

ETF quarterly report

June quarter 2023



Rising rates help fixed income ETF inflows outpace equities in H1 2023.

Welcome to the Q2 edition of the ETF quarterly report.

Rising interest rates were again a feature in Q2 2023, adding to the appeal of domestic fixed income as an asset class for long-term investors. This showed up in strong cash inflows into fixed income ETF's in Q2 with the category attracting the most cash flow of any asset class over 1H 2023.

Net cash flows into Australian and global fixed income ETF products totalled \$2.5 billion in 1H, more than double the inflows into Australian and international equity ETF products, which attracted \$1 billion net inflows over the period.

Rising interest rates continued to be a feature domestically but the trend has helped improve long-term return expectations for bonds with investors favouring domestic fixed income investments over equities despite a strong 1H rally for global equity markets.

The increased cost of living has made 2023 a difficult year for households and investors, which is also impacting the level of cash flows into the ETF market. The second quarter saw \$2.35 billion

of inflows into Australian ETFs, bringing the yearly total to tick over \$4.19 billion for the first half, the lowest level for a first half since 2018.

Vanguard has reduced fees on their range of managed funds and ETFs more than 40 times in the past decade, with the latest reduction being to the Vanguard Australian Shares Index ETF (VAS). The new fee of 0.07% p.a was introduced on 3 July and means for every \$10,000 invested in VAS, a management fee of just \$7 p.a. applies – a saving of 30% on the previous management fee.

Vanguard ETFs passed a couple of milestones in June 2023. The Vanguard MSCI Index International Shares ETF (VGS) surpassed \$6 billion in AUM, it sits only behind the \$12.33b Vanguard Australian Shares Index ETF (VAS) as the second biggest index ETF in the Australian market. Also, the Vanguard Diversified High Growth Index ETF (VDHG) surpassed \$2 billion in AUM, it alone makes up 50% of the total multi-asset/diversified ETF market.



The Australian ETF market attracted **\$2.35 billion** in net inflows in Q2.



ETF assets under management in Australia surpassed **\$146 billion**.



Vanguard attracted **\$772 million** in net cash inflows in Q2.



Vanguard maintained its position as the leading Australian ETF issuer by AUM **with \$45.3 billion (31.1%)**.

Australian ETF market update

ETF FACT

\$772m

Vanguard Australia Q2 2023 net cash flow.

Cash flow

Across all issuers, the Australian ETF market recorded net cash flows of \$2.35 billion in Q2 of 2023, which was up significantly from \$1.84 billion in Q1 this year, however down from the \$3.13 billion in Q2 2022. For the quarter, investors favoured fixed interest products (\$1.55 billion) over equities (\$439 million). Within fixed income, Australian products attracted 80% and global products brought in 20% of the net cash flow.

Vanguard ETF's attracted \$772 million for the quarter, which was 32.9% of total net flows. The Vanguard Australian Shares High Yield ETF (VHY) received over \$119 million in Q2, it was the most popular Vanguard ETF for the first half of the year with \$302 million. The Vanguard Australian Shares Index ETF (VAS) was second for net flows in Q2, with \$112 million.

Assets under management (AUM)

Over Q2 2023 the total ETF AUM in Australia was up more than 5% with over \$146 billion invested across 297 ETFs. Vanguard retained its position as the top ETF issuer in Australia, managing 31% of assets, totalling \$45 billion in AUM across its 29 products.

Figure 2. Industry net cash flow by asset class

ASSET CLASS	Q2		YTD	
	\$M	%	\$M	%
Australian Equity	902	38.4	1,569	37.4
Global Equity	-463	-19.7	-576	-13.7
Infrastructure	35	1.5	35	0.8
Australian Fixed Income	1,238	52.7	1,737	41.5
Global Fixed Income	315	13.4	763	18.2
Cash	259	11.0	689	16.4
Australian Property	23	1.0	-19	-0.5
Global Property	35	1.5	87	2.1
Commodity	-9	-0.4	-100	-2.4
Currency	0	0.0	-24	-0.6
Multi Asset	14	0.6	29	0.7
Total	2,349		4,190	

Sources: ASX monthly report and Vanguard as of 31 June 2023.

Performance

Vanguard's suite of Diversified ETFs (VDCO, VDBA, VDGR, VDHG) were all in positive territory for Q2 2023 and have returned between 4.4% and 14.9% over the 12 months to 30 June 2023. The vast majority of Australian and global equity ETFs showed positive returns as well. Among Vanguard's products, the Vanguard U.S. Total Market Shares Index ETF (VTS) 9.09% was the best performing ETF for the quarter, followed by the Vanguard Ethically Conscious International Shares Index ETF (VESG) 8.51%.

