

# Vanguard ETF quarterly report

September 2021

## In this edition:

- The Australian ETF market attracted \$9.09b in Q3 in new investment.
- Vanguard had its best quarter on record attracting 31.9% of industry cash flow.
- Vanguard is the largest Australian ETF issuer by AUM with \$35.2b.

## Quarter in review

The September quarter saw global markets finish largely flat as investors weighed rising vaccination rates and signs of economic resilience against sporadic outbreaks and a gradual tapering of support from central banks.

For developed markets, an early-quarter rally through August was supported by strong company earnings results and accommodative monetary policy expectations. However, sentiment softened in September as inflation numbers proved stubborn, prompting the Federal Reserve to adopt a more hawkish tone, while high-stakes negotiations over the U.S. debt ceiling rattled markets. The final weeks of the quarter saw investors shift away from interest rate sensitive growth shares to cyclical sectors such as energy and financials, narrowing the gap between value and growth performance.

Meanwhile, emerging markets were weighed down by the underperformance of Chinese equities. Uncertainty over the Chinese administration's regulatory actions in the services and property sectors continued to dampen investor appetite, causing volatility to briefly spill into international shares. Falling commodity prices and a relatively dovish Reserve Bank of Australia saw the Australian dollar weaken over the quarter, providing AUD investors with a buffer against international woes. Treasury yields came under pressure in the latter half of the quarter as markets sensed that central banks may speed up their timeline for monetary policy tightening.

## ETF FACT

# \$2.89b

Vanguard had its stronger quarter on record

## Australian ETF Update

### Cash Flow

The Australian ETF market saw record flows in Q3 2021 with over \$9 billion in cash flow pouring into ETFs and taking the Australian ETF industry to over \$17 billion in cash flow year to date. At more than three times the cash flow of Q3 2020, Vanguard had its strongest quarter on record attracting 31.9% of the total market cash flow with \$2.89 billion. The Vanguard Australian Shares ETF (VAS) was our most popular product for the quarter attracting \$624 million, closely followed by our unhedged international equity product, Vanguard MSCI Index International Shares ETF (VGS), with nearly \$606 million.

### Assets under management (AUM)

As of 30 September, there were 226 ETF products available in the Australian market totalling \$129 billion. Vanguard maintained the position of top issuer with \$35 billion in AUM of which nine of our 29 products had \$1 billion or more in AUM.

### Performance

Returns in the third quarter were subdued compared to the first half of the year. The best performing ETF of Q3 was the Vanguard Australian Property Securities Index ETF (VAP) returning +4.69%, followed by the Vanguard MSCI Australian Small Companies Index ETF (VSO) with +4.12%, and Vanguard Ethically Conscious International Shares Index ETF (VESG) with +4.08%.

Over the last year, the best performing Vanguard ETFs were Vanguard Global Value Equity Active ETF (VVLU) at +55.47%, Vanguard MSCI International Small Companies Index ETF (VISM) +39.26%, and Vanguard Australian Shares High Yield ETF (VHY) at +34.84%.

**Figure 1.** Industry cash flow by asset class

ASSET CLASS	QUARTER		YTD	
	M	%	\$M	%
Australian Equity	1,952	21.5	3,497	18.4
Global Equity	4,943	54.4	10,950	57.7
Infrastructure	128	1.4	286	1.5
Australian Fixed Income	410	4.5	1,100	5.8
Global Fixed Income	366	4.0	975	5.1
Cash	405	4.5	242	1.3
Australian Property	179	2.0	414	2.2
Global Property	52	0.6	98	0.5
Commodity	72	0.8	146	0.8
Currency	7	0.1	4	0.0
Multi Asset	565	6.2	1,281	6.7
<b>Total</b>	<b>9,079</b>		<b>18,992</b>	

Source: ASX monthly report and Vanguard.

