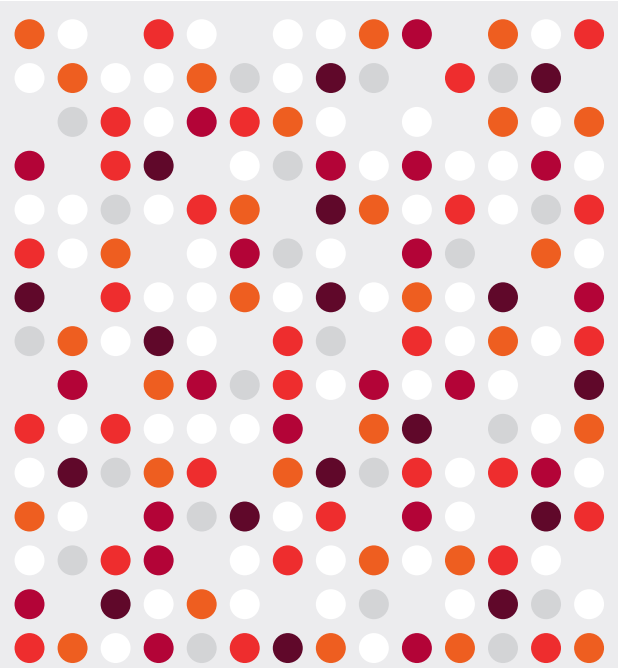


Vanguard ETF quarterly report

March quarter 2021

In this edition:

- The Australian ETF market celebrated a significant milestone as it surpassed \$100b in AUM.
- The Australian ETF market attracted \$5.47b in quarter one (Q1) in new investments.
- Vanguard had its best first quarter on record, attracting \$1.56b (28.4% market share).
- Vanguard remains the largest Australian ETF issuer by AUM with \$28.1b (27.5%).



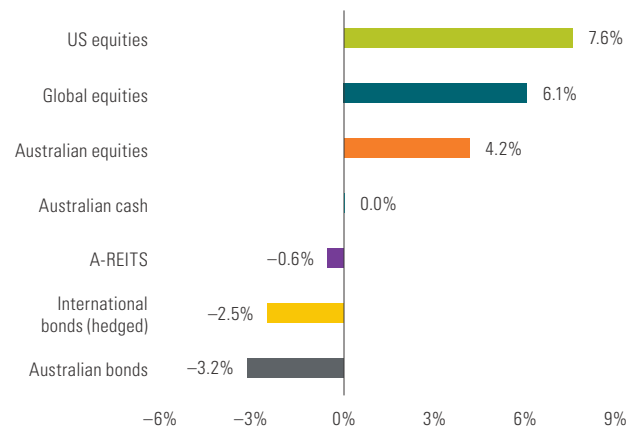
Quarter in review

Global investment markets continued to build momentum from the 2020 year over the first quarter of 2021. U.S. Treasury yields rose 86 basis points over the quarter to 1.7%, a level not seen since January 2020, and global equity indices closed 17% above their pre-COVID highs. Within equities, the U.S. market outperformed its peers, coming in at 8% year-to-date compared to the global return of 6%, after the passing of a larger-than-expected USD 1.9 trillion fiscal stimulus package and with the aid of accelerated COVID-19 vaccine rollout program. The Australian share market lagged behind the global market, but nonetheless closed off the quarter 2.5% above its return in 2020 as value stocks recovered and as investors welcomed a return to relatively normal conditions. Fixed income, on the other hand, suffered as yields rose across the world on concerns around a potentially overheated economy and inflation scares.

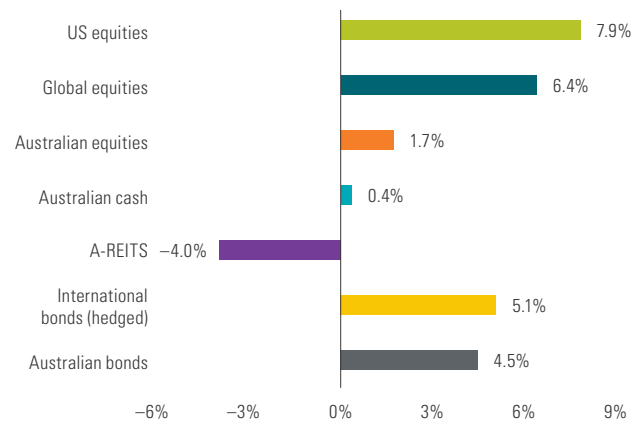
With vaccinations underway, the number of COVID-19 cases, hospitalisations and deaths in developed economies have been much lower than at the start of the year, paving the way for a significant pickup in economic activity in the second half of the year. This is especially the case for countries like the U.S. and U.K., which have accelerated the number of vaccinations over recent months. Closer to home, vaccination progress in Australia and China has proved to be much slower, though the effective containment of the virus to date has meant the pace of economic normalisation is less sensitive to vaccine developments

