

ETF quarterly report

December quarter 2023



Bond ETFs to remain popular in 2024 thanks to higher yields

Australian investors flocked to bond ETFs in 2023 as rising interest rates made fixed income allocations more attractive. Australian bond ETFs received \$3.81 billion in cash flows in 2023, a 37% improvement year on year, while global bond ETFs attracted \$1.5 billion over the year.

Although we expect central banks to cut interest rates in the second half of 2024, we're unlikely to see the zero-rate era return any time soon. This means rates are likely to stay relatively higher for longer and are expected to settle in the 3%–4% range in Australia.

While higher interest rates for longer might be painful for borrowers, they're actually a good thing for investors over the long run, particularly for bond investors.

We therefore anticipate bond ETFs to remain popular with Australian investors in the coming year, particularly as domestic bond return expectations have substantially increased since 2022 from 1.3%–2.3% to 4.3%–5.3% per annum over the next 10 years.

Broad index ETFs that invest in the largest ASX-listed companies

attracted the biggest share of equity inflows in 2023 despite the Australian share market recording a substantially lower return than most international share markets. On the whole, Australian equity ETFs attracted \$5.3 billion, up 20% from 2022.

The Vanguard Australian Shares Index ETF (VAS) again was the most popular domestic equity ETF in Australia, recording nearly 11% of net market flow.

Interestingly, despite strong gains recorded in global equity markets, the asset class still received less inflow than its domestic counterpart, recording \$2.2 billion compared to the \$5.3 billion Australian equities attracted.

It's clear Aussie investors still favour Aussie equities, perhaps in part due to the familiarity of domestic companies or the view that offshore investments might be riskier. However, a well-diversified portfolio should include both domestic and international investments as these different asset classes will respond differently to the same market forces. This is essential to managing investment risks and portfolio volatility.



Adam DeSanctis
Head of ETF Capital Markets, Australia



The Australian ETF market attracted **\$5.3 billion** in net inflows in Q4.



ETF assets under management in Australia surpassed **\$170 billion**.



Vanguard attracted **\$1.4 billion** in net cash inflows in Q4.



Vanguard maintained its position as the leading Australian ETF issuer by AUM **with \$50 billion**.

Australian ETF update

ETF FACT

\$1.4B

Vanguard Australia Q4 2023 net cash flow.

Cash flow

Across all issuers, the Australian ETF market recorded the strongest quarterly net cash flows of the year with \$5.3 billion in Q4, up from \$4.7 billion in Q3, \$2.35 billion in Q2, and \$1.84 billion in Q1. For the fourth quarter, investors favoured equity products (\$3.8 billion) over fixed interest products (\$1.16 billion). While domestic equities were more popular among investors in Q3, international and domestic equities shared a near equal proportion of the overall equities cash flow in Q4, with \$1.93 billion and \$1.90 billion respectively.

Vanguard ETFs attracted \$1.4 billion for the quarter, with the most popular being the Vanguard Australian Shares Index ETF (VAS), which received over \$765 million in Q4, making it the most popular for the quarter among all issuers. The Vanguard Global Aggregate Bond Index (Hedged) ETF (VBND) was the second most popular Vanguard ETF for the quarter with \$313 million in net flows.

Assets under management (AUM)

From the third quarter to the fourth quarter of 2023 the total ETF AUM in Australia was up more than 16% with over \$172 billion invested across 325 ETFs. Vanguard retained its position as the top ETF issuer in Australia, managing 29% of assets, totalling \$50 billion in AUM across its 29 products. The Vanguard Diversified High Growth Index ETF (VDHG) crossed a significant milestone at the end of 2023 to reach over \$2 billion in AUM as our most popular multi-asset diversified ETF.

Figure 2. Industry net cash flow by asset class

ASSET CLASS	Q4		YTD	
	\$M	%	\$M	%
Australian Equity	1,899	35.7	5,301	37.2
Global Equity	1,930	36.3	2,199	15.4
Infrastructure	-50	-0.9	13	0.1
Australian Fixed Income	764	14.4	3,810	26.7
Global Fixed Income	401	7.5	1,560	10.9
Cash	191	3.6	1,041	7.3
Australian Property	66	1.2	102	0.7
Global Property	106	2.0	223	1.6
Commodity	32	0.6	-68	-0.5
Currency	-19	-0.4	-40	-0.3
Multi Asset	-5	-0.1	114	0.8
Total	5,313		14,253	

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

Performance

Vanguard's best performing ETF of Q4 was the Vanguard Australian Property Securities Index ETF (VAP), which returned 16.44%, followed by the Vanguard MSCI Australian Large Companies Index ETF (VLC) with 9.93% and the Vanguard Ethically Conscious Australian Shares ETF (VETH) with 9.64%. The best performing Vanguard ETFs over the past 12 months are the Vanguard Ethically Conscious International Shares Index ETF (VESG) with 26.63%, followed by the Vanguard U.S. Total Market Shares Index ETF (VTS) with 25.25% and the Vanguard MSCI Index International Shares ETF (VGS) with 23.30%

