



**BetaShares**  
Exchange Traded Funds

# **BETASHARES GLOBAL ETF REVIEW**

**FULL YEAR - 2019**

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# BETASHARES GLOBAL ETF REVIEW

## FULL YEAR 2019: BREAKING ALL RECORDS!

### SUMMARY

We're pleased to share BetaShares' Global ETF Review – Full year 2019. Echoing trends we've observed in the Australian ETF industry, it was another year of growth and innovation, with some very big numbers 'knocked out' by the global ETF industry

A few top-line numbers:

- The global ETF industry ended 2019 at a record high of assets under management of US \$6.35 trillion
- Year of year AUM growth of 31% significantly exceeds the long term 10-year growth rate of 19% p.a.
- This year will mark the 30th anniversary of the launch of the world's first ETF – on 9 March 2020 it will have been 30 years since the launch first successful ETF globally (a broad-market Canadian equities ETF which was launched on the TSX in Canada)

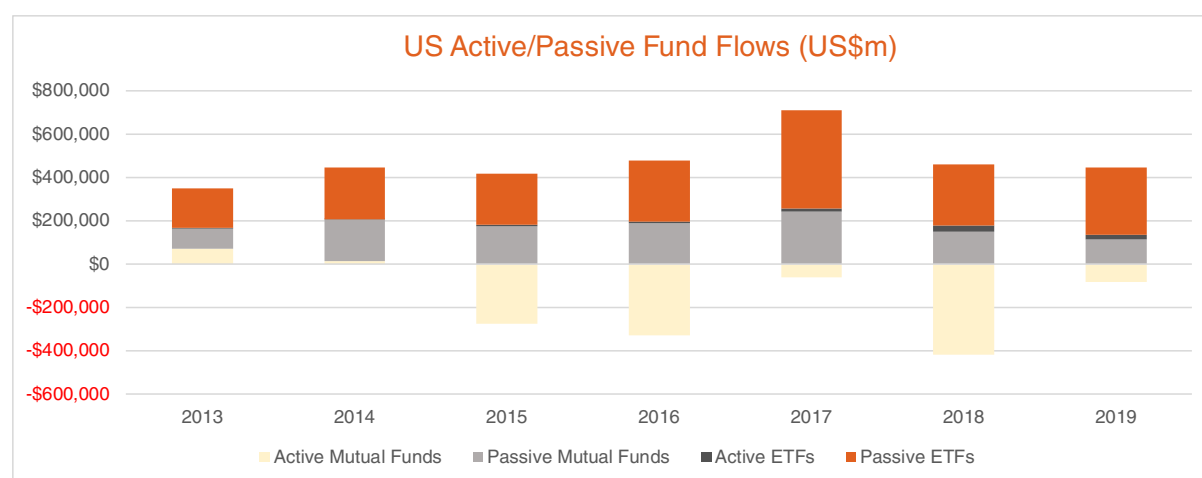
This report highlights investors' continued preference for passive investment vehicles, with assets in passive managed funds and index ETFs exceeding those in active managed funds for the first time in the third quarter of last year.

2019 also saw very strong inflows into fixed income ETFs, which in the U.S. almost matched inflows into equity ETFs, as well as a further increase in the share of inflows taken by North American exposures.

*The BetaShares Global ETF Review is a quarterly publication which examines the key trends and developments in the global ETF industry. The Global ETF Review has been designed as an accompaniment to our monthly [Australian ETF Review](#) which focuses on our local ETF market. Given its maturity and scale, our focus in this report is primarily the U.S. ETF industry – which, being by far the largest ETF industry globally, provides interesting insight into trends in markets and investor behaviour. All figures in the report are in U.S. dollars, unless otherwise noted.*

### SECTION ONE: ACTIVE VS PASSIVE

#### 1. Flows into Active vs Passive Funds: 2019



Source: Bloomberg

As the chart above shows, investor preference for passive over active investment vehicles continued in 2019 in the U.S., with passive ETFs capturing the lion's share of inflows. In saying that, outflows in active mutual funds were not as marked as the record outflows we saw in this category in 2018.

