



BetaShares

Exchange Traded Funds

BETASHARES AUSTRALIAN ETF REVIEW

**YEAR END 2019 REVIEW
& MONTH ENDING DECEMBER 2019**



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Records smashed!



- Records were broken all over the ETF industry globally in 2019, and Australia was no different.
- The Australian ETF industry smashed through the \$60B milestone and ended the year at **\$61.8B**, an **all-time high**, and a full **52%** higher than its level as at the end of 2018 (\$41B).
- The change in total industry size for the year was **\$21B** which is by far the highest annual change on record.
- In our 2018 report, after a year in which the industry's growth was hampered by declining asset prices, I wrote "strong 'unit' growth means that if and when asset prices recover, we will see some "bumper" growth months in the year ahead". This occurred 'in spades' in 2019, and, in many ways, this bumper result was 'set up' by the consistent unit growth we saw in 2018.
- Unquestionably the industry was assisted by strong asset value appreciation, but nonetheless ~**60%** of the year's industry growth came from net inflows, with **\$12.9B** flowing into the industry over the course of the year. This represents by far and away the **highest annual inflows on record**, and, in fact, represents a **65%** increase on the previous annual record (which was in 2017).
- The industry broke other records in addition to those described above, with **ETF Trading activity levels reaching a fresh record high**, with **trading value increasing 38%** compared to 2018, and over **\$50B** of value traded.

