



BetaShares
Exchange Traded Funds

BETASHARES AUSTRALIAN ETF REVIEW

**YEAR END 2020 REVIEW
& MONTH ENDING DECEMBER 2020**



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AUSTRALIAN EXCHANGE TRADED FUND INDUSTRY: END OF YEAR REVIEW 2020

One for the ages!



- As a long-suffering Liverpool Football Club supporter, nothing was going to stop me from using a picture of the mighty Reds winning their first Premiership in 30 years as I sat down to pen the End Year review for 2020. Fortunately, I have at least a semi-passable way of making the link from this picture to the year that was in ETFs: both were achievements for the ages! Much like the wonderful Liverpool football club, the Australian ETF industry has gone from strength to strength over recent years (best not to talk about the team's current form as the analogy may fall over at that point)
- 2020 was a standout year globally for ETFs, with the pandemic causing investors to turn to the liquidity and accessibility of ETFs in their droves in incredible volatile conditions. It was also a year that finally silenced the sometimes outspoken critics of ETFs, some of whom had claimed that the investment vehicle had never been tested during stressful periods. In fact, ETFs globally coped admirably and reliably as investors bought and sold ETF holdings in record amounts during the 'virus crises'.
- The Australian ETF industry which started the year at \$62B ended up >50% higher, **\$95.2B**, an **all-time high**, although admittedly this included a large conversion event by Magellan which immediately added ~\$13B to the industry¹. Excluding this event the industry grew by a still-rapid 32% p.a.
- The change in total industry size for the year was **\$33B** which is by far the highest annual change on record.
- Perhaps the most striking feature however, of the industry's growth in 2020, is that it was entirely driven by net inflows rather than asset value appreciation, with **\$20.5B** of new money flowing into the industry over the course of the year. This represents by far and away the **highest annual inflows on record**, representing a 59% increase in flows from the previous year's figure.

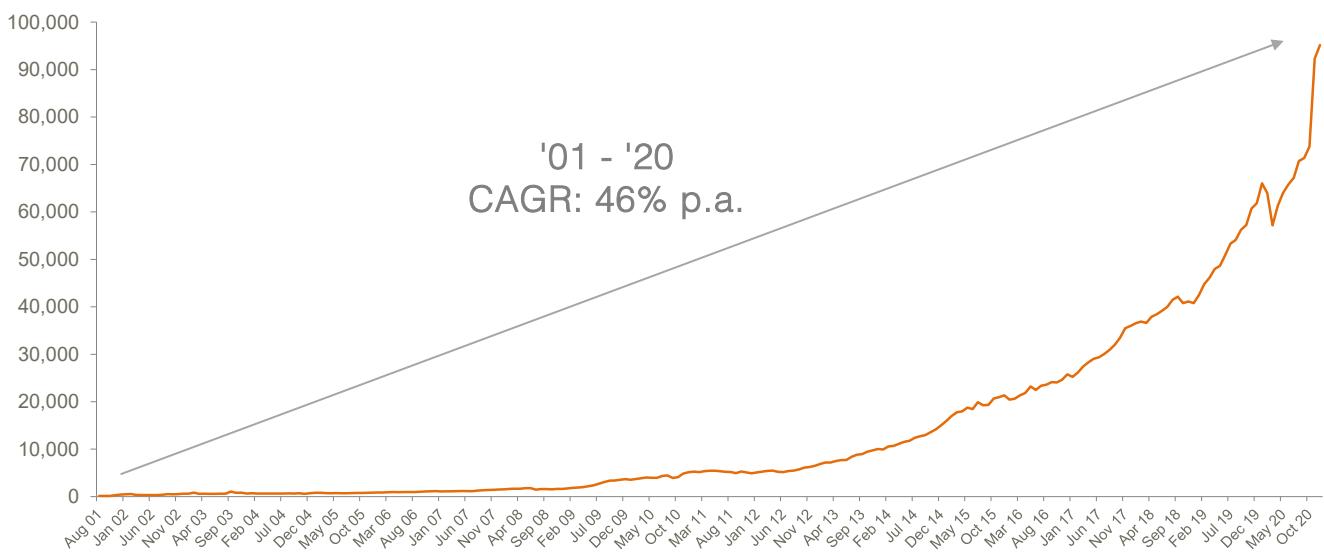
¹ As mentioned in my November 2020 Review, Magellan's Global Fund was converted into an "Open Class" structure (which permits applications and redemptions both on and off market) in November. As a result of this change, the entire \$13.5B of FuM in that strategy has been 'ported' across to the ETF industry data. We've included the converted fund for FUM purposes in this review but, given it's a structural change not a net flow, have excluded from the flow figures.

