



Vanguard[®]

Vanguard ETF Quarterly Report

September quarter 2018

In this report:

- Investors continue to favour global equity ETFs, with 58% of Q3 flows going into the asset class.
- \$1.8 billion of new cash flows were invested into ETFs during the September quarter.
- Vanguard has launched six new ETFs in 2018.

Quarterly market review

The third quarter of 2018 was a good one for ETF investors, most notably for those invested in US equities, which returned over 9% in the quarter, pushing the one year return towards 30%.

Strong economic data and a good corporate earnings season helped US equities outperform all other major markets in the September quarter. The positive data overshadowed the ongoing trade war between the US and China, which intensified during the quarter when further tariffs were imposed by both parties. Growth in the UK economy was also strong and led the Bank of England to increase their rates by 25bps (to 0.75%). However, limited progress on the Brexit negotiations and the concerns over trade wars weighed on securities across Europe.

Lower than expected growth in China and the ongoing trade tensions kept Chinese equities low and forced Chinese authorities to implement some targeted stimulus during the quarter.

In Australia, GDP growth has started to pick up and household consumption was also strong. The RBA noted that housing conditions have continued to ease and that house price declines had become more widespread in Sydney and Melbourne. The strength of household consumption is likely to come under pressure if house prices continue to decline and wage growth remains low.



ETF trading

The Australian ETF market attracted \$1.8 billion in new cash flows in the third quarter, which is up from \$1.5 billion and \$1.1 billion received in the first and second quarters of 2018 respectively. Large returns received from international equity ETFs helped the industry AUM grow \$3.4 billion over the quarter to just over \$42 billion.

\$1.8B

ETF new cash flows
for the quarter

In 2018, international equity ETFs have attracted just over \$2.5 billion of new cash flows. The combination of outstanding returns and the benefits of diversification have led to around 60% of total new cash flows being allocated into international equities ETFs.

In a further sign that investors are increasingly diversifying their portfolios, Australian fixed income ETFs received a greater proportion of new cash flows than Australian equity ETFs. The third quarter saw \$337 million flow into Australian fixed income which is not far behind the \$414 million that was allocated to the sector in the first two quarters of the year. Global fixed income is also increasing in favour, attracting 5% of total cash flows.

Vanguard has continued to receive the largest proportion of new ETF cash flows, with 38% of total flows being allocated to Vanguard's ETFs. Vanguard's cash flow mix is slightly different to the broader market with 33% being allocated to Australian equity ETFs (primarily in VAS) and 42% into international equity ETFs.

Industry cash flow by asset class

Asset class	Quarter		YTD	
	(\$m)	%	(\$m)	%
Australian Equity	130.1	7.1	576.0	12.9
Global Equity	1,053.3	57.5	2,547.4	56.8
Infrastructure	35.8	2.0	79.4	1.8
Australian Fixed Income	337.7	18.4	752.6	16.8
Global Fixed Income	108.1	5.9	227.9	5.1
Australian Property	62.8	3.4	60.3	1.3
Global Property	16.3	0.9	55.0	1.2
Commodity	33.5	1.8	63.9	1.4
Currency	-40.9	-2.2	-80.7	-1.8
Mixed	95.0	5.2	203.3	4.5
TOTAL	1,831.6		4,485.1	

Source: ASX Monthly Report and Vanguard.

YTD cash flow and AUM by issuer

Issuer	Cash flow \$m	Cash flow %	AUM \$m
AMP/BetaShares	-0.5	0.0	70.0
Aurora	-1.2	0.0	6.1
Beta Shares	640.6	14.3	5,246.5
ETFS	215.3	4.7	1,098.2
InvestSMART	37.1	0.8	36.8
iShares	701.0	15.6	11,915.9
K2	6.3	0.1	41.9
Legg Mason/BetaShares	32.6	0.7	32.9
Magellan	152.1	3.4	1,481.1
Montgomery	24.4	0.5	94.5
Perennial	20.7	0.5	21.4
Russell	47.5	1.1	659.8
Schroders	11.8	0.3	56.9
State Street	-24.5	-0.5	5,831.7
Switzer	46.7	1.0	123.8
The Perth Mint	13.8	0.3	138.7
Platinum	278.5	6.2	423.1
UBS	-3.1	-0.1	282.4
VanEck	570.2	12.7	2,092.1
Vanguard	1,719.7	38.3	12,220.6
TOTAL	4,489.1	100%	41,874.3

Source: ASX Monthly Report and Vanguard.

