ETF quarterly report

March quarter 2022

In this edition

The Australian ETF market attracted $4.68 billion in new investments during Q1.

Vanguard attracted the highest cash flow among issuers in Q1 with $2.17 billion.

Assets under management of ETFs in Australia surpassed $132 billion.

Vanguard maintained its position as the largest Australian ETF issuer by assets under management with $39.15 billion (29.6%).

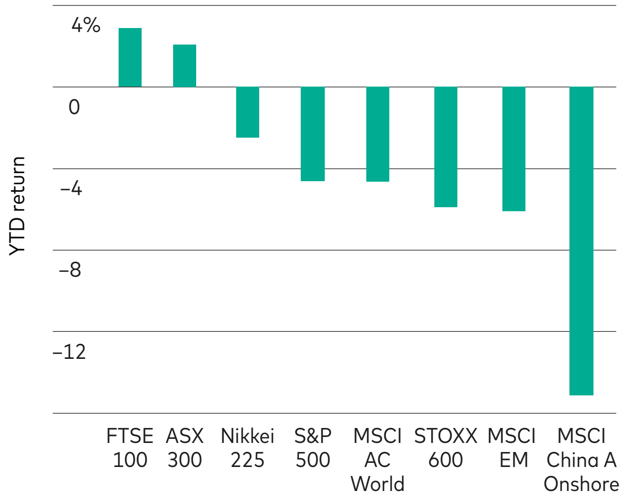
Quarter in review

Global markets entered the new year facing familiar headwinds, as rising inflation pressures and the prospect of higher interest rates remained top of mind for investors. Share market returns were more dispersed in January as expectations for rate rises weighed on rate-sensitive growth stocks and dampened risk appetite. However, the conflict in Ukraine further stoked inflation and supply chain concerns as commodity prices were sent soaring.

Shares sold off over the quarter and prices remained volatile, with tech stocks leading global equities lower to a 4.6% loss (see chart). Meanwhile, energy and materials companies capitalised on elevated commodity prices, while banks and financials benefitted from higher interest rates. Heavy exposure to these sectors saw the Australian share market among the few ending the quarter in positive territory, up 2.1%. Emerging markets continued to be weighed down as the impacts of the Ukraine war and COVID outbreaks in China pulled the overall index down 6.1%.

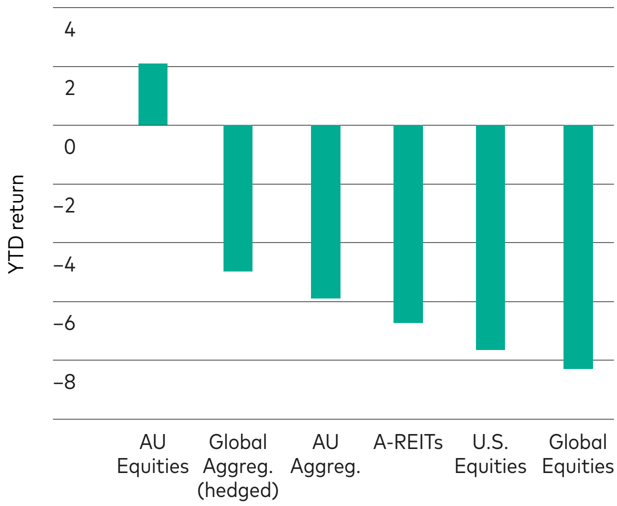
Bond markets similarly sold off as yields climbed (as prices fell) throughout the quarter. Despite a brief rally in bonds as the war began in Ukraine, the overwhelming trajectory of yields was upwards. Markets priced in expectations for central bank rate rises as concerns focused on the compounding effects of surging commodity prices and further supply chain shocks on already heated and inflationary economies. 10-year government bonds in the United States and Australia pushed higher, resulting in losses of 5% and 5.9% across international and domestic bonds.

Figure 1. Australian and U.K. equities lead YTD



Note: Returns are cumulative total returns in local currency.
Source: FactSet, as of 31 March 2022.

Figure 2. AUD indexes broadly retreated



Note: Returns are cumulative total returns denominated in AUD.
Sources: FactSet and Refinitiv, as of 31 March 2022.