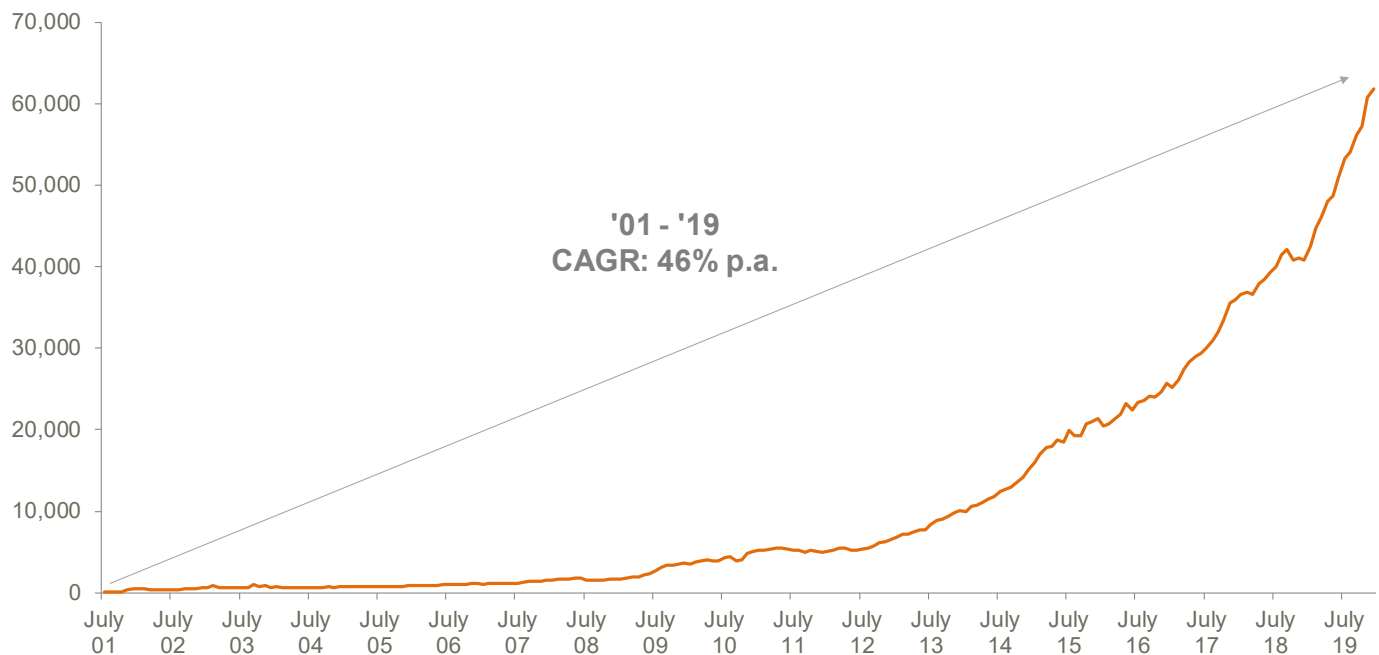
- Flows by ETF manager continued to be concentrated, and more so than last year, with the top 3 players (**Vanguard, BetaShares** and **iShares**) receiving 80% of the industry's flow combined (compared to 74% for the top 3 players in 2018)
- In terms of product launches, we saw a noticeable slow-down in new products launched in 2019 compared previous years. Over the course of 2019, **24** funds were launched – compared to an average of 37 new products launched/year in the 4 years prior. There was only a single fund closure, with VanEck Vectors closing and repurposing an Australian Shares Fund in the middle of the year.
- We found it notable that almost half of the new funds launched (11) were Active ETFs, and would not be surprised to see >50% of new launches in 2020 be in the form of Active ETFs, particularly now that ASIC has lifted its pause on the launch of non-transparent Active ETFs.
- By inflows, **passive products** captured the bulk of flows with **89%** share, with the Active ETF sector retaining approximately the same proportion of flows as 2018 - 11%¹.
- Within the passive category **vanilla index-tracking funds** once again dominated, with their share of flows remaining stable vs. previous years (79% of flows in 2019 v. 78% of flows in 2018), as did the share of flows in '**smart-beta**' products (10% in 2019 vs. 9% in 2018)².
- 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.
- In terms of category flow, 2019 was very much a year for Fixed Income ETFs, a trend we saw mirrored globally.
 - As such, for the first time on record, **fixed income** products ranked #1 for inflows, with **\$3.7B** of net inflows, followed by **international equities** products at ~\$3.6B
 - **Australian Equities** also had a strong year for flows, with ~\$3.0B received.
 - It is pleasing to see flows of over \$3B in three different categories, illustrating how investors are using ETFs to build diversified portfolios across asset classes.
 - In 2020, we expect International Equities to return to the top of the table, given the current yield environment and investor expectations of decent overall equity market returns this year.
 - Outflows were limited, with only one broad category receiving net outflows – US Currency ETFs were sold off most likely due to profit taking, as the USD appreciated in value over the year
- Geared shares exposures, being the [BetaShares Geared U.S. Equity Fund \(hedge fund\) \(ASX: GGUS\)](#) and [BetaShares Geared Australian Equity Fund \(hedge fund\) \(ASX: GEAR\)](#) followed by Palladium exposures were **the best performing products for 2019**. GGUS' annual return was 69%, and GEAR had returns of >50% for the year.
- In our year-end report for 2018, I wrote *"fundamental unit growth will continue to support the industry's rise, with extraordinary growth possible should asset values recover"*, leading me to forecast total FUM of \$50-\$55B for year end 2019. Ultimately, these already bullish forecasts were significantly exceeded by the twin forces of record inflows + very strong gains in asset prices.
- We believe the industry will continue to grow strongly in 2020, but feel that another year of 50%+ growth is unlikely, as such, we forecast total industry FuM at end 2020 to be in the range of \$72-\$78B.

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

² 'Smart-beta' defined as products which weigh constituents based on a methodology other than strictly market capitalisation/price

MARKET SIZE AND GROWTH: CALENDAR YEAR 2019

Australian ETF Industry – Funds Under Management: April 2001- December 2019



CAGR: Compound Annual Growth Rate
Source: ASX, BetaShares

MARKET CAP

- Australian Exchange Traded Funds Market Cap (ASX + Chi-X): **\$61.8B – New all-time high**
- Market cap growth for year: **52%, +\$21.1B - largest absolute 12 month \$ growth on record**

NEW MONEY

- New unit growth for year (units outstanding by number): **39%**
- Net new money (units outstanding by \$ value): **+\$12.9B – all time high annual flows on record (65% increase on previous annual record)**

PRODUCTS

- **258** Exchange Traded Products trading on the ASX
- New products: 24 new products launched in the year (vs. 38 in 2018), 1 product closed

TRADING VALUE

- Trading value increased **38%** compared to 2018 – **all-time record trading year for ETFs - \$50B traded on ASX** (v. \$36B as previous record)