Notably, a significant milestone was passed in the U.S. in the third quarter of the year, with assets in passive managed funds and index ETFs topping those in active managed funds for the first time.

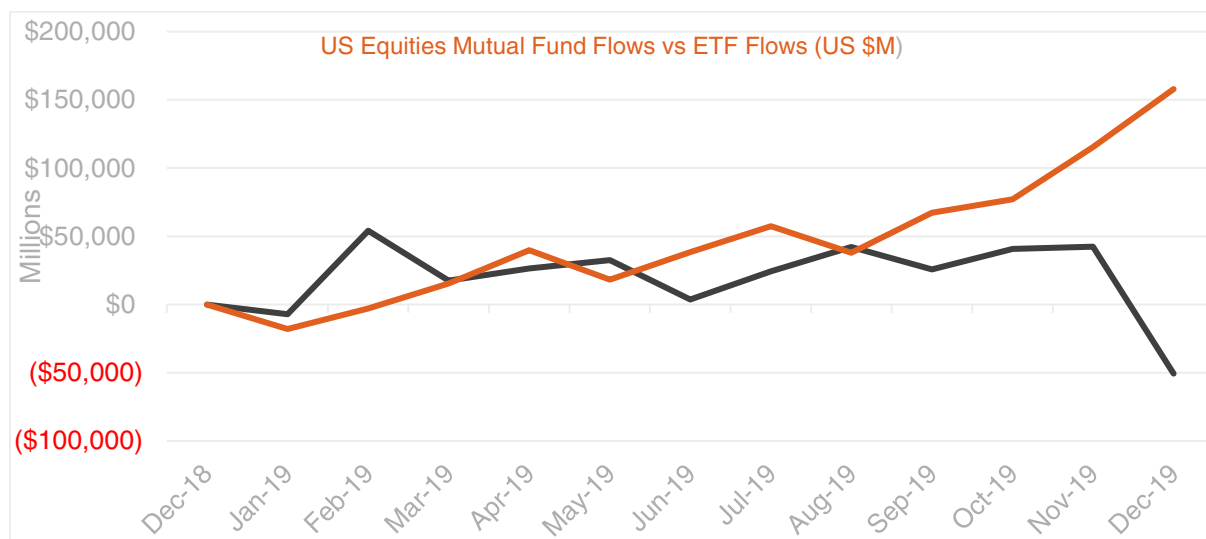
That said, the fact that for the last 3 years in a row we have seen positive flows into Active ETFs, indicates that while overall investor preference is currently weighted towards passive investments, perhaps the most fundamental preference shift is towards the ETF as an investment wrapper and away from the mutual fund wrapper.

#### U.S. Overall flows of active funds vs. passive, 2019 (US\$m)

	2019
Passive ETFs	\$311,842
Active ETFs	\$21,988
Passive Mutual Funds	\$112,649
Active Mutual Funds	-\$83,109
	<u>\$363,370</u>

- Flows into passive ETFs (US\$312 billion) were the second highest on record, lower only than the bumper year in 2017,
- Notably, passive ETF flows accounted for 73% of all inflows into passive investment vehicles, the highest on record.
- This was due not only to strong flows into passive ETFs, but also to weaker inflows into passive mutual funds, which at US\$113 billion were the lowest since 2013, further exemplifying the investor preference for ETFs as an investment structure.
- Active mutual funds saw a net outflow of funds for the fifth consecutive year, however those outflows were significantly lower than in 2018 (US\$83 billion vs. US\$418 billion in 2018).