Figure 3. Industry net cash flow by issuer

ISSUER	Q4 NET CASH FLOW		AUM
	\$M	%	\$M
abdrn	-0.2	0.0	1.0
Alphinity	17.3	0.3	536.2
AMP	21.2	0.4	122.0
Antipodes	-7.0	-0.1	325.1
Aoris Investment Management	15.9	0.3	43.6
Associate Global Partners	-21.5	-0.4	374.9
BetaShares	2,070.8	39.0	31,578.0
Daintree	12.9	0.2	43.4
Dimensional	-7.7	-0.1	10,980.6
Ellerston	-5.2	-0.1	40.5
Fat Prophets	0.0	0.0	3.8
Fidante Active X	-66.7	-1.3	632.9
Fidelity	-2.5	0.0	312.5
Firetrail	-0.8	0.0	11.0
Franklin Templeton	83.0	1.6	849.2
Global X	25.9	0.5	6,165.1
Hejaz	-0.9	0.0	104.1
Hyperion	-67.3	-1.3	2,350.3
Investors Mutual	1.3	0.0	2.5
InvestSMART	-3.5	-0.1	300.2
iShares	807.1	15.2	29,813.0
Janus Henderson	0.1	0.0	3.2
JPMorgan	41.3	0.8	79.6
K2	3.0	0.1	24.9
L1 Capital	183.7	3.5	188.3
Loftus Peak	9.6	0.2	306.9
Loomis Sayles	-0.9	0.0	42.1
Macquarie	5.0	0.1	5.2
Magellan	-520.5	-9.8	7,758.7
Milford	17.3	0.3	23.4
MonashInvestors	-0.8	0.0	16.6
Montaka	8.2	0.2	132.5
Morningstar	8.7	0.2	180.5
Munro Partners	-6.6	-0.1	205.9
Nanuk	-17.7	-0.3	724.7
Perennial	0.6	0.0	78.1
Perpetual	49.0	0.9	259.8
Perth Mint	123.5	2.3	854.1
Platinum	-7.6	-0.1	406.9
Resolution Capital	54.8	1.0	1,451.9
Russell	0.5	0.0	1,053.7
Schroders	-1.1	0.0	56.4
State Street	36.1	0.7	8,695.1
VanEck Vectors	1,014.6	19.1	15,387.0
Vanguard	1,439.6	27.1	50,443.7
Vaughan Nelson	0.2	0.0	11.6
	5,312.8	100.0	172,980.6

Sources: ASX monthly report and Vanguard, as of 31 December 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	88.43	0.07	8.36	12.06	8.99	\$765	\$14,384
Property	VAP	74.37	0.23	16.44	16.62	5.64	\$74	\$2,736
High Yield	VHY	67.44	0.25	7.11	11.43	12.32	\$161	\$3,426
Large Companies	VLC	71.93	0.20	9.93	13.36	11.44	\$5	\$226
Small Companies	VSO	60.41	0.30	6.43	6.64	4.73	\$46	\$876
Ethical Australian Equities	VETH	54.26	0.17	9.64	12.12	7.34	-\$12	\$386
International Equity ETFs								
Developed Markets	VGS	105.80	0.18	5.32	23.30	11.85	-\$105	\$6,490
Developed (AUD hedged)	VGAD	84.55	0.21	9.22	21.70	7.36	\$143	\$2,834
All world Ex US	VEU	80.82	0.08	4.00	14.93	6.14	\$95	\$2,745
Total US Market	VTI	330.13	0.03	6.09	25.25	12.98	\$79	\$3,773
Developed Europe	VEQ	64.17	0.35	5.86	18.57	9.28	-\$3	\$187
Asia ex Japan	VAE	67.60	0.40	0.55	5.58	-2.19	-\$9	\$318
Emerging Markets	VGE	68.02	0.48	0.86	7.60	-0.01	\$46	\$733
Global Infrastructure	VBLD	58.57	0.47	5.27	-0.51	7.64	\$4	\$316
International Small Companies	VISM	56.68	0.33	6.36	15.54	7.36	\$13	\$288
Ethical International Equities	VESG	73.99	0.18	6.34	26.63	10.57	\$17	\$742
Minimum Volatility - Active	VMIN	52.40	0.28	5.34	5.65	3.05	\$1	\$17
Global Value - Active	VVLU	64.54	0.29	4.85	18.83	18.51	\$9	\$525
Fixed Interest ETFs								
Australian Composite	VAF	44.24	0.10	3.77	4.97	-2.83	\$73	\$1,880
Australian Government	VGB	44.99	0.20	3.94	4.68	-3.27	-\$39	\$1,018
Australian Corporate	VACF	49.30	0.20	3.14	6.68	-0.85	\$10	\$663
International Treasury (AUD hedged)	VIF	37.26	0.20	5.14	4.66	-3.81	-\$197	\$744
International Credit (AUD hedged)	VCF	36.59	0.30	6.43	6.44	-3.77	\$1	\$152
Global Aggregate (AUD hedged)	VBND	39.91	0.20	5.88	5.18	-3.99	\$313	\$1,198
Ethical International Bonds	VEFI	40.62	0.26	5.79	5.00	-4.00	-\$13	\$68
Diversified ETFs								
Conservative	VDCO	48.48	0.27	5.36	8.44	0.53	-\$5	\$207
Balanced	VDBA	50.25	0.27	6.15	10.91	2.47	-\$42	\$609
Growth	VDGR	53.54	0.27	6.53	13.38	5.02	\$13	\$758
High Growth	VDHG	57.11	0.27	6.92	15.81	7.58	-\$5	\$2,143
TOTAL							1,439.6	50,443.7

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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