PERFORMANCE

- Geared shares exposures, being the [BetaShares Geared U.S. Equity Fund \(hedge fund\) \(ASX: GGUS\)](#) and [BetaShares Geared Australian Equity Fund \(hedge fund\) \(ASX: GEAR\)](#) followed by Palladium exposures were the best performing products for 2019

TOP 10 PRODUCTS: END OF YEAR 2019

Ticker	Product	Issuer	Market Cap (this month)	Rank Movement for 2019
VAS AU Equity	Vanguard Australian Shares Index ETF	Vanguard	\$4,494,120,000	+1
STW AU Equity	SPDR S&P/ASX 200 Fund	State Street	\$3,649,460,000	-1
IVV AU Equity	iShares S&P 500	iShares	\$3,421,140,000	-
VGS AU Equity	Vanguard MSCI Index International Shares ETF	Vanguard	\$2,123,130,000	+3
IOZ AU Equity	iShares Core S&P/ASX 200 ETF	iShares	\$1,895,390,000	+5
IOO AU Equity	iShares S&P Global 100	iShares	\$1,804,950,000	-2
AAA AU Equity	Betashares Australian High Interest Cash ETF	BetaShares	\$1,792,850,000	-1
VTX AU Equity	Vanguard US Total Market Shares Index ETF	Vanguard	\$1,676,630,000	-2
VAP AU Equity	Vanguard Australian Property Securities Index E	Vanguard	\$1,619,070,000	+1
MGE AU Equity	Magellan Global Equities Fund (Mgd Fund)	Magellan	\$1,595,580,000	-1

We had a change in leader in 2019, with Vanguard's Australian Shares Index ETF becoming the largest ETF in Australia, swapping places with State Street's equivalent fund. Another Australian broadmarket product, IOZ, was the "fastest mover" in the Top 10 list, rising 5 places,

Top 10 Creations (by \$) -2019

Ticker	Product	Creation Value
VAS AU Equity	Vanguard Australian Shares Index ETF	\$910,628,866
IOZ AU Equity	iShares Core S&P/ASX 200 ETF	\$712,898,211
VGS AU Equity	Vanguard MSCI Index International Shares ETF	\$575,631,200
VAF AU Equity	Vanguard Australian Fixed Interest ETF	\$531,158,841
AAA AU Equity	Betashares Australian High Interest Cash ETF	\$502,368,115
VAP AU Equity	Vanguard Australian Property Securities Index ETF	\$453,473,223
HBRD AU Equity	BetaShares Active Australian Hybrids Fund	\$447,837,957
IAF AU Equity	iShares UBS Composite Bond Index Fund	\$405,047,138
QPON AU Equity	BetaShares Australian Senior Bank Floating Rate Bond ETF	\$382,590,035
MVW AU Equity	Van Eck Vectors Equal Weight	\$353,750,196

Top 10 Redemptions (by \$) - 2019

Ticker	Product	Redemption Value
STW AU Equity	SPDR S&P/ASX 200 Fund	(\$187,417,535)
IEU AU Equity	iShares S&P Europe 350	(\$147,044,933)
USD AU Equity	BetaShares US Dollar ETF	(\$110,843,446)
GEAR AU Equity	BetaShares Geared Australian Equity Fund	(\$46,569,600)
BNKS AU Equity	BetaShares Global Banks ETF - Currency Hedged	(\$28,355,125)
YTMWV AU Equity	XTB Units AWC	(\$22,882,944)
HJPN AU Equity	BetaShares Japan ETF - Currency Hedged	(\$22,726,923)
YMAX AU Equity	BetaShares Equity Yield Maximiser Fund	(\$20,186,931)
HEUR AU Equity	BetaShares Japan ETF - Currency Hedged	(\$20,093,538)
UBA AU Equity	UBS IQ MSCI Australia ETF	(\$19,400,468)