**Figure 2.** Industry cash flow by issuer

ISSUER	CASH FLOW		AUM
	\$M	%	\$M
Beta Shares	2,374.6	26.2	19,956.3
ETFS	402.3	4.4	4,179.8
Fidante	136.2	1.5	845.2
Fidelity	-48.8	-0.5	224.0
Hyperion / Pinnacle	339.9	3.7	2005.2
InvestSMART	37.3	0.4	214.9
iShares	1,235.8	13.6	23,352.9
Janus Henderson	0.3	0.0	0.3
K2	3.6	0.0	25.0
Legg Mason/BetaShares	91.7	1.0	385.0
Loftus Peak/EQT	27.3	0.3	217.0
Magellan	699.3	7.7	16,390.6
Monash	-1.6	0.0	30.0
Montaka/Perpetual	-1.1	0.0	129.0
Morningstar	47.1	0.5	157.1
Munro / GSFM	66.9	0.7	155.7
Perennial	13.8	0.2	60.6
Antipodes/Pinnacle	3.5	0.0	27.8
Russell	-30.5	-0.3	967.9
Schroders	7.7	0.1	58.5
State Street	162.8	1.8	8,166.0
Switzer	1.7	0.0	398.8
The Perth Mint	-5.0	-0.1	563.9
Platinum	3.3	0.0	507.6
VanEck	626.9	6.9	8,761.5
Vanguard	2,891.8	31.9	35,172.8
XTB	-8.1	-0.1	128.6
<b>Total</b>	<b>9,079</b>	<b>100</b>	<b>123,082</b>

In the fixed income space, Vanguard Australian Government Bond Index ETF (VGB) returned +0.29% for Q3, closely followed by Vanguard Australian Fixed Interest Index ETF (VAF) with +0.28%, and Vanguard Australian

Corporate Fixed Interest Index ETF (VACF) with +0.24%. In the last 12 months, Vanguard Australian Corporate Fixed Interest Index ETF (VACF) was our top performing fixed interest ETF at +1.03%

**Figure 3.** 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 \$
<b>Australian Equity ETFs</b>								
Broad Market	VAS	95.24	0.10	1.88	30.96	9.90	624.3	9,513.7
Property	VAP	91.58	0.23	4.69	30.39	9.09	153.4	2,337.6
High Yield	VHY	65.31	0.25	-1.87	34.84	8.50	92.2	1,914.5
Large Companies	VLC	75.48	0.20	0.00	32.51	10.20	6.3	142.3
Small Companies	VSO	70.90	0.30	4.12	31.57	12.27	39.5	640.4
Ethical Australian Equities	VETH	60.39	0.16	2.68	N/A	N/A	70.2	218.7
<b>International Equity ETFs</b>								
Developed Markets	VGS	101.56	0.18	3.99	27.82	13.39	605.9	4,228.1
Developed (AUD hedged)	VGAD	86.88	0.21	0.56	28.28	11.72	79.0	1,753.7
All World Ex US	VEU	85.13	0.08	0.61	22.82	8.40	92.1	2,361.8
Total US Market	VTS	313.46	0.03	3.87	31.07	16.11	132.4	2,923.1
Developed Europe	VEQ	66.17	0.35	1.83	26.76	7.72	57.0	282.1
Asia ex Japan	VAE	78.63	0.40	-5.30	14.47	9.11	24.6	388.8
Emerging Markets	VGE	77.87	0.48	-3.61	16.50	8.91	36.4	663.3
Global Infrastructure	VBLD	59.74	0.47	2.50	12.39	N/A	20.7	174.9
International Small Companies	VISM	65.56	0.32	2.33	39.26	N/A	29.4	159.1
Ethical International Equities	VESG	74.30	0.18	4.08	26.84	15.22	79.3	432.0
Minimum Volatility - Active	VMIN	53.45	0.28	-1.35	11.12	5.26	3.0	14.8
Global Value - Active	VVLU	59.89	0.28	3.10	55.47	6.36	48.7	265.8
Multi Factor - Active	VGMF	54.33	0.33	2.09	34.51	N/A	7.3	38.3
<b>Fixed Interest ETFs</b>								
Australian Composite	VAF	50.41	0.15	0.28	-1.72	3.95	-11.5	1,434.5
Australian Government	VGB	51.52	0.20	0.29	-2.16	4.08	-5.5	536.5
Australian Corporate	VACF	53.15	0.20	0.24	1.03	4.23	75.1	656.1
International Treasury (AUD hedged)	VIF	44.27	0.20	-0.14	-2.32	3.50	24.6	630.1
International Credit (AUD hedged)	VCF	45.26	0.30	-0.12	0.36	4.69	8.3	210.6
Global Aggregate (AUD hedged)	VBND	48.35	0.20	-0.10	-1.18	4.04	75.8	456.0
ESG	VEFI	49.28	0.26	-0.10	-1.43	3.91	23.5	82.1
<b>Diversified ETFs</b>								
Conservative	VDCO	53.84	0.27	0.56	7.16	6.02	49.1	229.4
Balanced	VDBA	55.75	0.27	0.97	13.04	7.80	94.7	545.0
Growth	VDGR	58.31	0.27	1.36	19.33	9.26	65.0	537.8
High Growth	VDHG	61.02	0.27	1.74	25.93	10.67	291.2	1,401.6
<b>TOTAL</b>							<b>\$2,891.8</b>	<b>\$35,173</b>