- Our internal analysis also indicates that a higher proportion of these flows than ever came from direct individual investors, with hundreds and thousands of new, often young investors entering the sharemarket for the first time via ETFs in 2020.
- The industry broke essentially all other records in addition to those described above, with **ETF Trading activity levels reaching a fresh record high, trading value essentially doubling** compared to 2019, and approximately **\$100B** of value traded.
- Flows by ETF manager continued to be concentrated, albeit less so than last year, with the top 3 players (**Vanguard, BetaShares** and **iShares**) receiving 70% of the industry's flow combined (compared to 80% for the top 3 players in 2019). Notably, both BetaShares and Vanguard became the first ETF issuers in Australia to record >\$5B of annual net flows.
- In terms of product launches, we saw product development activity pick up significantly compared to the year before. Over the course of 2020, **38** funds were launched. Notably, however, 'net product growth' was negative for the first time (-2) with a record number of products closing/maturing over the course of 2020, including 2 ETF issuers leaving the market (UBS and Pinnacle). We view the stabilisation in the number of total product trading to be a normal part of the maturation of the industry, but do expect new product activity to continue unabated in 2021.
- By inflows, **passive products** captured the bulk of flows with **90%** share, with the Active ETF sector retaining approximately the same proportion of flows as 2019 - 10%¹.
- Within the passive category **vanilla index-tracking funds** once again dominated, and indeed their share of flows grew vs. previous years (83% of flows in 2020 v. 79% of flows in 2019).
- That said, with the likelihood of significantly more launches of Active ETFs in 2020, we expect their share of flows to grow steadily over the coming years, particularly if more managers opt for conversions of existing mutual funds into open-ended structures.
- In terms of category flow, compared to 2019, flows reverted heavily back, in 2020, to equities products, both international and Australian exposures. By comparison, fixed income flows were muted by the ultra-yield environment and investor's return expectations of the fixed income asset class
 - **International equities** received the highest level of flows at ~\$7.6B
 - **Australian Equities** also had a strong year for flows, with ~\$6.8B received.
 - We also saw a surge in demand for **Gold** exposures as well as **Short** products which became the 5th most 'bought' category in the industry in 2020.
 - Outflows were limited, with only one broad category receiving net outflows – US Currency ETFs
- The **top 5 products for performance** were essentially all **technology oriented** exposures, with this sector performing particularly well in the pandemic environment. In the BetaShares stable, **ASIA** was a real standout, not only from a performance perspective (60% return for the calendar year) but for flows as well, with the product receiving over \$300m of net new money.
- In our year-end report for 2019, I wrote "*We believe the industry will continue to grow strongly in 2020, but feel that another year of 50%+ growth is unlikely*", leading me to forecast total FUM of \$72-\$78B for year end 2020. Excluding the unlisted fund conversion, the industry ended up over the top end of this range (\$82B). The unlisted fund conversion created a new higher baseline FuM level for the industry going forward.
- **Given continued adoption by all client segments (direct individual investors, financial advisers and institutions), we believe the industry will continue to grow strongly in 2021, and forecast total industry FuM at end 2021 to be in the range of \$110-\$120B. We expect that the industry will break the \$100B milestone by the end of the first quarter.**

¹ "Passive" products defined as passive/rules-based products (i.e. rather than as legally defined by ASIC/ASX) and include products with an element of investment discretion. "Active" defined as Active ETFs

MARKET SIZE AND GROWTH: CALENDAR YEAR 2020

Australian ETF Industry – Funds Under Management: April 2001 - December 2020



CAGR: Compound Annual Growth Rate

Source: ASX, BetaShares

MARKET CAP

- Australian Exchange Traded Funds Market Cap (ASX + Chi-X): **\$95.2B – New all-time high**
- Market cap growth for year: **54%, +\$33.3B - largest absolute 12 month \$ growth on record.** *Excluding MGOC conversion, market cap growth for the year 32%*