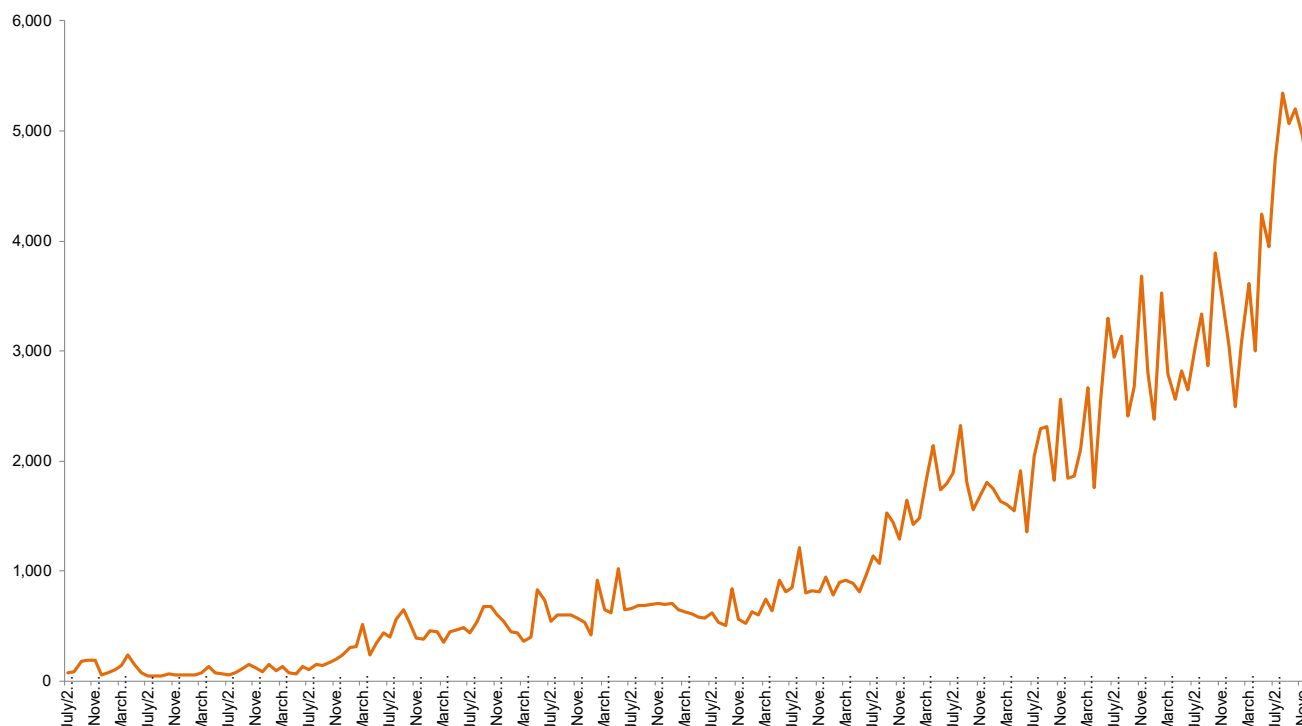
For the second year running, a continued "changing of the guards" is occurring in broad Australian shares ETFs, with the previous largest fund, STW, continuing to lose share at the expense of alternative products - this included VAS, and IOZ this year. Notably this year, 5 of the top 10 products by inflows were cash & fixed income products. Of the top 10 products for flows, only one was an Active ETF, being [HBRD](#), our Active Australian Hybrids Fund

By Average Daily Trading Value (12 month)

Ticker	Product	Issuer	ADTV 12 month	Rank Movement
STW AU Equity	SPDR S&P/ASX 200 Fund	State Street	\$15,979,848	-
VAS AU Equity	Vanguard Australian Shares Index ETF	Vanguard	\$14,653,222	-
AAA AU Equity	Betashares Australian High Interest Cash ETF	BetaShares	\$14,215,201	-
IOZ AU Equity	iShares Core S&P/ASX 200 ETF	iShares	\$7,518,104	-
A200 AU Equity	BetaShares Australia 200 ETF	BetaShares	\$7,410,275	+2
IVV AU Equity	iShares S&P 500 ETF	iShares	\$7,141,527	-1
VGS AU Equity	Vanguard MSCI Index International Shares ETF	Vanguard	\$5,374,654	-1
VAP AU Equity	Vanguard US Total Market Shares Index ETF	Vanguard	\$5,265,998	+5
BBOZ AU Equity	BetaShares Australian Equities Strong Bear Hedge Fund	BetaShares	\$4,172,050	+9
VAF AU Equity	Vanguard Australian Composite Bond Index ETF	Vanguard	\$3,609,526	+12