Vanguard grows its ETF range in 2018

Vanguard has this year expanded its ETF range to include six new offerings.

Since launching our first ETFs nearly 10 years ago, we have been focused on building out our offering to provide low cost, high quality ETF portfolio solutions, while educating our investors on how they can be used effectively for portfolio construction.

Below we offer an overview of each of these new ETFs and why they should be considered as building blocks for your clients' portfolios.

Active ETFs - Global Minimum Volatility and Global Value

Vanguard Global Minimum Volatility Active ETF (Managed Fund) (VMIN)

VMIN The Vanguard Global Minimum Volatility ETF uses an active, rules-based strategy to build a portfolio of shares that aims to be less volatile than the overall market.

Key fund facts

Management fee:	0.28%
Investment universe:	FTSE Global All Cap Index (AUD Hedged)
Number of holdings:	269

Why use a minimum volatility ETF?

Investors committed to their long-term objectives can find near-term equity market volatility unsettling. Global minimum volatility investing seeks to provide long-term capital appreciation with lower volatility relative to the global equity market.

Vanguard Global Value Equity Active ETF (Managed Fund) (VVLU)

VVLU The Vanguard Global Value Equity ETF is an active, factor-based ETF aiming to provide investors with a low cost solution that offers consistent exposure to the value factor. Vanguard's quantitative model aims to assess the factor exposures of securities, favouring equity securities which, when compared to other securities in the investment universe, have lower prices relative to their fundamental measures of value.

Key fund facts

Management fee:	0.28%
Investment universe:	FTSE Developed All-Cap Index in AUD and the Russell 3000 Index
Number of holdings:	5,750

Why use a value ETF?

Investors might choose this ETF if they are seeking

outperformance of global securities through an active exposure to the value factor. Historically shares with low share prices relative to certain fundamental measures of value have outperformed compared to the broad equity market.

ESG ETFs - Global ESG Aggregate Bond and Global ESG International Shares

Vanguard Ethically Conscious Global Aggregate Bond Index (Hedged) ETF (VEFI)

VEFI The Vanguard's Ethically Conscious Global Aggregate Bond Hedged ETF is a global fixed income portfolio which excludes companies with significant business activities involving fossil fuels, alcohol, tobacco, gambling, military weapons and civilian firearms, nuclear power and adult entertainment.

Key fund facts

Management fee:	0.26%
Index:	Bloomberg Barclays MSCI Global Aggregate SRI Exclusion Float Adjusted Index
Number of holdings:	20,169

Why use a bond ESG ETF?

This style of ETF may be suitable for investors looking for a fixed income product that reflects their humanitarian, ethical, environmental, and social values without compromising on the benefits of a globally diversified bond allocation.

Vanguard Ethically Conscious International Shares Index ETF (VESG)

VESG The Vanguard Ethically Conscious International Shares Index ETF is an international shares index portfolio which excludes companies with significant business activities involving fossil fuels, alcohol, tobacco, gambling, military weapons and civilian firearms, nuclear power and adult entertainment. The fund offers exposure to over 1600 securities listed across 24 developed economies.

Key fund facts

Management fee:	0.18%
Index:	FTSE Developed ex Australia ex Non-renewable Energy, Vice Products and Weapons (with net dividends reinvested) Index in AUD
Number of holdings:	1,594

Why use an equity ESG ETF?

This style of ETF may suit investors who wish to reflect their individual values in their investment holdings, while maintaining broad diversification at low cost.

continues next page.

Vanguard grows its ETF range in 2018 (continued)

Index ETFs - Global Infrastructure and International Small Companies

Vanguard Global Infrastructure Index ETF (VBLD)

VBLD The Vanguard Global Infrastructure Index ETF offers exposure to around 146 globally listed infrastructure companies across a range of industries, including transportation, energy and communications. It is the lowest cost global infrastructure ETF currently available.

Key fund facts

Management fee:	0.47%
Index:	FTSE Developed Core Infrastructure Index (AUD)
Number of holdings:	146

Why use a global infrastructure ETF?

Investors with income requirements (particularly those at or nearing retirement) are increasingly choosing an infrastructure exposure due to its defensive characteristics and higher income yield compared to the broad equity market.