NEW MONEY

- Net new money: **+\$20.5B – all time high annual flows on record** (*60% increase on previous annual record*)

PRODUCTS

- **256** Exchange Traded Products trading on the ASX (vs 258 as at end 2019)
- New products: 38 new products launched in the year (vs. 24 in 2019), 40 products closed/matured – **highest number of products closed on record**

TRADING VALUE

- Trading value increased **97% compared to 2019 – all-time record trading year for ETFs - ~\$100B traded on ASX** (v. \$50B as previous record)

PERFORMANCE

- Technology Exposures overwhelmingly recorded the best performance over the calendar year, including battery technology, [Asian Technology](#), [Robotics & A.I.](#) and [Global Cybersecurity](#).

TOP 10 PRODUCTS: END OF YEAR 2020

Ticker	Product	Issuer	Market Cap	Rank Movement
MGOC	Magellan Global Fund - Open Class Units (Managed Fund)^	Magellan	\$13,347,792,729	NEW
VAS	Vanguard Australian Shares Index ETF	Vanguard	\$7,169,984,545	-1
STW	SPDR S&P/ASX 200	State Street	\$4,221,532,212	-1
IOZ	iShares Core S&P/ASX 200 ETF	iShares	\$3,675,920,657	+1
IVV	iShares S&P 500 ETF	iShares	\$3,571,503,673	-2
VGS	Vanguard MSCI Index International Shares ETF	Vanguard	\$2,624,196,080	-2
AAA	Betashares Australian High Interest Cash ETF	BetaShares	\$2,205,984,487	-
VTS	Vanguard US Total Market Shares Index ETF	Vanguard	\$2,084,381,198	-
GOLD	ETFS Physical Gold	ETF Securities	\$2,040,747,450	+6
IOO	iShares Global 100 ETF	iShares	\$1,957,583,504	-4

Due to the structural change to the Magellan fund, MGOC became the largest exchange traded product in Australia by some margin. That said, we saw tremendous growth in Australian Broad market exposures. The fastest mover this year was a Physical Gold bullion product, which grew significantly as the price of gold rallied.

Top 10 Net Flows (by \$) - 2020

Ticker	Product	Inflow Value
VAS	Vanguard Australian Shares Index ETF	\$2,301,441,677
IOZ	iShares Core S&P/ASX 200 ETF	\$1,645,500,810
GOLD	ETFS Physical Gold	\$818,359,794
QUAL	VanEck Vectors MSCI World Ex-Australia Quality ETF	\$570,673,604
NDQ	BetaShares NASDAQ 100 ETF	\$544,628,406
IAF	iShares Core Composite Bond ETF	\$523,978,313
ETHI	BetaShares Global Sustainability Leaders ETF	\$505,629,466
STW	SPDR S&P/ASX 200	\$501,553,644
BBOZ	BetaShares Australian Strong Bear (Hedge Fund)	\$426,211,724
VGAD	Vanguard MSCI Index International Shares (Hedged) ETF	\$420,704,902

Bottom 10 Net Flows (by \$) - 2020

Ticker	Product	Inflow Value
IHEB	iShares J.P.Morgan USD Emerging Markets Bond (AUD Hedged) ETF	-\$102,593,795
USD	BetaShares U.S Dollar ETF	-\$75,887,119
WDMF	iShares Edge MSCI World Multifactor ETF	-\$71,346,534
BILL	iShares Core Cash ETF	-\$63,817,108
IXI	iShares Global Consumer Staples ETF	-\$62,323,600
PIXX	Platinum International Fund (Quoted Managed Hedge Fund)	-\$46,417,500
IEU	iShares Europe ETF	-\$42,613,615
IHHY	iShares Global High Yield Bond (AUD Hedged) ETF	-\$36,813,813
FLOT	VanEck Vectors Australian Floating Rate ETF	-\$26,539,903
ZYAU	ETFS S&P/ASX 300 High Yield Plus ETF	-\$26,196,903