## 2. Equity Mutual Fund flows vs ETF flows: 12 Months to 31 December 2019 (cumulative)

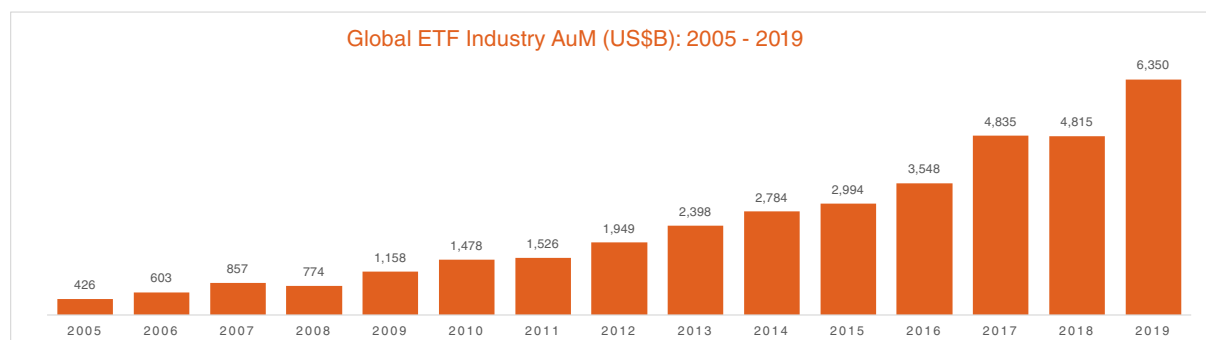


Source: Bloomberg

Turning to fund inflows/outflows for equity mutual funds vs. ETFs, we found that over the 12 months to 31 December 2019, **equity mutual fund outflows in the U.S. totalled US\$51 billion**, compared to **inflows of \$158 billion into equity ETFs**.

## SECTION TWO: GLOBAL ETF INDUSTRY

### 3. Global ETF Industry market size: 2005 – 2019



Source: ETFGI. Includes all exchange traded products.

- The global ETF industry ended 2019 with assets under management of US \$6.35T. This represents **an all-time high** in terms of assets under management with growth of a staggering 11.5% QoQ – and **31% growth** compared to the end of 2018.
- The global growth in ETFs was mirrored in the Australian ETF industry, which surged past the A\$60B milestone to end the year at A\$62B in AUM, an all-time high, and a full 52% higher than its level at the end of 2018 (A\$41B).

## SECTION THREE: ETF FLOWS – WHAT’S TRENDING, WHAT’S FADING?

In this section of the Review we look at the flows in the global ETF industry by category. Given the sheer size of the U.S. ETF market, analysis of these flows is useful to generate insight into investor sentiment and behaviours.

### U.S. ETF flows by asset class: 2019

ETF Flows by Asset Class (\$USm)	2019	%	2018	%
Equity	\$159,824	49.0%	\$213,406	68.1%
Fixed Income	\$152,902	46.9%	\$96,624	30.8%
Other	\$13,498	4.1%	\$3,246	1.0%

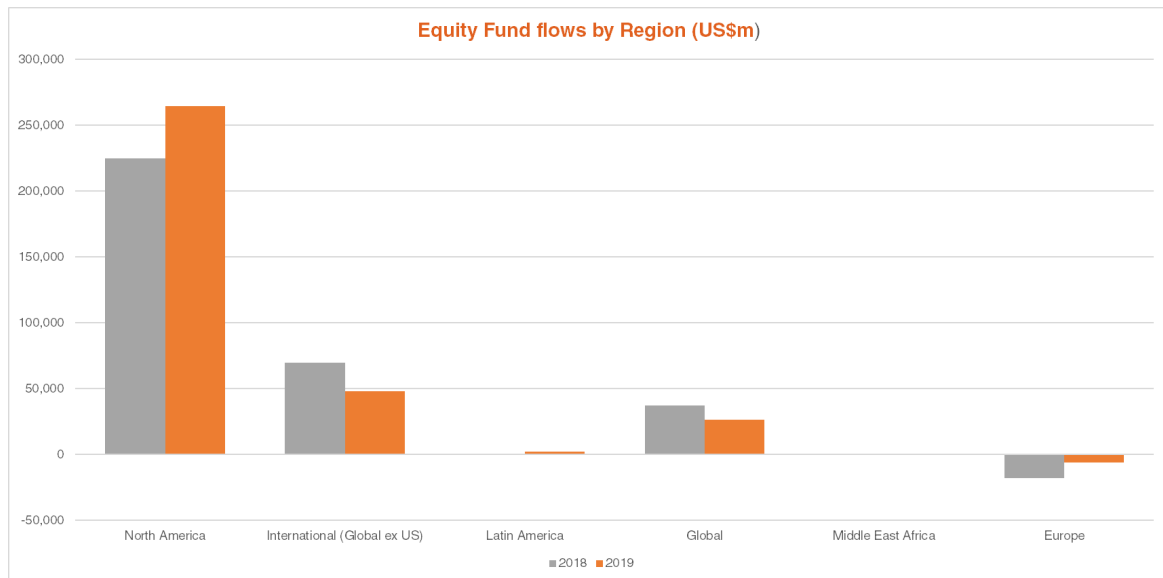
ETF Flows by Other Asset Class – sub-category breakdown (\$US m)	2019	%	2018	%
Commodity	\$8,481	2.5%	(\$437)	-0.1%
Specialty	\$4,297	1.3%	(\$189)	-0.1%
Mixed Allocation	\$1,267	0.4%	\$2,691	0.9%
Money Markets	(\$10)	0.0%	\$0	0.0%
Alternative	(\$538)	-0.2%	\$1,181	0.4%