Australian ETF update

Cash flow
ETFs maintained solid momentum through the start of 2022, attracting inflows of $4.68 billion in the March quarter. This comes off the back of a record year for the Australian ETF industry, with over $24.79 billion flowing to ETFs in 2021. Across all issuers, Vanguard had the strongest Q1 cash flow, bringing in $2.17 billion.

For the quarter, investors favoured international equities (23.5% of total cash flow) over Australian equities (15.6%), but within fixed interest, investors showed a preference for domestic (4.7%) over international (4.0%) bonds.

The Vanguard Australian Shares Index ETF (VAS) attracted $730 million in Q1, making it the most popular in Vanguard's product suite. Strong inflows were also observed, with $318 million into Vanguard MSCI International Shares Index ETF (VGS), $228 million into Vanguard Global Value Equity Active ETF (Managed Fund) (VVLU), and $164 million into Vanguard Diversified High Growth Index ETF (VDHG).

Assets under management (AUM)
As of 31 March 2022, there were 247 ETF products available in the Australian market, totalling $132.4 billion. Vanguard retained its position as the top ETF issuer in Australia, managing 29.4% of funds, totalling over $39.15 billion in AUM.

Performance
Australian equities outperformed international shares and fixed income in the first quarter of 2022. The Vanguard Australian Shares High Yield ETF (VHY) was the best performing ETF over the quarter, returning 8.41%, followed by the Vanguard MSCI Australian Large Companies Index ETF (VLC) (+5.56%), and Vanguard Australian Shares Index ETF (VAS) (+2.07%).

ETF FACT

$2.17b

Vanguard attracted the highest cash flow in Q1 2022.

Figure 3. Industry cash flow by asset class

	Q1	
ASSET CLASS	$M	%
Australian Equity	1,080	15.6
Global Equity	1,626	23.5
Infrastructure	55	0.8
Australian Fixed Income	325	4.7
Global Fixed Income	278	4.0
Cash	−555	−8.0
Australian Property	122	1.8
Global Property	1,316	19.0
Commodity	125	1.8
Currency	−4	−0.1
Multi Asset	310	4.5
Total	**4,679**	

Sources: ASX monthly report and Vanguard, as at 31 March 2022.

Figure 4. Industry cash flow by issuer

	Q1 CASH FLOW		AUM
ISSUER	$M	%	$M
BetaShares	552.7	11.8%	21,846.8
Daintree / Perennial	2.8	0.1%	14.7
ETFS	230.0	4.9%	4,749.6
Fat Prophets	3.5	0.1%	3.5
Fidante	20.2	0.4%	914.3
Fidelity	4.8	0.1%	311.7
Franklin Templeton / BetaShares	19.6	0.4%	382.6
Hyperion / Pinnacle	190.5	4.1%	2,209.9
InvestSMART	13.0	0.3%	260.9
iShares	243.4	5.2%	24,636.6
Janus Henderson	−0.5	0.0%	1.3
K2	2.0	0.0%	27.3
Loftus Peak / EQT	−1.3	0.0%	209.4
Loomis / IML	10.3	0.2%	25.5
Magellan	−1,219.3	−26.1%	13,357.7
Monash	0.1	0.0%	27.8
Montaka / Perpetual	0.6	0.0%	107.3
Morningstar	1.8	0.0%	142.6
Munro / GSFM	27.8	0.6%	204.7
Nanuk	647.8	13.8%	647.8
Perennial	4.1	0.1%	71.6
Perpetual	0.8	0.0%	3.6
Antipodes / Pinnacle	−103.5	−2.2%	413.5
Resolution / Pinnacle	1,288.2	27.5%	1,393.1
Russell	−15.7	−0.3%	947.9
Schroders	2.6	0.1%	66.0
State Street	33.8	0.7%	8,478.5
Associated Global Partners	5.2	0.1%	387.8
Switzer	−118.6	−2.5%	0.0
The Perth Mint	39.0	0.8%	663.3
Platinum	−0.1	0.0%	451.0
VanEck	626.3	13.4%	10,237.3
Vanguard	2,170.3	46.4%	39,148.7
XTB	−3.4	−0.1%	82.5
	4,679	**100%**	**132,427**

Sources: ASX monthly report and Vanguard, as of 31 March 2022.