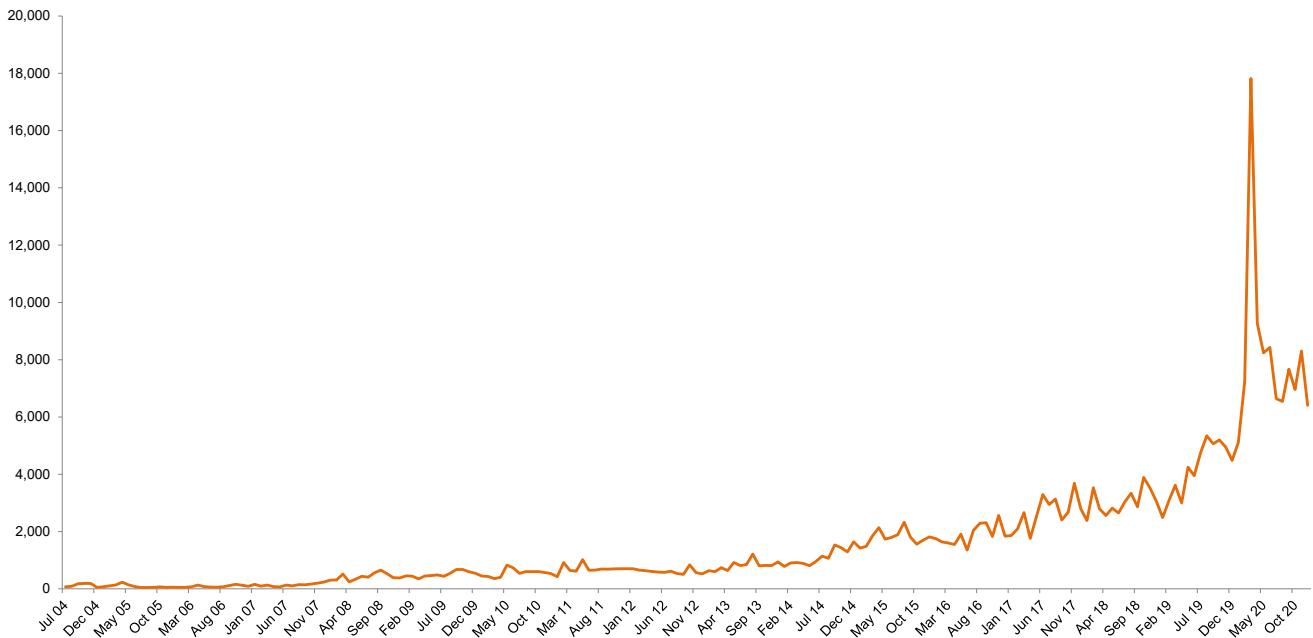
The funds receiving the highest amount of flows this year were almost entirely equities funds, with Australian broadmarket products in particular receiving significant inflows. Gold's level of flow was also notable. For the first time in the industry's history an ESG/ethical fund made its way into the top 10 for flows, with our [ETHI](#) fund taking in over \$500m of net new money over the year.

By Average Daily Trading Value (12 month)

Ticker	Product	Issuer	ADTV 12 month	Rank Movement
BBOZ	BetaShares Australian Strong Bear (Hedge Fund)	BetaShares	\$34,322,599	+8
VAS	Vanguard Australian Shares Index ETF	Vanguard	\$27,700,468	-
IOZ	iShares Core S&P/ASX 200 ETF	iShares	\$22,680,611	+1
AAA	Betashares Australian High Interest Cash ETF	BetaShares	\$20,613,856	-1
STW	SPDR S&P/ASX 200	State Street	\$19,912,189	-4
BBUS	BetaShares US Equities Strong Bear Currency Hedged (Hedge Fund)	BetaShares	\$14,069,927	+19
GOLD	ETFS Physical Gold	ETF Securities	\$12,190,782	+5
GEAR	BetaShares Geared Australian Equity Fund (Hedge Fund)	BetaShares	\$10,119,669	+34
IVV	iShares S&P 500 ETF	iShares	\$9,051,912	-3
A200	Betashares Australia 200 ETF	BetaShares	\$7,866,259	-5