# Access low-cost bond exposure with Vanguard's Australian fixed interest ETFs



**Minh Tieu**

Head of ETF Capital Markets – APAC, Vanguard Australia

Fixed interest assets—or bonds—are a defensive asset class that can play an important role in a well-diversified investment portfolio. Bonds are generally considered lower risk than shares and along with providing income and capital preservation, bonds can also help to

reduce the risk in your clients' portfolios by dampening the volatility of, and providing diversification to share market returns.

While the prices of bonds will fluctuate according to interest rate and economic cycles, they historically have been nowhere near as volatile as share prices. The low or negative correlation between the returns of bond markets and share markets provides the diversification every well-balanced portfolio needs. Now, thanks to recent fee reductions, accessing high-quality, diversified bond exposure is even more affordable.

## **Passing on the benefits of scale**

Vanguard has a long track record of passing on cost savings to investors. As our ETF products grow in size, we're able to pass on the benefits of scale to our investors in the form of lower costs. Most recently we reduced the

management fees on select Australian fixed interest funds, making it cheaper for your clients to gain exposure to this core portfolio building block.

As a result of these changes, we've reduced the management fee on the Vanguard Australian Fixed Interest ETF (VAF) from 0.20% to 0.15% and the Vanguard Australian Corporate Fixed Interest Index ETF (VACF) from 0.26% to 0.20%.

The Vanguard Australian Fixed Interest Index ETF is ideal for creating instant, diversified exposure to form the core of your client's fixed interest exposure. It maintains a high-quality credit rating (average weighting AA+) and offers low-cost access to a regular income stream backed by the commonwealth government, state governments, government related entities and corporate issuers.

The Vanguard Australian Corporate Fixed Interest Index ETF offers investors instant access to high-quality investment grade corporate issuers. It delivers greater defensiveness than investments in many other asset classes, but a higher risk/return potential than government-issued bonds. Issuers include many familiar names such as Australia's four major banks, large industrial companies, global companies issuing bonds in the Australian market, and government-related issuers.

## Vanguard Australian Fixed Interest Index ETF (VAF)

### Investment objective

Vanguard Australian Fixed Interest Index ETF seeks to track the return of the Bloomberg AusBond Composite 0+ Yr Index before taking into account fees, expenses and tax.

### ETF overview

The ETF invests in high-quality, income-generating securities issued by the Commonwealth Government of Australia, Australian State Government authorities and treasury corporations, investment-grade corporate issuers, as well as overseas entities that issue debt in Australia, in Australian dollars. While being low cost, the ETF also provides some protection against capital volatility. The investments in the ETF are predominantly rated BBB- or higher by Standard & Poor's ratings agency or equivalent.