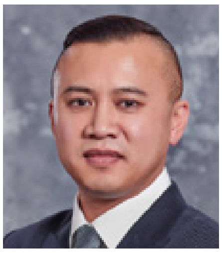
Figure 5. Vanguard product summary

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	97.21	0.10	2.07%	15.27%	10.90%	730.8	11,030.2
Property	VAP	92.87	0.23	−6.81%	18.80%	5.80%	40.8	2,486.0
High Yield	VHY	70.66	0.25	8.41%	17.97%	11.78%	115.7	2,335.4
Large Companies	VLC	79.20	0.20	5.56%	16.54%	11.37%	-3.0	155.8
Small Companies	VSO	71.95	0.30	−2.58%	16.07%	13.75%	26.5	720.7
Ethical Australian Equities	VETH	60.63	0.16	−1.08%	13.54%	N/A	71.0	407.8
International Equity ETFs								
Developed Markets	VGS	99.09	0.18	−8.39%	11.65%	13.00%	318.7	4,697.2
Developed (AUD hedged)	VGAD	89.00	0.21	−4.96%	10.92%	13.67%	76.0	1,835.2
All World Ex US	VEU	78.20	0.08	−9.00%	−0.73%	5.73%	-20.0	2,240.5
Total US Market	VTS	309.74	0.03	−8.46%	13.27%	15.97%	58.0	3,046.0
Developed Europe	VEQ	60.79	0.35	−11.52%	2.55%	5.54%	42.0	327.2
Asia Ex Japan	VAE	69.20	0.40	−10.16%	−12.07%	3.59%	14.0	374.8
Emerging Markets	VGE	69.50	0.48	−9.56%	−8.32%	2.89%	14.0	624.6
Global Infrastructure	VBLD	64.86	0.47	0.43%	17.63%	7.93%	19.0	309.8
International Small Companies	VISM	59.19	0.32	−9.66%	−0.22%	9.36%	15.0	187.2
Ethical International Equities	VESG	71.06	0.18	−10.72%	9.48%	13.90%	63.0	644.2
Minimum Volatility – Active	VMIN	54.17	0.28	−3.33%	3.14%	5.21%	-2.0	15.0
Global Value – Active	VVLU	60.42	0.28	−1.29%	13.32%	9.92%	228.0	557.2
Multi Factor – Active	VGMF	54.33	0.33	−5.22%	9.13%	N/A	5.0	47.3
Fixed Interest ETFs								
Australian Composite	VAF	46.34	0.15	−6.00%	−5.73%	−0.50%	7.8	1,298.0
Australian Government	VGB	47.48	0.20	−6.33%	−5.93%	−0.66%	46.3	552.6
Australian Corporate	VACF	49.45	0.20	−4.76%	−5.12%	0.61%	-33.0	606.2
International Treasury (AUD hedged)	VIF	41.83	0.20	−4.72%	−4.19%	0.33%	21.0	639.9
International Credit (AUD hedged)	VCF	41.61	0.30	−6.50%	−4.91%	0.95%	5.0	202.8
Global Aggregate (AUD hedged)	VBND	45.11	0.20	−5.60%	−4.74%	0.55%	43.0	472.6
ESG	VEFI	46.06	0.26	−5.44%	−4.73%	0.50%	3.0	86.3
Diversified ETFs								
Conservative	VDCO	51.62	0.27	−4.50%	0.03%	3.71%	4.0	254.6
Balanced	VDBA	53.76	0.27	−4.67%	2.70%	5.94%	47.7	639.8
Growth	VDGR	56.93	0.27	−4.31%	5.90%	8.21%	49.0	632.5
High Growth	VDHG	60.26	0.27	−4.00%	9.16%	10.47%	164.0	1,721.3
TOTAL							**2,170.3**	**39,149**

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.

ETF flows reveal year of diversification

Short-term market events tend to grab headlines. But for investors it's the long-term story that really counts.



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

Recent events—whether the conflict in Ukraine, supply chain disruption, or the COVID pandemic—have reinforced a timeless lesson: diversification matters.

When it comes to confronting global challenges, no country is an island (not even Australia). Globalisation may be on the back foot, but for investors this only underscores the importance of international diversification and the need to overcome home bias.