Figure 3. Industry net cash flow by issuer

ISSUER	Q2 NET CASH FLOW		AUM
	\$M	%	\$M
abrdn	.11	0.0%	1.19
Alphinity	28.81	1.2%	472.69
AMP	14.57	0.6%	14.79
Antipodes	-9.42	-0.4%	341.16
Aoris Investment Management	7.71	0.3%	7.84
Associate Global Partners	-11.54	-0.5%	392.70
BetaShares	960.54	40.9%	27017.02
Daintree	8.84	0.4%	25.55
Fat Prophets	.81	0.0%	4.09
Fidante Active X	1.73	0.1%	797.42
Fidelity	.11	0.0%	323.89
Firetrail	.59	0.0%	9.81
Franklin Templeton	97.04	4.1%	586.60
Global X	201.61	8.6%	5693.57
Hejaz	6.87	0.3%	97.94
Hyperion	-77.37	-3.3%	2221.88
InvestSMART	2.14	0.1%	275.63
iShares	640.55	27.3%	27071.05
Janus Henderson	.27	0.0%	2.47
JPMorgan	9.47	0.4%	19.91
K2	4.46	0.2%	22.60
Loftus Peak	-6.06	-0.3%	213.34
Loomis Sayles	-.21	0.0%	39.99
Magellan	-805.52	-34.3%	8734.90
Milford	1.31	0.1%	1.70
MonashInvestors	-.92	0.0%	19.13
Montaka	-.94	0.0%	103.69
Morningstar	2.74	0.1%	161.21
Munro Partners	-3.47	-0.1%	203.25
Nanuk	.37	0.0%	710.03
Perennial	.65	0.0%	74.08
Perpetual	16.40	0.7%	47.36
Perth Mint	-1.56	-0.1%	693.14
Platinum	-3.90	-0.2%	430.65
Resolution Capital	15.04	0.6%	1293.87
Russell	42.18	1.8%	974.21
Schroders	-2.65	-0.1%	59.59
State Street	-31.38	-1.3%	8294.23
VanEck	12.21	0.5%	12.12
VanEck Vectors	455.12	19.4%	13048.0
Vanguard	771.80	32.9%	45326.45
Vaughan Nelson	-.01	0.0%	10.74
	2,349.08	100.0%	145,851.50

Sources: ASX monthly report and Vanguard, as of 31 June 2023.

Figure 4. Vanguard product summary

ASSET CLASS	ASX TICKER	LAST PRICE	MER %	QUARTER RETURN	1 YEAR RETURN	3 YEAR RETURN P.A.	QUARTERLY NET CASH FLOW \$M	FUM \$M
Australian Equity ETFs								
Broad Market	VAS	90.07	0.07	0.98%	14.34%	11.07%	112.0	\$12,329
Property	VAP	77.30	0.23	3.09%	7.25%	8.27%	36.03	\$2,323
High Yield	VHY	67.63	0.25	0.90%	15.01%	14.78%	119.56	\$2,973
Large Companies	VLC	73.02	0.20	-0.07%	13.72%	12.50%	10.34	\$199
Small Companies	VSO	62.10	0.30	1.66%	12.77%	9.52%	50.03	\$789
Ethical Australian Equities	VETH	55.81	0.17	1.20%	14.19%	N/A	24.05	\$394
International Equity ETFs								
Developed Markets	VGS	106.54	0.18	7.66%	22.68%	13.55%	52.25	\$6,065
Developed (AUD hedged)	VGAD	86.11	0.21	7.09%	16.67%	11.52%	34.95	\$2,357
All world Ex US	VEU	81.34	0.08	3.35%	16.39%	8.81%	42.0	\$2,525
Total US Market	VTI	329.34	0.03	9.09%	22.89%	15.05%	8.90	\$3,459
Developed Europe	VEQ	66.22	0.35	3.34%	23.78%	11.00%	-6.89	\$239
Asia ex Japan	VAE	67.98	0.40	-0.45%	1.94%	2.81%	-0.96	\$346
Emerging Markets	VGE	67.37	0.48	1.69%	3.63%	4.21%	14.80	\$698
Global Infrastructure	VBLD	62.27	0.47	0.13%	0.35%	7.33%	12.95	\$357
International Small Companies	VISM	57.78	0.33	4.01%	17.00%	11.82%	4.94	\$259
Ethical International Equities	VESG	74.75	0.18	8.51%	22.64%	12.26%	-7.33	\$701
Minimum Volatility - Active	VMIN	52.70	0.28	1.86%	4.32%	4.82%	-0.01	\$16
Global Value - Active	VVLU	62.88	0.29	4.39%	18.05%	20.59%	-17.48	\$741
Fixed Interest ETFs								
Australian Composite	VAF	44.54	0.10	-2.97%	1.14%	-3.65%	68.57	\$1,603
Australian Government	VGB	45.71	0.20	-3.37%	0.72%	-4.12%	64.51	\$922
Australian Corporate	VACF	48.78	0.20	-1.16%	3.23%	-1.36%	34.14	\$628
International Treasury (AUD hedged)	VIF	38.45	0.20	-0.64%	-2.26%	-4.37%	50.16	\$808
International Credit (AUD hedged)	VCF	37.52	0.30	-0.40%	-0.75%	-4.08%	-0.52	\$171
Global Aggregate (AUD hedged)	VBND	41.18	0.20	-0.63%	-2.04%	-4.45%	66.46	\$785
Ethical International Bonds	VEFI	42.14	0.26	-0.65%	-2.21%	-4.51%	2.55	\$81
Diversified ETFs								
Conservative	VDCO	49.19	0.27	0.52%	4.41%	0.86%	-6.83	\$212
Balanced	VDBA	51.06	0.27	1.42%	7.52%	3.45%	-5.63	\$627
Growth	VDGR	54.63	0.27	2.57%	11.20%	6.66%	11.03	\$698
High Growth	VDHG	58.16	0.27	3.68%	14.88%	9.91%	-2.78	\$2,021
TOTAL							771.80	45,326.5

Note: 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.

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