

ETF quarterly report

March quarter 2023



Investors search for diversification and yield in bond ETFs

Welcome to the Q1 2023 edition of the ETF quarterly report.

Rising interest rates and the soaring cost of living continue to impact financial markets, and it's likely we've seen further evidence of this in Q1 ETF net cash flows, as investors have less discretionary income to invest.

The Australian ETF market recorded \$1.8 billion in net cash flows during Q1 2023, down 47% from the previous quarter, and compared to \$2.8 billion in Q1 2022. Market AUM however has increased from \$130 billion at the end of Q4 2022 to \$138.8 billion at the end of Q1 2023, mainly reflecting an overall appreciation in the value of ETF assets.

With recent financial market volatility and continuing economic uncertainty, it's also likely investors are seeking safety in defensive assets such as fixed income and cash ETFs in an effort to manage investment risks.



Minh Tieu
Head of ETF Capital Markets Asia-Pacific

Q1 2023 has delivered the biggest quarterly return on Australian bonds for over a decade, and recent demand suggests fixed income is firmly back on investors' radars.

As bond markets are typically forward-looking, expectations about future interest rate hikes and inflation have likely already been priced in.

Vanguard has recently reduced the fee of the Vanguard Australian Fixed Interest Index ETF (VAF) to 0.10% after a periodic product review, with the objective of passing value back to our investors and helping them keep more of their returns.

In the current financial climate, investors who focus on long-term returns, ensure broad portfolio diversification, and stay the course will be best prepared to navigate any market turbulence.



The Australian ETF market attracted \$1.84 billion in new investments in Q1.



ETF assets under management in Australia surpassed \$138 billion.



Fixed interest ETFs accounted for 51% of net cash flows in Q1.



Vanguard maintained its position as the leading Australian ETF issuer by AUM with \$43.4 billion (31.3%).

Australian ETF update

ETF FACT

\$763m

Vanguard Australia Q1 2023 net cash flow.

Cash flow

Overall, ETF net cash flows were down across the industry for the first quarter. Q1 2023 saw \$1.8 billion in net cash flow across all Australian ETF issuers, down from \$3.4 billion in Q4 2022. Vanguard ETFs attracted the most net cash flows in the first quarter with \$763 million in net cash flows, down from \$1.4 billion in Q4 2022 and down from \$2.07 billion in Q3 2022.

For the quarter, investors favoured Australian equities (36.2% of total net cash flow) over global equities (-6.1%). Strong net cash flows into fixed interest products revealed an investor preference for domestic (27.1%) over international (24.3%) bonds, and cash ETFs were also popular (23.4%).

The Vanguard Australian Shares High Yield Shares Index ETF (VHY) attracted \$182 million in Q1, making it the most popular Vanguard ETF with Australian investors. Strong net cash flows were also observed across the Vanguard suite of ETFs, with the Vanguard MSCI Index International Shares Index ETF (VGS) attracting \$173 million, followed by the Vanguard Global Aggregate Bond Index Hedged ETF (VBND) with \$74.8 million.

Assets under management (AUM)

As of 31 March 2023, there were 285 ETF products available in the Australian market, totalling \$138.8 billion in AUM, up from \$130.7 billion at 31 December 2022. Vanguard retained its position as the top ETF issuer in Australia,

Figure 2. Industry net cash flow by asset class

ASSET CLASS	Q1		YTD	
	\$M	%	\$M	%
Australian Equity	667	36.2	667	36.2
Global Equity	-113	-6.1	-113	-6.1
Infrastructure	0	0.0	0	0.0
Australian Fixed Income	499	27.1	499	27.1
Global Fixed Income	448	24.3	448	24.3
Cash	430	23.4	430	23.4
Australian Property	-42	-2.3	-42	-2.3
Global Property	52	2.8	52	2.8
Commodity	-91	-4.9	-91	-4.9
Currency	-24	-1.3	-24	-1.3
Multi Asset	15	0.8	15	0.8
Total	1,841		1,841	

Sources: ASX monthly report and Vanguard as of 31 March 2023.

managing 31.3% of funds, totalling over \$43.4 billion in AUM.

Performance

Australian shares and international equities both performed well in Q1, and strong returns were recorded across most global fixed income ETFs. The Vanguard FTSE Europe Shares ETF (VEQ) was the best performing ETF over the quarter, returning 11.6%, followed by the Vanguard Ethically Conscious International Shares Index ETF (VESG), returning 10.59%.