Figure 1. How asset classes performed

Q1 2021



2020



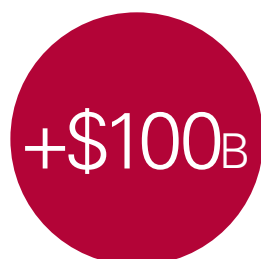
Notes: All returns except Q4 2020 are annualised. Global equity represented by MSCI AC World in AUD, US equity represented by S&P 500 in AUD, Australian equity represented by S&P/ASX 300 Index, Australian property represented by S&P/ASX 300 A-REIT Index, Australian bonds by the Bloomberg Ausbond composite 0+ Yr Index, International bonds by Bloomberg Barclays Global Aggregate Index Hedged in AUD, and Australian cash by the Bloomberg Ausbond Bank Bill Index. Data through March 2021.

Source: Thomson Reuters Datastream and Bloomberg.

Australian ETF Update

Cash Flow

The Australian ETF market recorded strong quarterly flows in Q1 2021, attracting \$5.47 billion. In Q1, investors favoured international equities (60.7%) over Australian equities (20%). Fixed income ETF flows softened in Q1 following strong growth in Q4 2020.



The Australian
ETF industry passes
\$100b in AUM

Vanguard remained the Australian ETFs market leader after attracting 28.4% of total ETF cash flow in Q1. The Vanguard Australian Shares Index ETF (VAS) has attracted the second-largest investment activity of any product listed on the market so far in 2021 with \$338m.

Assets under management (AUM)

The Australian ETF's market AUM grew to \$102.25b as at 31 March. Inflows of \$5.47b in Q1 helped Vanguard's ETFs AUM grow to \$28.09b. Eight Vanguard ETFs have achieved an AUM of more than \$1 billion, with the Vanguard Australian Shares Index ETF (VAS) still the largest Australian-listed index ETF in the market with \$7.79b in AUM.

Performance

The first quarter of 2021 saw strong returns in equities and subdued returns in fixed income. The best-performing ETF in Q1 was the Vanguard Global Value Equity Active ETF (Managed Fund) (VVLU). It returned 20.40%, followed closely by Vanguard Global Multi-Factor Active ETF (VGMF) returning 13.8%.

The best-performing ETFs over the past 12 months are the Vanguard MSCI Australian Small Companies Index ETF (VSO, +61.01%), Vanguard Global Value Equity Active ETF (Managed Fund) (VVLU, +51.27%), followed by Vanguard MSCI Index International Shares (Hedged) ETF (VGAD, +48.73%).

The best-performing fixed income ETF over Q1 was the Vanguard Australian Corporate Fixed Interest Index ETF (VACF) returning (-1.44%). Over the 12 months to 31 March, the best-performing international fixed income ETFs were the Vanguard International Credit Securities Index (Hedged) ETF (VCF, +5.85%), the Vanguard Global Aggregate Bond Index (Hedged) ETF (VBND, +1.25%), followed by the Vanguard Ethically Conscious Global Aggregate Bond Index (Hedged) ETF (VEFI, +0.86%).

Industry cash flow by asset class

Asset class	Quarter		YTD	
	%m	%	\$m	%
Australian Equity	1,092	20.0	1,092	20.0
Global Equity	3,322	60.7	3,322	60.7
Infrastructure	77	1.4	77	1.4
Australian Fixed Income	298	5.4	298	5.4
Global Fixed Income	312	5.7	312	5.7
Cash	-101	-1.8	-101	-1.8
Australian Property	138	2.5	138	2.5
Global Property	27	0.5	27	0.5
Commodity	-1	0.0	-1	0.0
Currency	-6	-0.1	-6	-0.1
Multi Asset	316	5.8	316	5.8
Total	5,475	100	5,475	100

Source: ASX monthly report and Vanguard.