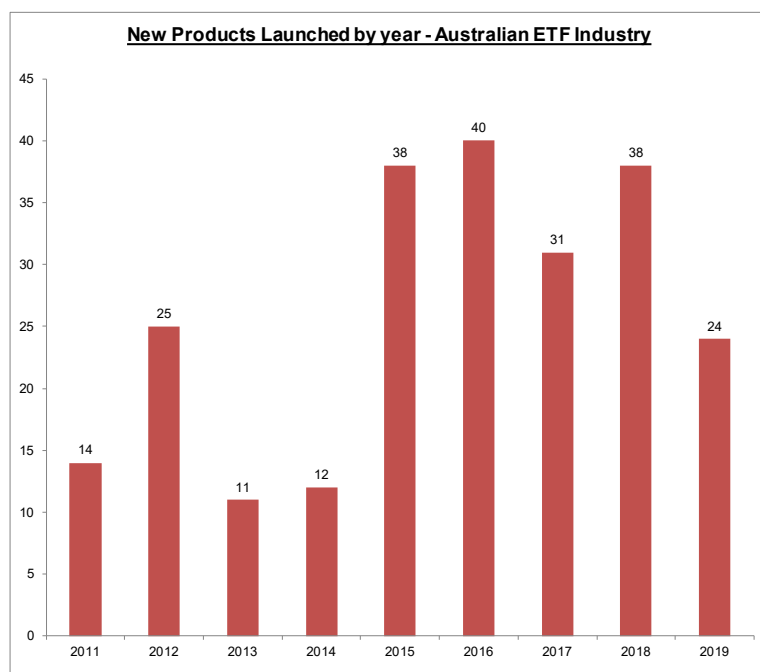
The most notable changes to trading values this year was the entrant of a Bond ETF to the Top 10, given the increase in interest in this category, as well as significant trading in the leveraged short Australian shares product, [BBOZ](#), which has become a very heavily traded product in the industry, particularly in times of volatility.

AUSTRALIAN ETF INDUSTRY – ASX MONTHLY TRADING VALUE



The long term 'ASX value traded' chart shows the dramatic increase in trading value over time, with 2019 receiving record traded value totalling ~\$50B.

NEW PRODUCT LAUNCHES – 2019



Product development slowed noticeably in 2019, with 24 new products launched this year. This is not unexpected given the increasing maturity of the industry and the fact that, over the last 5 years over 150 new products were launched. It's also notable that of the 24 products launched almost half (11) of them were Active ETFs. We expect new product launch activity in 2020 to continue to be robust, and would not be surprised to see >50% of these launches be Active ETFs, particularly because ASIC has lifted its pause on the launch of non-transparent Active ETFs. There was only a single ETF closed in 2019, being a product from Van Eck which was converted to a unrelated strategy.

ANALYSIS OF INFLOWS: 2019

	Inflow Value	2019 (%)	2018 (%)	2017 (%)	2016 (%)
Passive	\$11,546,129,439	89%	88%	92%	89%
Active	\$1,388,265,574	11%	12%	8%	11%

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 2018, however we do continue to believe that this proportion will edge up over time as more of these products are launched in the coming months and years ahead. The table below shows that, in fact, that Active ETFs once again outsold 'smart beta' ETFs in 2019 (as it did in 2018), which themselves were slightly up in terms of share of flows compared to 2019 and 2018.

Inflows by Product Style (by \$) - YTD

Product Style	Inflow Value - 2019	2019 (%)	2018 (%)	2017 (%)	2016 (%)
Index	\$10,192,610,634	79%	78%	79%	67%
Active	\$1,388,265,574	11%	12%	13%	21%
Smart Beta	\$1,353,518,805	10%	9%	8%	11%

Top 5 Category Inflows (by \$) - YTD

High Level Category	Inflow Value	Change in rank v 2019
Fixed Income	\$3,713,437,161	+3
International Equities	\$3,608,942,351	-1
Australian Equities	\$3,048,589,817	-1
Cash	\$887,719,067	+1
Australian Listed Property	\$596,636,920	+1

In my end-year 2018 report I wrote: *"I would not be surprised to see Fixed Income ETF outsell Australian equities exposures in 2019"*. As the table above indicates, this was indeed the case. As I have been noting throughout the year, 2019 was very much a year for Fixed Income ETFs, which rose 3 places to be the largest category for flows in the industry, just edging out the ever-popular International Equities category. More broadly it is pleasing to see flows of over \$3B in three different categories, illustrating how investors are using ETFs to build diversified portfolios across asset classes. 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.