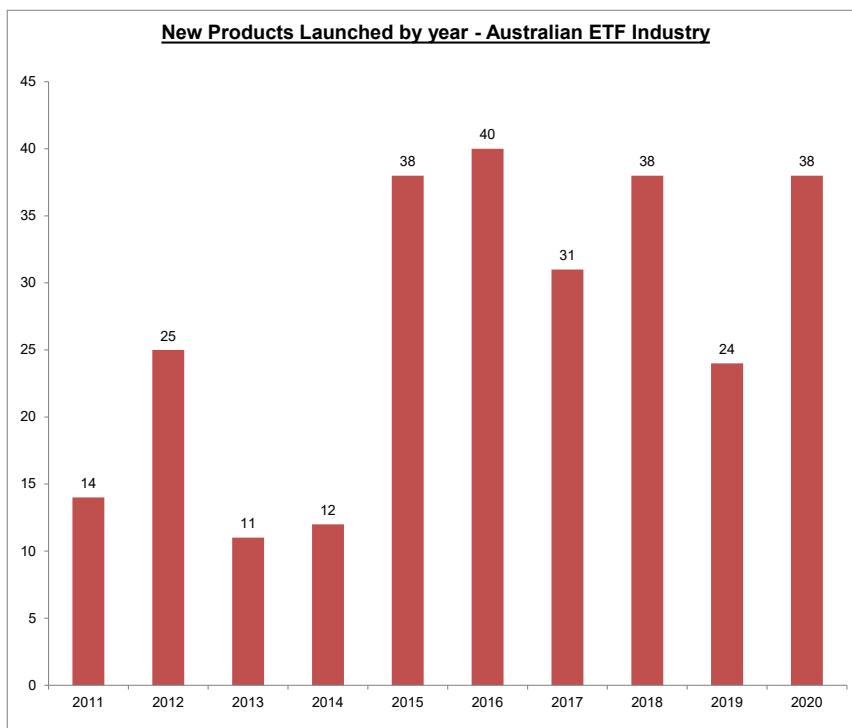
Trading of ETFs grew dramatically across the board in 2020. In particular, given the extreme volatility we saw in the market, a number of short-term trading oriented products were heavily utilised by investors. In this vein, we saw the leveraged short Australian shares product, [BBOZ](#), top the table in terms of value traded, with a very healthy \$34m/day in ADTV. Notably, the leveraged long equivalent, [GEAR](#), also made it into the top 10 most traded funds.

AUSTRALIAN ETF INDUSTRY – ASX MONTHLY TRADING VALUE



The long term ‘monthly ASX value traded’ chart shows the unprecedented spike in trading activity in ETFs at the height of the COVID volatility. You’ll note that, even though the trading value dropped precipitously after those highly volatile months, a new level of trading value has been set in the market well above that of previous years.

NEW PRODUCT LAUNCHES – 2020



Product development activity was healthy in 2020, with 38 new products launched this year. Notably, however, ‘net product growth’ was negative for the first time (-2) with a record number of products closing/maturing over the course of 2020. In total 40 funds closed and 2 ETF issuers left the market (UBS and Pinnacle). We view the stabilisation in the number of products to be a normal part of the maturation of the industry, but do expect new product activity to continue unabated. Note that the US experienced a very similar phenomenon, a record number of product closures, along with a record number of new products launched.

ANALYSIS OF INFLOWS: 2020

	Inflow Value	2020 (%)	2019 (%)	2018 (%)	2017 (%)
Passive	\$18,445,847,075	90%	89%	88%	92%
Active	\$2,082,736,787	10%	11%	12%	8%

In terms of net inflows, the bulk of flows this year continued to be in Passive products, which have remained at ~90% of flows for the last 4 years. Active ETF flows were broadly equivalent as a % to 2019, however we do continue to believe that this proportion will edge up over time as more of these of products are launched in the coming months and years ahead. Of course, Magellan's conversion and others who take a similar course will also change the complexion of future flows. The table below shows that, as has been the case for the last number of years that Active ETFs once again outsold 'smart beta' ETFs in 2020.

Product Style	Inflow Value - 2020	2020 (%)	2019 (%)	2018 (%)	2017 (%)
Index	\$17,031,800,436	83%	79%	78%	79%
Active	\$2,082,736,787	10%	11%	12%	13%
Smart Beta	\$1,414,046,639	7%	10%	9%	8%

Top 5 Category Inflows (by \$) - 2020

Category	Inflow Value	Rank Movement
International Equities	\$7,556,516,555	-
Australian Equities	\$6,766,821,310	+1
Fixed Income	\$2,432,444,758	-1
Commodities	\$1,538,831,807	+3
Short	\$798,757,014	+4

In my end-year 2019 report, a year in which Fixed Income ETFs were the largest category for flows, I wrote: "*In 2020, we expect International Equities to return to the top of the table, given the current yield environment and investor expectations of potentially decent overall equity market returns this year.*"

As the table above indicates, this was indeed the case. Equities products overwhelmingly dominated flows this year and investor demand for bonds was muted by the return expectations and ultra-low yield environment. As mentioned previously we also saw a surge in demand for gold products and short exposures which were particularly popular in the early to middle part of the year.