Thanks to the rise of exchange traded funds (ETFs), diversification has never been easier to achieve. Your clients can enjoy the benefits of international share and bond exposure with the ease of access and liquidity that ETFs provide.

And if the past year is a guide, it appears the diversification message has been well heeded by ETF investors.

ETF flows reveal a preference for international diversification
If you follow the money, it's clear investors are looking to further diversify their portfolios, including through an allocation to international shares.

International share ETFs were the most popular among Australian ETF investors in 2021. Cash flows to Australian share ETFs were $5.7 billion, compared with $14 billion to international share ETFs—well over double the cash flow.

This trend continued through the March quarter of 2022, with investors favouring international shares (23.5% of total cash flow) over Australian shares (15.6%).

But the gradual shift towards greater international diversification is not new. The growing demand among investors for international exposure is reflected in flows to Vanguard's own stable of ETFs.

Considering both shares and bonds, flows to Vanguard's international ETFs were $4 billion in 2021, outstripping flows of $3.2 billion to Australian ETFs.

To put these figures in perspective, back in 2017, Vanguard's total funds under management were $4.1 billion for international ETFs and $5.9 billion for Australian ETFs. In 2021, this had grown to $16.5 billion and $18.6 billion respectively.

Overcoming your clients' home country bias
Ease of access to the Australian market and the avoidance of currency risk make Australian shares an attractive option. And let's not forget the franking credits, which offer a nice tax advantage.

Seeing some familiar names in their portfolio may bring your clients a sense of comfort. But by focusing too heavily on the Australian market, your clients limit their opportunity set and forgo the benefits of greater diversification.

This isn't just an issue for Australian investors. Even in the United States, investors are well advised to diversify. Not all the opportunities are to be found in one country, and not every country is free of economic or market risk.

A high allocation to a single country creates concentration risk. It means investors are likely to do well when the domestic economy is strong but are more vulnerable to domestic events—whether bushfires and floods, or inflation and interest rate rises.

As the 2022 Vanguard Economic and Market Outlook points out, the recent divergence in global economic momentum reinforces the benefit of diversification. While some events like a global pandemic or supply chain shocks affect the whole globe, there will always be variability across countries and regions.

Differences in sector composition, the state of economic recovery, monetary and fiscal policy, and currency effects all contribute towards variety in the drivers of return for your clients.

How ETFs can help your clients diversify
While diversification doesn't protect your portfolio against the possibility of negative returns, it can reduce your potential losses if the market does head south.

Diversification starts by investing across different asset classes, but it also includes diversifying broadly within each asset class by investing in a range of different companies and industries.

Both developed and emerging markets are potential sources of diversification for Australian investors. While the COVID pandemic hit emerging markets especially hard, lower relative valuations and the anticipation of increased global demand have made them attractive to many investors.

And it's not just international share markets that can help your clients diversify. Exposure to hedged international bonds can also help offset some risk specific to the Australian fixed income market.

This need to gain broad exposure across asset classes is also driving demand for diversified funds, which are becoming a popular way to gain instant, broad market exposure within portfolios.

Since their debut in November 2017, we've seen significant growth in our diversified ETFs, which now have a combined $3 billion in funds. Our diversified range include four funds covering conservative, balanced, growth and high growth risk profiles. They offer a sophisticated all-in-one investment with a simple structure and low cost.

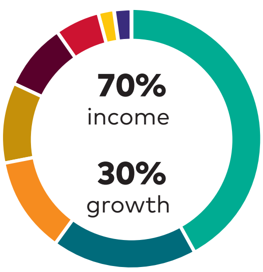
A single trade gives your clients exposure to local and international securities, including thousands of individual bonds and equities.

Giving your clients access to world markets expands their opportunity set by investing in companies large and small across developed and emerging markets.

We can't control how markets behave. But by setting a clear plan, diversifying across multiple asset classes, and minimising costs, we can stay in control of what matters: our long-term investment strategy.

Diversified asset allocation

Conservative
ASX Code: VDCO



Balanced
ASX Code: VDBA

Growth
ASX Code: VDGR

High growth
ASX Code: VDHG

- International Fixed Interest (Hedged)
- Australian Fixed Interest
- Australian Shares
- Cash
- International Shares
- International Shares (Hedged)
- International Small Companies
- Emerging Markets

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