Sub-Category	Inflow Value	Change in rank v 2019
Australian Bonds	\$2,925,337,856	+1
Australian Equities - Broad	\$2,173,383,858	+1
International Equities - Developed World	\$1,910,305,404	-2
Cash	\$887,719,067	+1
International Equities - Sector	\$828,651,779	+14

The sub-category flows mirrored those of the broad categories with Australian Bonds taking out the top place. There was a notable and substantial increase in investment into global sector products in 2019, a category which rose a full 14 places v. 2018. In particular, global infrastructure exposures were popular.

Top 5 Sub-Category Outflows (by \$) - YTD

Sub-Category	Outflow Value
Currency	(\$99,508,062)
International Equities - Europe	(\$61,303,564)
Australian Equities - Geared	(\$46,569,600)
International Equities - Geared	(\$6,974,462)
Oil	(\$4,379,709)

Relatively low outflows were recorded by category again this year – the largest one being USD currency exposure which was sold off as investors took profits.

Top Performing Products – 2019

Ticker	Product Name	Performance (%)
GGUS	BetaShares Geared US Equities Fund	69.0%
GEAR	BetaShares Geared Australian Equity Fund	52.1%
ETPMPD	ETFS Physical Palladium	51.5%
MNRS	BetaShares Global Gold Miners – C. Hedged	51.0%
CNEW	Van Eck Vectors China New Economy ETF	41.0%

With very strong equity performance in 2019, it was geared equities exposures that provided investors with the strongest investment returns. The top 2 products were the [BetaShares Geared U.S. Equity Fund \(hedge fund\) \(ASX: GGUS\)](#) and [BetaShares Geared Australian Equity Fund \(hedge fund\) \(ASX: GEAR\)](#) returning 69% and 52% respectively.

\$ Value Inflows/Outflows by Provider – 2019

The ETF industry's flows in 2019 were highly concentrated to the Top 3 ETF issuers, being Vanguard, BetaShares & iShares which cumulatively took in 80% of the flows for the year.

Provider	Net Flows (\$)	%
Vanguard	\$4,731,973,487	37%
BetaShares	\$2,935,561,235	23%
iShares	\$2,523,708,365	20%
Vaneck	\$1,259,366,567	10%
Magellan	\$511,465,260	4%
ETF Securities	\$462,988,196	4%
Russell	\$117,970,498	1%
State Street	\$109,354,500	1%
Platinum	\$82,591,598	1%
Gold Corporation	\$80,674,720	1%
Fidelity	\$42,136,401	0%
Pinnacle	\$10,630,270	0%
Investsmart	\$10,257,142	0%
Switzer	\$4,484,069	0%
Antipodes	\$2,598,648	0%
Montgomery	\$799,866	0%
UBS	\$229,867	0%
Kapstream	\$0	0%
Kapstream	\$0	0%
Perennial	(\$1,595,096)	0%
Schroder	(\$5,214,560)	0%
K2 Global	(\$13,876,245)	0%
ACBC	(\$66,817,775)	-1%

AUSTRALIAN EXCHANGE TRADED FUND INDUSTRY: MONTH OF DECEMBER 2019

MARKET CAP & NEW MONEY

- Market cap growth for month: **1.9%**, **\$1,122m**
- New unit growth for month (units outstanding by number): **2.5%**
- Net new money (units outstanding by \$ value): **+\$1,801m**
- 4 new products launched this month - a series of [BetaShares Diversified ETFs](#) (Conservative Income, Balanced, Growth, High Growth)

TRADING VALUE

- Trading value decreased 9% month on month

PERFORMANCE

- Given uncertainty in the Middle East, [BetaShares Crude Oil ETF – Currency Hedged \(ASX: OOO\)](#) was the top performing product this month, followed by our [Global Gold Miners Fund \(ASX: MNRS\)](#) and our [Strong AUD Product \(ASX: AUDS\)](#).