Vanguard MSCI International Small Companies Index ETF (VISM) (available late 2018)

VISM

The Vanguard MSCI International Small Companies Index ETF will be the first ETF listed in Australia to offer broadly diversified international small cap exposure to around 3910 holdings across 19 developed markets globally.

Key fund facts

Management fee:	0.32%
Index:	MSCI World ex-Australia Small Companies Index
Number of holdings:	3,919

Why use an international small caps ETF?

Vanguard believes an exposure to international small companies is an important component of a diversified portfolio. It allows investors to participate in the long-term growth potential typical of the international small companies sector.

Vanguard product summary

	ASX Ticker	Last Price#	MER	Quarter Return	1 Year Return	3 Year Return (p.a.)	Quarterly Cash Flow (\$m)	FUM (\$m)
Australian Equity ETFs								
Broad Market	VAS	\$80.01	0.14%	1.44%	13.85%	12.00%	\$147.7	\$2,990.3
Property	VAP	\$81.70	0.23%	1.92%	12.95%	10.21%	\$54.5	\$1,098.9
High Yield	VHY	\$59.54	0.25%	3.16%	4.65%	8.66%	\$0.7	\$1,078.8
Large Companies	VLC	\$64.27	0.20%	1.17%	11.33%	9.40%	\$0.0	\$84.4
Small Companies	VSO	\$58.79	0.30%	1.34%	18.11%	16.12%	\$26.9	\$219.3
International Equity ETFs								
Developed Markets	VGS	\$74.16	0.18%	7.36%	20.86%	12.52%	\$116.9	\$1,290.6
Developed (AUD hedged)	VGAD	\$68.69	0.21%	5.61%	12.89%	14.70%	\$18.2	\$449.9
All world Ex US	VEU	\$72.84	0.11%	3.02%	10.28%	8.85%	\$59.1	\$1,352.7
Total US Market	VTS	\$207.79	0.04%	9.36%	27.56%	15.91%	\$30.0	\$1,494.8
Developed Europe	VEQ	\$57.02	0.35%	2.55%	7.29%	n/a	\$17.0	\$217.5
Asia ex Japan	VAE	\$65.26	0.40%	0.79%	9.87%	n/a	\$14.8	\$112.4
Emerging Markets	VGE	\$64.83	0.48%	0.10%	3.86%	8.25%	\$26.1	\$233.3
Ethically Conscious International Shares	VESG	\$50.27	0.18%	n/a	n/a	n/a	\$1.0	\$1.0
Minimum Volatility - Active	VMIN	\$53.14	0.28%	2.67%	n/a	n/a	\$3.7	\$5.8
Global Value - Active	VVLU	\$52.40	0.28%	3.95%	n/a	n/a	\$4.9	\$11.3
Fixed Income ETFs								
Australian Composite	VAF	\$48.77	0.20%	0.50%	3.54%	2.69%	\$15.5	\$718.4
Australian Government	VGB	\$49.12	0.20%	0.43%	3.59%	2.53%	\$9.4	\$146.4
Australian Corporate	VACF	\$50.72	0.26%	0.78%	3.77%	n/a	\$24.3	\$151.2
International Composite (AUD hedged)	VIF	\$47.55	0.20%	-0.50%	1.09%	n/a	\$24.6	\$217.5
International Credit (AUD hedged)	VCF	\$46.76	0.30%	0.55%	0.45%	n/a	\$2.7	\$100.4
Global Aggregate (AUD hedged)	VBND	\$49.97	0.20%	-0.06%	n/a	n/a	\$12.0	\$28.7
Ethically Conscious Global Aggregate Bond	VEFI	\$50.09	0.26%	n/a	n/a	n/a	\$1.0	\$1.0
Diversified ETFs								
Conservative	VDCO	\$51.42	0.27%	1.30%	n/a	n/a	\$6.4	\$16.2
Balanced	VDBA	\$52.50	0.27%	2.07%	n/a	n/a	\$26.4	\$50.7
Growth	VDGR	\$52.96	0.27%	2.87%	n/a	n/a	\$23.3	\$57.5
High Growth	VDHG	\$53.96	0.27%	3.67%	n/a	n/a	\$25.9	\$93.0
TOTAL							\$692.8	\$12,222.0

Returns assume that an investor purchased shares at Net Asset Value and does 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.
Source: Vanguard and Bloomberg.

For more information

Personal investors can transact in Vanguard ETFs through their financial adviser or stockbroker.
Our telephone service is available from 8am to 5pm, Monday-Friday AEST.

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