Sub-Category	Inflow Value	Rank Movement
Australian Equities - Broad	\$5,319,009,405	+3
International Equities - Developed World	\$2,658,876,237	-
International Equities - Sector	\$2,001,457,826	+4
Australian Bonds	\$1,972,543,805	-3
Gold	\$1,244,042,116	+9

The sub-category flows mirrored those of the broad categories although it was broad Australian equity products that took out the top place. There was a notable and substantial increase in investment into global sector products in 2020, largely due to an increase in interest in [technology exposures](#).

Top Category Outflows (by \$) - YTD

Category 3	Inflow Value
Currency	-\$82,163,081

As was the case in 2019, there were virtually no outflows in the industry at a category level, with the exception being USD currency exposure.

Top Performing Products – 2020

Ticker	Product Name	Performance (%)
ACDC	ETFS Battery Tech & Lithium ETF	62.2%
ASIA	BetaShares Asia Technology Tigers ETF	62.0%
RBTZ	BetaShares Global Robotics and Artificial	37.7%
HACK	BetaShares Global Cybersecurity ETF	36.6%
TECH	ETFS Morningstar Global Technology ETF	34.0%

The top 5 products for performance were essentially all technology oriented exposures, with this sector performing particularly well in the pandemic environment. In the BetaShares stable, [ASIA](#) was a real standout, not only from a performance perspective but for flow as well, with the product receiving over \$300m of net new money.

\$ Value Inflows/Outflows by Provider – 2020

The ETF industry's flows in 2020 remained concentrated to the top 3 ETF issuers, being Vanguard, BetaShares & iShares which cumulatively took in 70% of the flows for the year. That said, there was a little more spread across participants than 2019, in which the top 3 received 80% of industry flows.

It was a hallmark year for flows more generally, with BetaShares and Vanguard becoming the first ETF issuers to record >\$5B in flows in a single year.

Provider	Inflow Value	% Industry
Vanguard	\$5,687,498,327	27.6%
BetaShares	\$5,378,494,221	26.1%
iShares	\$3,054,890,363	14.8%
VanEck	\$2,198,346,088	10.7%
ETF Securities	\$1,239,863,274	6.0%
Magellan	\$874,288,085	4.2%
State Street	\$847,988,449	4.1%
Fidante	\$283,115,373	1.4%
Gold Corporation	\$262,903,885	1.3%
Russell	\$156,394,188	0.8%
Loftus Peak	\$143,348,798	0.7%
Switzer	\$129,677,066	0.6%
Fidelity	\$87,628,077	0.4%
Morningstar	\$76,222,727	0.4%
Investsmart	\$61,371,320	0.3%
Montgomery	\$33,489,504	0.2%
Janus Henderson	\$20,354,633	0.1%
Munro Partners	\$18,477,263	0.1%
Perennial	\$17,369,633	0.1%
ACBC	\$10,004,066	0.0%
Kapstream	\$5,342,866	0.0%
Antipodes	\$24,395	0.0%
Schroder	-\$992,101	0.0%
K2 Global	-\$5,209,746	0.0%
Platinum	-\$52,306,893	-0.3%

AUSTRALIAN EXCHANGE TRADED FUND INDUSTRY: MONTH OF DECEMBER 2020

MARKET CAP & NEW MONEY

- Market cap growth for month: **3.1%, \$2.8B**
- Net new money: **+\$2.7B – all time high monthly flows**
- 5 new products launched this month, all Active ETFs (4 from Magellan, 1 from Switzer), 6 products closed/matured

TRADING VALUE

- Trading value decreased 23% month on month

PERFORMANCE

- Physical Silver was the best performing product this month, along with technology exposures. Notably, the leveraged long Australian Dollar product, [AUDS](#), returned ~10% for the month as the AUD rallied against the USD.