Figure 3. Industry net cash flow by issuer

ISSUER	Q1 NET CASH FLOW		AUM
	\$M	%	\$M
abdrn	0.2	0.0	1.1
Alphinity	20.8	1.9	425.6
Antipodes	-13.1	-1.2	340.8
Associate Global Partners	-10.7	-1.0	381.9
BetaShares	710.1	65.9	25,165.5
Daintree	-0.7	-0.1	16.8
Fat Prophets	-0.2	0.0	3.4
Fidante Active X	-24.0	-2.2	800.3
Fidelity	4.2	0.4	311.6
Firetrail	0.6	0.1	8.7
Franklin Templeton	28.9	2.7	494.2
Global X	149.8	13.9	5,440.6
Hejaz	5.8	0.5	90.7
Hyperion	-70.6	-6.6	1,928.8
InvestSMART	21.4	2.0	286.0
iShares	420.9	39.1	25,461.6
Janus Henderson	0.3	0.0	2.1
JPMorgan	2.9	0.3	10.0
K2	-5.8	-0.5	18.2
Loftus Peak	-3.0	-0.3	194.4
Loomis Sayles	0.3	0.0	36.4
Magellan	-758.8	-70.4	8,893.8
Milford	0.1	0.0	0.4
MonashInvestors	-1.2	-0.1	19.5
Montaka	2.6	0.2	91.3
Morningstar	0.9	0.1	152.1
Munro Partners	-17.0	-1.6	194.5
Nanuk	-13.0	-1.2	687.0
Perennial	0.9	0.1	72.7
Perpetual	17.5	1.6	28.9
Perth Mint	-11.6	-1.1	713.1
Platinum	0.2	0.0	464.2
Resolution Capital	31.8	3.0	1,266.2
Russell	34.2	3.2	944.7
Schroders	-1.7	-0.2	62.1
State Street	-33.6	-3.1	8,332.2
VanEck Vectors	588.2	54.6	12,034.3
Vanguard	763.0	70.8	43,401.8
Vaughan Nelson	0.0	0.0	10.4
	1,840.6	100.0	138,787.6

Sources: ASX monthly report and Vanguard, as of 31 March 2023.

Figure 4. Vanguard product summary

ASSET CLASS	ASX TICKER	LAST PRICE	MER %	QUARTER RETURN	1 YEAR RETURN	3 YEAR RETURN P.A.	QUARTERLY NET CASH FLOW \$M	FUM \$M
Australian Equity ETFs								
Broad Market	VAS	97.21	0.10	3.29%	-1.78%	5.58%	51.2	12,176.6
Property	VAP	92.87	0.23	0.26%	-20.24%	-0.97%	26.4	2,229.4
High Yield	VHY	70.66	0.25	2.12%	8.60%	8.82%	182.9	2,847.0
Large Companies	VLC	79.20	0.20	2.88%	4.53%	7.34%	9.1	189.6
Small Companies	VSO	71.95	0.30	-0.22%	-11.74%	7.29%	3.1	725.4
Ethically Conscious Australian Equities	VETH	60.63	0.17	2.89%	-7.02%	N/A	-66.6	368.4
International Equity ETFs								
Developed Markets	VGS	99.09	0.18	9.23%	-12.45%	6.28%	173.3	5,568.9
Developed (AUD hedged)	VGAD	89.00	0.21	7.15%	-17.95%	3.99%	20.5	2,167.9
All world Ex US	VEU	78.20	0.08	8.09%	-9.37%	1.82%	60.4	2,428.5
Total US Market	VTI	309.74	0.03	8.50%	-13.69%	8.26%	67.4	3,146.0
Developed Europe	VEQ	60.79	0.35	11.60%	-10.63%	1.66%	-22.1	240.4
Asia ex Japan	VAE	69.20	0.40	5.34%	-13.18%	0.21%	5.6	349.1
Emerging Markets	VGE	69.50	0.48	4.91%	-12.92%	-1.07%	17.9	672.6
Global Infrastructure	VBLD	64.86	0.47	-0.04%	0.20%	4.28%	10.1	345.2
International Small Companies	VISM	59.19	0.33	5.88%	-12.79%	4.02%	14.4	245.0
Ethically Conscious International Equities	VESG	71.06	0.18	10.59%	-17.46%	5.47%	9.8	652.8
Minimum Volatility – Active (AUD hedged)	VMIN	51.86	0.28	0.49%	-6.80%	0.18%	-2.9	15.7
Global Value – Active	VVLU	60.42	0.29	3.25%	1.34%	7.47%	-2.6	748.0
Fixed Interest ETFs								
Australian Composite	VAF	44.08	0.15	4.57%	-9.90%	-3.03%	15.7	1,582.2
Australian Government	VGB	45.15	0.20	4.87%	-10.64%	-3.36%	37.2	888.0
Australian Corporate	VACF	48.01	0.20	3.38%	-6.94%	-1.42%	20.3	605.9
International Treasury (AUD hedged)	VIF	38.06	0.20	2.79%	-12.87%	-3.76%	42.2	764.5
International Credit (AUD hedged)	VCF	37.48	0.30	2.45%	-14.95%	-3.95%	1.0	173.5
Global Aggregate (AUD hedged)	VBND	40.98	0.20	2.57%	-14.10%	-3.95%	74.8	725.5
Ethically Conscious International (AUD hedged)	VEFI	42.00	0.26	2.55%	-13.88%	-3.88%	12.2	79.3
Diversified ETFs								
Conservative	VDCO	51.62	0.27	3.79%	-10.38%	-0.53%	-12.6	217.6
Balanced	VDDBA	53.76	0.27	4.58%	-11.03%	0.80%	-19.1	623.3
Growth	VDGR	56.93	0.27	5.16%	-10.35%	2.56%	9.0	670.3
High Growth	VDHG	60.26	0.27	5.72%	-9.72%	4.29%	24.2	1,955.3
TOTAL							763.0	43,401.8

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. Past performance information is given for illustrative purposes only and should not be relied upon as, and is not, an indication of future performance.

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