Source: Bloomberg

- 2019 could be described as the year of the fixed income ETF, with inflows of US\$153 billion, up 58% from 2018.
- Fixed income ETFs accounted for 47% of ETF inflows in 2019, up from their share of around 30% of inflows in 2017 and 2018, and only just short of the 49% share taken by equity ETFs.
- This trend was replicated – in fact exceeded - in Australia, where, for the first time on record, fixed income products ranked #1 for inflows, with \$3.7 billion.
- Commodity ETFs saw inflows of \$8.5 billion, a reversal from the outflows experienced in 2018. This was entirely due to third quarter inflows of more than US\$9 billion, primarily into gold and silver, as investors sought out safe havens due to increased geopolitical risk.

#### 4. Share of U.S. Equity ETF fund flows by:

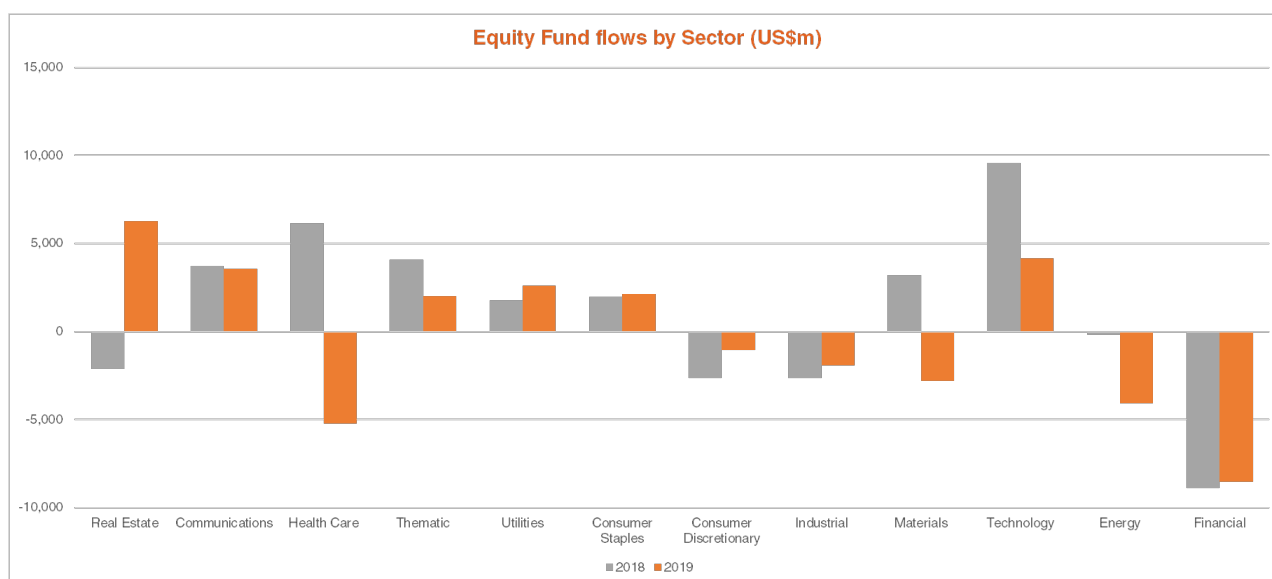
##### a. Region



Source: Bloomberg

- 2019 saw a continuation of 2018's trend of increasing flows to North American products. North American equity ETFs received 80% of inflows, up from 70% in 2018 (and 60% in 2017).
- This increase came primarily at the expense of Global and International (Global ex US) exposures. However, with the easing of U.S.-China trade tensions and increased certainty around Brexit following the British election, we may see a return to favour in international equities exposures in 2020.
- While international ETFs were knocked from the #1 spot by fixed income products in Australia in 2019, they nevertheless received healthy inflows of A\$3.6 billion for the year, and we expect them to return to the top of the table in 2020.

## b. Sector



Source: Bloomberg

- Breaking down inflows by sector gives an indication of which parts of the economy were favoured by investors in 2019.