TOP 10 PRODUCTS: DECEMBER 2019

By Average Daily Trading Value (20 day)

Ticker	Product	Issuer	ADTV 20 days	Rank Movement
VAS AU Equity	Vanguard Australian Shares Index ETF	Vanguard	\$14,010,661	-
IOZ AU Equity	iShares Core S&P/ASX 200 ETF	iShares	\$12,712,822	+2
STW AU Equity	SPDR S&P/ASX 200 Fund	State Street	\$12,377,949	-1
AAA AU Equity	Betashares Australian High Interest Cash ETF	BetaShares	\$12,224,131	-1
A200 AU Equity	BetaShares Australian 200 ETF	BetaShares	\$11,557,504	+4
VGS AU Equity	Vanguard MSCI Index International Shares ETF	Vanguard	\$8,884,479	+2
VAP AU Equity	Vanguard Australian Property Securities Index ETF	Vanguard	\$8,647,161	-1
IVV AU Equity	iShares S&P 500	iShares	\$6,432,415	-1
BILL AU Equity	iShares Core Cash ETF	iShares	\$4,933,955	+7
VHY AU Equity	Vanguard Australian Shares High Yield ETF	Vanguard	\$4,489,825	+1

Top 10 Creations (by \$) - Month

Ticker	Product	Creation Value
IHEB AU Equity	iShares JPM USD Emerging Markets Bonds	\$143,963,190
IOZ AU Equity	iShares Core S&P/ASX 200 ETF	\$132,729,120
VAS AU Equity	Vanguard Australian Shares Index ETF	\$113,404,896
IHHY AU Equity	iShares Global High Yield Bond ETF	\$92,922,960
VGS AU Equity	Vanguard MSCI Index International Shares ETF	\$88,995,140
VAP AU Equity	Vanguard Australian Property Securities Index ETF	\$85,415,074
HBRD AU Equity	BetaShares Active Australian Hybrids Fund	\$57,480,826
IVV AU Equity	iShares S&P 500	\$55,228,400
SUBD AU Equity	VanEck Vectors Sub Debt	\$48,114,816
VAF AU Equity	Vanguard Australian Fixed Interest ETF	\$47,053,350

Top 10 Redemptions (by \$) - Month

Ticker	Product	Redemption Value
STW AU Equity	SPDR S&P/ASX 200 Fund	(\$110,187,700)
A200 AU Equity	BetaShares Australia 200 ETF	(\$51,001,335)
BBOZ AU Equity	BetaShares Australian Equities Strong Bear Hedge Fund	(\$9,957,360)
USD AU Equity	BetaShares US Dollar ETF	(\$6,355,260)
IGB AU EQUITY	iShares UBS Treasury Index Fund	(\$4,529,516)
HEUR AU Equity	BetaShares Europe ETF - Currency Hedge	(\$4,072,140)
OOO AU Equity	BetaShares Crude Oil ETF - Currency Hedged	(\$3,866,425)
IZZ AU Equity	iShares FTSE/Xinhua China 25	(\$3,544,471)
VLC AU Equity	Vanguard MSCI Aus Large Cap ETF	(\$2,767,616)
FUEL AU Equity	BetaShares Global Energy ETF - Currency Hedged	(\$2,240,000)

Top 5 Category Inflows (by \$) - Month

Broad Category	Inflow Value
International Equities	\$655,064,699
Fixed Income	\$654,545,490
Australian Equities	\$252,552,841
Australian Listed Property	\$108,468,788
Multi-Asset	\$61,632,155

Sub-Category	Inflow Value
Australian Bonds	\$348,597,280
International Equities - Developed World	\$310,044,228
Global Bonds	\$305,948,210
Australian Equities - Broad	\$130,657,241
Australian Listed Property	\$108,468,788

Top Category Outflows (by \$) - Month

Broad Category	Outflow Value
Short	(\$8,418,123)

Sub-Category	Outflow Value
Australian Equities - Short	(\$10,545,925)
Oil	(\$3,866,425)

Top Performing Products – Month

Ticker	Product Name	Performance (%)
OOO	BetaShares Crude Oil ETF – C. Hedged	10.8%
MNRS	BetaShares Global Gold Miners ETF	8.7%
AUDS	BetaShares Strong AUD Fund	8.4%
BBOZ	BetaShares Aust. Equities Strong Bear	6.6%
GGUS	BetaShares Geared US Equities Fund	5.22%