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## Royal commission shock to catapult ETF growth

**Sydney, 19 April 2018** – The revelations being detailed at the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry highlight the conflicts of interest that large, vertically integrated institutions have. This is going to result in changes to how financial advice is given in Australia. One of the biggest beneficiaries will be Exchange Traded Funds (ETFs).

Arian Neiron, Managing Director and Head of Asia Pacific, VanEck, said that while the Future of Financial Advice (FOFA) reforms had introduced a duty for financial advisers to act in the best interests of their clients, it has been admitted over recent days that the interests of the shareholders in the big wealth managers, not the clients, have been put first.

“We expect a regulatory overhaul following Commissioner Hayne’s findings, if not before then. Community expectations have changed. The industry is predicated on trust and a fiduciary obligation. We anticipate a high degree of financial product scepticism and our view is that ETFs, being low cost and transparent will enable advisers to earn their clients’ trust,” said Neiron.

“Since FOFA we have seen an increasing number of advisers use ETFs to access previously inaccessible strategies, markets and to broaden their portfolios in a way that they have never been able to before. However there are still advisers who have yet to make the switch. Clients and indeed legislators will no longer stand for the high fees that have made wealthy these institutions that have breached everyone’s trust. Clients will be asking their advisers, if they are not in low-cost ETFs, why not?”

“ETFs provide transparent, liquid and targeted outcomes, while also being far more cost effective than comparable unlisted active managed funds that sit on platforms that charge high fees. This is highlighted time and time again by S&P Dow Jones Indices’ SPIVA scorecard. The most recent one, for example, for the period ending December 2017, reveals that nearly 60% of active Australian equity managers were outperformed by the S&P/ASX 200 over the previous twelve months. Over longer time periods it is far more pronounced, with almost 74% and 77% of active managers being outperformed by the benchmark over 10- and 15-year periods, respectively.”



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Investor's will not stand for this anymore. We expect to see low-cost passive options become the first choice investment vehicle.

Passive funds do not mean low returns. 'Smart beta' ETFs' rules go beyond simple benchmarks by identifying an investment approach, such as a quality factor, that has demonstrated historical outperformance compared both the benchmark and their active peers. Examples include our own VanEck Vectors Australian Equal Weight ETF (MVW) and VanEck Vectors MSCI World ex Australia Quality ETF (QUAL).

"The outcome of the Hayne Commission will mean that investors and legislators will be looking for value and performance in investment products. ETFs, especially smart beta ETFs, have the edge in providing this," said Neiron.

ENDS

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