### Key ETF facts

Management fee	0.15% p.a.
Indirect costs	0.00% p.a.
Inception date	29 October 2012
Income distribution	Quarterly
Distribution reinvestment plan	Yes
ETF class size	\$1,435.0 Million
Total fund size	\$9,600.1 Million
Number of holdings	634

### Trading information

ASX code	VAF
ISIN	AU000000VAF8
ETF listed on ASX	31 October 2012

### Benchmark information

Benchmark (Bmk)	Bloomberg AusBond Composite 0+ Yr Index
Number of holdings	705

## Vanguard Australian Corporate Fixed Interest Index ETF (VACF)

### Investment objective

Vanguard Australian Corporate Fixed Interest Index ETF seeks to track the return of the Bloomberg AusBond Credit 0+ Yr Index before taking into account fees, expenses and tax.

### ETF overview

The ETF provides investors with low-cost, diversified exposure to Australian corporate bonds. It invests in investment grade bonds issued by corporations including Australia's four largest banks, offshore banks, other lending institutions and property trusts. The benchmark has a shorter duration than the broader composite index but a lower overall credit quality (BBB- or higher by Standard & Poor's ratings agency or equivalent) and therefore a higher expected yield.

### Key ETF facts

Management fee	0.20% p.a.
Indirect costs	0.00% p.a.
Inception date	23 May 2016
Income distribution	Quarterly
Distribution reinvestment plan	Yes
ETF size	\$656.0 million
Total fund size	\$907.4 million
Number of holdings	397

### Trading information

ASX code	VACF
ISIN	AU000000VACF9
ETF listed on ASX	25 MAY 2016

### Benchmark information

Benchmark (Bmk)	Bloomberg AusBond Credit 0+ Yr Index
Number of holdings	396

## Connect with Vanguard™

[www.vanguard.com.au](http://www.vanguard.com.au)

1300 655 205



Vanguard Investments Australia Ltd (ABN 72 072 881 086 / AFS Licence 227263) ("Vanguard") is the issuer of the Vanguard® Australian ETFs. Past performance is not an indication of future performance. In preparing the report, individual circumstances, for example tax implications, have not been taken into account and it may, therefore, not be applicable to an individual's situation. Before making an investment decision, you should consider your circumstances and whether the report is applicable to your situation. Vanguard ETFs will only be issued to Authorised Participants. That is, persons who have entered into an Authorised Participant Agreement with Vanguard ("Eligible Investors"). Retail investors can transact in Vanguard ETFs through a stockbroker or financial adviser on the secondary market. This information is intended for investors in Australia only. Information regarding the US registered products does not constitute an offer or solicitation and may not be treated as an offer or solicitation in any jurisdiction where such an offer or solicitation is against the law or to anyone to whom it is unlawful to make such an offer or solicitation, or if the person making the offer or solicitation is not qualified to do so. Vanguard is the issuer of the Prospectus on behalf of the US listed exchange traded funds ("ETFs") described in the Prospectus. Vanguard has arranged for interests in the US ETFs to be made available to Australian investors via CHESS Depositary Interests that are quoted on the AQUA market of the Australian Securities Exchange ("ASX"). The funds or securities referred to herein are not sponsored, endorsed, or promoted by MSCI, and MSCI bears no liability with respect to any such funds or securities. The PDS contains a more detailed description of the limited relationship MSCI has with Vanguard and any related funds.

Investors should consider the Prospectus and Product Disclosure Statement in deciding whether to acquire Vanguard ETFs. Retail investors can only use the Prospectus and Product Disclosure Statement for informational purposes. Distributors of our products must consider our Target Market Determinations ("TMDs") which describe the investors for whom the product would likely be appropriate and consistent with their objectives, financial situation and needs. You can access the Product Disclosure Statement, Prospectuses and TMDs at [vanguard.com.au](http://vanguard.com.au).

© 2021 Vanguard Investments Australia Ltd (ABN 72 072 881 086 / AFS Licence 227263).

VETFQR\_102021