- As in 2018, Financials saw the biggest outflows – an outflow of US\$8.5 billion (following 2018's outflows of US\$8.8 billion). Health Care and Energy also saw significant outflows, while the biggest inflows went to Real Estate, Communications and Technology – the latter not surprising given the strong performance of the Nasdaq 100 during the year.

Reflecting the strong interest in technology, locally we saw significant inflows into our own [Nasdaq 100 ETF](#), and the [Global Cybersecurity ETF](#), both of which produced returns of more than 30% (net of fees) over 2019.

## SECTION FOUR: SPOTLIGHT

### 5. Spotlight: Growth!

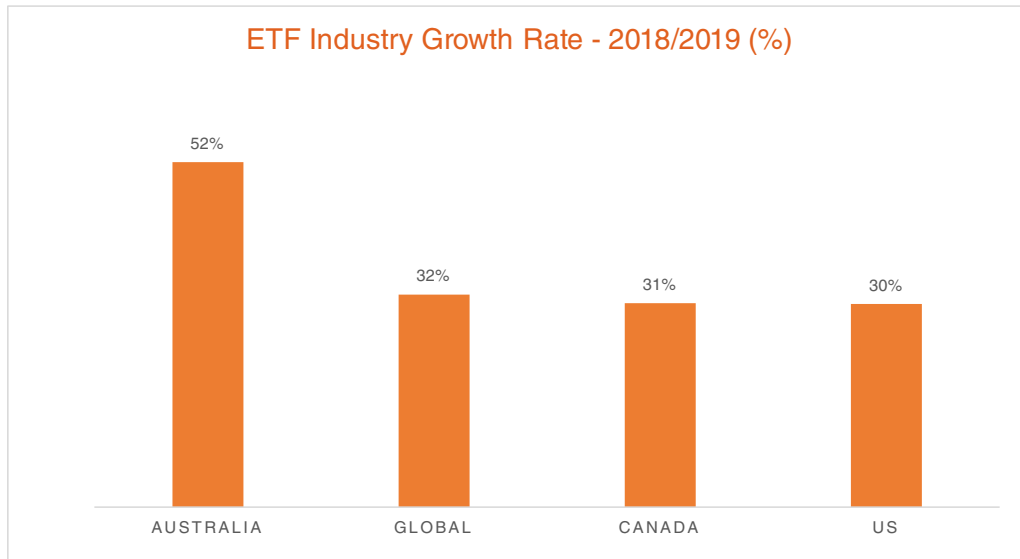
The outstanding feature of the ETF industry in 2019 was simply its massive growth, both globally and locally.

Since 2005, when the global ETF industry held US\$426 billion, assets under management have grown 15-fold, to total US\$6.35 trillion at the end of 2019.

Last year, AUM in the industry grew a rapid 32%, including growth of 30% in the U.S. and 31% in Canada. 2019's growth was well above the 19% compound annual growth rate (CAGR) over the past 10 years. Locally, in Australia we saw extraordinary growth of 52%.

While the industry undoubtedly benefited from tailwinds in the form of significant asset value appreciation, fund inflows also were strong. In Australia, for example, ~60% of 2019's growth came from net inflows.

The rise of fixed income ETFs suggests that investors are broadening their use of ETFs, and utilising them for exposures across a range of asset classes, and to provide defensive benefits and diversification.



Source: BetaShares, ETFGI, CETF



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