TOP 10 PRODUCTS: DECEMBER 2020

Average Daily Trading Value (by \$) - Month

Ticker	Product	Issuer	ADTV	Rank Movement
VAS	Vanguard Australian Shares Index ETF	Vanguard	\$22,913,146	+2
STW	SPDR S&P/ASX 200	State Street	\$16,123,255	+4
AAA	Betashares Australian High Interest Cash ETF	BetaShares	\$15,564,696	-1
IOZ	iShares Core S&P/ASX 200 ETF	iShares	\$12,439,088	
BBOZ	BetaShares Australian Strong Bear (Hedge Fund)	BetaShares	\$9,331,886	-4
NDQ	BetaShares NASDAQ 100 ETF	BetaShares	\$7,784,245	+1
GOLD	ETFS Physical Gold	ETF Securities	\$7,370,534	+1
IAF	iShares Core Composite Bond ETF	iShares	\$7,234,605	+8
IVV	iShares S&P 500 ETF	iShares	\$6,996,156	
ILB	iShares Government Inflation ETF	iShares	\$6,316,676	+124

Top 10 Inflows (by \$) - Month

Ticker	Product	Inflow Value
MCSI	MFG Core Infrastructure Fund (Managed Fund)	\$389,728,057
MGOC	Magellan Global Fund - Open Class Units (Managed Fund)^	\$293,959,025
VAS	Vanguard Australian Shares Index ETF	\$182,267,192
QUAL	VanEck Vectors MSCI World Ex-Australia Quality ETF	\$90,606,465
A200	Betashares Australia 200 ETF	\$87,296,889
STW	SPDR S&P/ASX 200	\$74,376,473
ETHI	BetaShares Global Sustainability Leaders ETF	\$69,163,875
IAF	iShares Core Composite Bond ETF	\$68,032,859
VGS	Vanguard MSCI Index International Shares ETF	\$62,648,517
NDQ	BetaShares NASDAQ 100 ETF	\$60,988,408

Top 10 Outflows (by \$) - Month

Ticker	Product	Inflow Value
IOZ	iShares Core S&P/ASX 200 ETF	-\$57,412,018
USD	BetaShares U.S Dollar ETF	-\$26,201,858
BBOZ	BetaShares Australian Strong Bear (Hedge Fund)	-\$19,578,879
BILL	iShares Core Cash ETF	-\$18,045,720
RDV	Russell Investments High Dividend Australian Shares ETFÂ	-\$12,202,326
OOO	BetaShares Crude Oil Index ETF-Currency Hedged (Synthetic)	-\$10,490,141
IHCB	iShares Core Global Corporate Bond (AUD Hedged) ETF	-\$9,136,947
BBUS	BetaShares US Equities Strong Bear Currency Hedged (Hedge Fund)	-\$8,418,971
ILB	iShares Government Inflation ETF	-\$7,466,484
BNKS	BetaShares Global Banks ETF - Currency Hedged	-\$4,386,319

Top 5 Category Inflows (by \$) - Month

Broad Category	Inflow Value
International Equities	\$1,730,755,855
Australian Equities	\$492,712,201
Fixed Income	\$341,913,756
Multi-Asset	\$95,418,950
Australian Listed Property	\$49,194,742

Sub-Category	Inflow Value
International Equities - Developed World	\$664,938,591
International Equities - Sector	\$589,805,692
Australian Equities - Broad	\$351,491,078
Australian Bonds	\$296,278,633
International Equities - US	\$209,094,364

Top Category Outflows (by \$) - Month

Broad Category	Inflow Value
Currency	-\$33,350,705
Short	-\$30,616,963

Sub-Category	Inflow Value
Currency	-\$33,350,705
Australian Equities - Short	-\$22,197,992
Oil	-\$10,490,141
US Equities - Short	-\$8,418,971
International Equities - Geared	-\$2,180,031

Top Performing Products – Month

Ticker	Product Name	Performance (%)
ETPMAG	ETFS Physical Silver	14.1%
LNAS	ETFS Ultra Long Nasdaq 100 Hedge Fund	11.6%
AUDS	BetaShares Strong Australian Dollar Fund	9.9%
HACK	BetaShares Global Cybersecurity ETF	9.8%
QRE	BetaShares Resources Sector ETF	8.7%