Industry cash flow by issuer

Issuer	Cash flow		AUM
	\$m	%	\$m
Beta Shares	1,043.2	19.1	15,561.8
ETFs	218.7	4.0	3,381.2
Fidante	126.9	2.3	541.9
Fidelity	49.8	0.9	222.6
Hyperion / Pinnacle	1,148.2	21.0	1148.2
InvestSMART	23.2	0.4	152.9
iShares	795.1	14.5	20,702.2
K2	2.2	0.0	13.0
Legg Mason/BetaShares	-5.7	-0.1	244.3
Loftus Peak/EQT	22.4	0.4	167.2
Magellan	-117.2	-2.1	14,771.4
Montgomery	-6.1	-0.1	116.5
Morningstar	5.2	0.1	122.8
Munro / GSFM	36.3	0.7	54.7
Perennial	6.4	0.1	36.9
Antipodes/Pinnacle	-5.1	-0.1	24.4
Russell	-3.2	-0.1	946.5
Schroders	4.3	0.1	45.0
State Street	100.7	1.8	7,443.0
Switzer	25.8	0.5	327.7
The Perth Mint	-12.4	-0.2	509.1
Platinum	-11.0	-0.2	539.1
VanEck	472.1	8.6	6,903.8
Vanguard	1,556.2	28.4	28,094.2
XTB	-1.3	0.0	186.2
Total	5,475	100%	102,257

Source: ASX monthly report and Vanguard.

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	87.92	0.10	4.16	38.50	9.70	337.8	7,799.2
Property	VAP	82.21	0.23	-0.58	45.31	7.81	78.2	1,891.2
High Yield	VHY	62.96	0.25	7.60	44.56	9.07	10.9	1,700.0
Large Companies	VLC	71.37	0.20	5.79	35.84	10.62	0.1	125.8
Small Companies	VSO	64.98	0.30	2.45	61.01	10.59	31.4	503.6
Ethical Australian Equities	VETH	54.99	0.16	11.18	45.05	—	7.6	31.9
International Equity ETFs								
Developed Markets	VGS	88.72	0.18	6.35	23.60	13.26	151.5	2,926.0
Developed (AUD hedged)	VGAD	84.84	0.21	6.17	48.73	12.17	148.7	1,556.9
All world Ex US	VEU	79.45	0.08	5.23	21.81	7.01	95.9	1,992.9
Total US Market	VTI	270.23	0.03	7.83	30.76	17.40	82.8	2,321.1
Developed Europe	VEQ	59.21	0.35	6.27	18.97	5.47	-60.1	180.2
Asia ex Japan	VAE	80.02	0.40	4.29	27.00	8.80	54.0	344.6
Emerging Markets	VGE	75.27	0.48	5.25	26.47	5.77	70.0	534.4
Global Infrastructure	VBLD	55.80	0.47	5.47	24.43	—	18.1	133.7
International Small Companies	VISM	61.30	0.32	6.83	1.36	—	12.8	93.5
Ethical International Equities	VESG	64.31	0.18	3.34	—	—	42.4	253.7
Minimum Volatility - Active	VMIN	56.80	0.28	4.15	24.18	—	-0.8	12.0
Global Value - Active	VVLU	53.80	0.28	20.40	51.27	—	43.8	109.4
Multi Factor - Active	VGMF	54.33	0.33	13.80	33.22	—	1.4	23.4
Fixed Interest ETFs								
Australian Composite	VAF	50.07	0.20	-3.27	-2.04	3.79	-22.6	1,463.5
Australian Government	VGB	50.99	0.20	-3.64	-2.91	3.85	-0.2	554.3
Australian Corporate	VACF	53.04	0.26	-1.44	2.71	4.31	55.8	518.7
International Treasury (AUD hedged)	VIF	47.05	0.20	-2.95	-1.52	3.24	30.9	609.6
International Credit (AUD hedged)	VCF	46.95	0.30	-3.22	5.85	4.21	17.5	202.9
Global Aggregate (AUD hedged)	VBND	50.88	0.20	-2.94	1.25	3.70	34.9	342.3
Ethical International Bonds (AUD hedged)	VEFI	51.70	0.26	-2.90	0.86	—	18.9	54.2
Diversified ETFs								
Conservative	VDGO	54.85	0.27	-0.21	9.94	5.86	21.8	167.8
Balanced	VDDBA	56.17	0.27	1.22	16.76	7.61	53.8	393.4
Growth	VDGR	57.51	0.27	2.97	24.01	9.12	46.7	396.8
High Growth	VDHG	58.98	0.27	4.74	31.57	10.57	172.3	857.4
Total							1,556.2	28,094

Returns assume that an investor purchased shares at Net Asset Value and does 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.

