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2016 pivotal year for smart beta ETFs

Sydney, 17 January 2017 – Smart beta ETFs gained significant traction in the Australian market in 2016 as an alternative to active management and market capitalisation-weighted index funds, according to Arian Neiron, Managing Director, VanEck.

Total flows into smart beta ETFs reached A$563 million accounting for almost 20% of the total Australian ETP[1] flows of $3.06 billion[2] in the 12 months to December 2016. Smart beta ETFs attracted the majority (60%) of total ETP inflows in December alone.

“Smart beta strategies provide an alternative passive approach to traditional market capitalisation indices. There was considerable market volatility in 2016 and smart beta strategies, such as equal weight, quality, value and fundamental weighting, provided investors with the opportunity to achieve targeted outcomes and higher risk-adjusted returns,” Mr Neiron said.

At the end of the November 2016 total investment in smart beta equity ETFs/ETPs globally reached a new record of US$497 billion[3], across 1,179 smart beta equity ETFs/ETPs. Locally, smart beta ETFs account for 20% of the total ASX-listed ETPs.

“Globally smart beta is the fastest growing segment of the investment management industry. While still in its infancy, we expect Australia’s smart beta ETF industry to grow significantly in 2017 as investors understand the benefits of achieving targeted investment outcomes within a passive investment management framework. The number of smart beta ETPs will expand across a range of asset classes this year,” Mr Neiron said.

Overall, Australia’s ETP industry reached a record high at the end of 2016 of A$25.6 billion[4], a 20% growth from 2015. Total inflows into Australian equity ETPs in 2016 surpassed international equity ETP investment for the first time in several years. In the 12 months to December 2016 Australian equity ETP inflows reached A$1.04 billion exceeding international equity ETP inflows of A$967 million.

“Speculation leading up to the US election and ongoing market volatility particularly encouraged investors’ love affair with Australian equites in 2016. Investment into fixed income ETFs also picked up in 2016, attracting A$563 million (almost 20%) of total overall ETP flows, a significant increase from A$410 million in 2014. The search for defensive assets has been a dominant theme in 2016. Duration risk is top of mind for investors who have started shifting out of long-term bonds to short-term bonds in anticipation of rising interest rates in the US,” Mr Neiron said.

Gold miners ETFs and bullion ETPs also benefitted from uncertainty in 2016 attracting in excess of $100 million in the 12 months to December 2016. However, post the US election gold tapered off slightly as the Trump honeymoon led stock markets to full bloom.

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[1] ETP refers to all investment products on exchange. On ASX, ETFs make up just over 90% of total ETP assets
[2] ASX Fund Monthly Update – December 2016
[3] According to data from ETFGI’s November 2016 global smart beta equity industry insights report
[4] ASX Funds Monthly Update – December 2016

“We believe the Trump administration has the potential to implement policies that promote growth. However, it seems the market is ignoring many potential risks the new administration may face. These include attempting to change trade treaties, immigration policies, the national debt and Fed tightening. Potential moves by China or Russia, disarray in the EU and strife in the Middle East could also impact the administration's efforts. We believe many of these risks will surface in 2017, reversing the positive sentiment in the stock market and US dollar to gold's benefit,” Mr Neiron said.

ENDS

General information only

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