transaction costs.

Leverage our trading and execution expertise

As investors continue to adopt ETFs as an investment tool globally, they need to be aware of the factors that can impact execution as well as the different strategies they can use to accomplish their investment objectives.

Rather than go it alone, investors should consider reaching out to the Vanguard Australian ETF Capital Markets team for assistance on 1300 655 888. We can offer on-demand analysis of spreads, market liquidity and trading activity, and pre-trade guidance, increasing the likelihood of a successful outcome.

High-touch orders: For off-exchange trades



Conduct analysis of the most active market makers

The market makers who are most active in an ETF are often the ones who can offer the most competitive price for the trade.



Encourage competition between liquidity providers

Putting brokers in competition with each other can help to improve the competitiveness of the trade quote received.



Provide clear instructions

Providing brokers with clear parameters up front (such as time frame for execution, valuation point and price ceilings or floors) can help to ensure the execution strategy achieves its objective.



Consider the market risk in global ETFs

If an investor places a net asset value (NAV) trade in a global ETF, they may be exposed to price risk for more than 24 hours. For example, a global ETF NAV trade placed on Wednesday afternoon Australian time would receive Wednesday's NAV available on Thursday afternoon.

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