Source: Bloomberg and Vanguard.

March surge sees Australian ETF assets top \$100bn



Tony Kaye
Senior Personal
Finance Writer,
Vanguard Australia

Australia's booming exchange traded funds sector reached a major milestone at the end of March.

It happened when the total amount of money being managed across all the ETF products listed on the Australian Securities Exchange surged past \$100 billion after more record-breaking inflows from investors.

It was a fitting achievement, especially given that 2021 marks exactly 20 years since the first ETF product was launched on the ASX. Over the 12 months to the end of March, the value of Australia's ETFs sector grew by more than \$45 billion—a massive 80 per cent increase. A big chunk of that came in the first three months of this year alone, with ETF assets in Australia rising by around \$8 billion between 1 January and 31 March.

This number included new investor inflows into ETFs as well as the gains in asset values flowing from the large equity market returns over the March quarter.

Why are more investors choosing ETFs?

The ETFs phenomenon certainly isn't new, but it is rapidly gaining momentum. As always, there are a combination of factors at play when it comes to investment trends.

What's clear though is that there is a seismic shift in how more and more people are choosing to interact with investment markets. The reality is that ETFs have become the investment vehicle of choice for many retail investors right around the world when building their investment portfolios.

Why? In short, ETFs have made investing much simpler and more cost effective, for more people, than ever before.

Rather than attempting to pick individual stocks that may or may not increase in value over time, investors are choosing to throw their investment net over hundreds of Australian company stocks at once by investing in one ETF product.

To paraphrase Vanguard's late founder John Bogle, it's better to own the whole investment haystack than to look for a needle within one.

For example, in a single market trade, it's easy to buy into an ETF product here that invests right across the 300 biggest companies that are listed on the Australian share market.

As well as accessing a much broader spread of shareholdings, many investors have recognised that another key advantage with ETFs is cost. To invest in multiple companies individually will attract stockbrokerage fees on every transaction. Buying

into an ETF is done in the same way as buying individual shares, but with an ETF there's only ever one brokerage fee to pay to achieve a much broader market exposure.

Tapping into international markets

More than \$600 million flowed into Australian equity ETFs in March, taking total assets in this segment to \$28.1 billion.

Yet, the latest monthly ASX data also shows, once again, that many investors are using ETF products listed on the Australian market to tap into international shares and other types of assets. Global ETF inflows from Australia are consistently exceeding inflows into Australian ETF assets.

In addition to ETF products that cover other key investment markets such as the United States, there are a range of ETFs listed in Australia covering much wider regions such as Europe, Asia and emerging markets.

Furthermore, the latest ASX data confirms investors are using ETFs to diversify across other asset classes than just shares, including Australian and international fixed interest securities, Australian and international property, infrastructure, cash, and commodities. Collectively, these asset classes accounted for almost \$21 billion of investor assets at 31 March.

Other ETF trends

Environmental, social and corporate governance ETFs are also continuing to attract investor capital. Almost \$443 million flowed into ESG ETFs in the March quarter, an increase of around 7 per cent over the final quarter of 2020 and a 15.3 per cent increase year-on-year.

A fundamental attraction to ESG ETFs is that they can provide you with the option of investing according to your values, in a simple and diversified way.

Vanguard's Head of Capital Markets for Asia-Pacific, Minh Tieu, says that, broadly speaking, investor confidence has greatly improved since this time last year when markets were first rocked by COVID-19.

"While domestic equity, niche and leveraged ETFs were favoured in the first half of 2020 as investors sought to navigate market volatility, a year on we are seeing better diversification across both asset classes and ETF types, with a notable increase in flows to international equity and actively managed ETFs," he says.

"The Australian ETF industry has come a long way since the first ETF was listed in August 2001. We've seen impressive market growth over the last few years in particular, evidenced by the industry surpassing \$100 billion in assets across the now 220 and growing ETFs listed on the ASX, when just 10 years ago we had only 50.

"Australian investors and advisers have embraced ETFs as low-cost, easy to access building blocks for diversified portfolios."

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