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Advisers maintain shift to ETFs from active managers: VanEck survey

Sydney, 29 September 2020 – Financial professionals have boosted their use of exchange traded funds (ETFs), with most planning to increase their use of smart beta strategies in the next year, as advisers question the cost and performance of actively managed funds, VanEck's fifth annual smart beta survey reveals.

The annual Australian Smart Beta Survey is the largest survey of its kind in the world, capturing investment trends in the Australian market. This year, the survey attracted a record 532 responses from financial professionals working in an advisory capacity in Australia. The poll revealed 87% of advisers use ETFs in client portfolios, up from 83% in 2016. Many of these advisers (46%) use smart beta strategies in asset allocation, up from 37% in 2016.

Arian Neiron, VanEck's Managing Director and Head of Asia Pacific, said: "We are seeing a sharp rise in ETF use in Australia, with the majority of respondents, or 73%, having increased their use of ETFs in the last year. The main driver of this move to ETFs has been the desire to reduce portfolio costs, with most respondents (58%) motivated by this.

"Moreover, the majority of advisers plan to increase their use of smart beta strategies in the next year and we are seeing very clear reasons why. The underperformance by active fund managers is contributing to the shift to ETFs, as well an increased awareness of ETFs in the financial services community. At the same time, we are seeing financial advisers turn away from more expensive actively managed funds."

The survey reveals the majority of respondents (57%) use smart beta ETF's as a substitute or replacement for active management while 47% use it instead of passively managed funds. In addition, 94% are familiar with smart beta strategies, an increase from 81% in 2016.

"We are also seeing very high levels of satisfaction, with 99% of advisers using smart beta strategies satisfied with their smart beta investments.

"In this year's survey, we once again see that the desire to secure strong performance is the number one motivation for advisers using smart beta for their clients. Advisers are realising that actively managed funds often underperform their benchmarks, so they are shifting to ETFs and smart beta strategies as potentially being more effective in helping their clients achieve their investment objectives," said Neiron.

Most financial professionals use smart beta strategies for global equities (77%) and Australian equity (70%) exposure. The most popular smart beta strategies used by financial professionals are single factor quality (41%), equal or alternative weighted strategies (38%), and environmental, social, and governance strategies (ESG) (28%).

"The ability to achieve targeted investment outcomes such as ESG or quality investing is drawing more financial professionals to smart beta ETFs: 56% of financial professionals plan to increase their smart beta allocation in the next 12 months," Neiron said.

The persistent underperformance of active managers is backed by research from S&P Dow Jones Indices. The latest SPIVA® Australia Scorecard has found that during the first half of 2020, "apart from A-REIT funds, the majority of funds in all categories suffered worse drawdowns versus their respective benchmark indices." Over the longer term too, 92% of international equity fund managers underperformed the S&P Developed Ex Australia LargeMidCap index over the 10-year period to 30 June 2020. In Australia, 82% of active managers underperformed the S&P/ASX 200 over 10 years.

The rapid growth in smart beta is illustrated by the high number of listed products. One in four exchange traded products (ETPs) listed on ASX are smart beta strategies. At the end of August 2020, 15% of assets managed by the ETP industry were in smart beta products, up from 8% in 2016.



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"Smart beta is a huge part of the disruption active managers are facing, and ETFs have democratised the opportunity and encouraged investors to employ smart beta in their portfolio construction. The net result is lower fees, full transparency and an ability to target their specific investment outcomes," Neiron said.

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About VanEck Smart Beta Survey

This is the largest survey of its kind in the world, capturing the opinions and trends of financial professionals with regard to smart beta products and strategies. This year, respondents comprised **532 financial professionals working in an advisory capacity in Australia**. Launched in 2016, the VanEck Australian Smart Beta Survey has shown significant increases in the adoption rate of smart beta products and further signals smart beta's displacement of active management. In 2018, the survey included an additional section on sustainable investing and we continue to explore this trend in 2020.

ABOUT VANECK

VanEck is one of the world's largest issuers of ETFs (exchange traded funds), managing in excess of US\$50 billion globally for individual and institutional investors. Founded in New York in 1955, VanEck is a pioneer in international investing and in gold funds, launching the first gold equities fund and the first gold ETF in the US.

In Australia, VanEck is the fastest growing ETF provider in the country and a leader in 'smart beta' investment strategies. We have 25 exchange traded funds on ASX that focus on delivering superior performance through beyond-the-usual approaches and providing access to asset classes typically unavailable to Australian investors.

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