Smart beta disruption to accelerate in 2021: VanEck

Sydney, 14 December 2020 – Advisers and their clients are boosting their use of smart beta exchange traded funds (ETFs) to construct robust and transparent portfolios replacing opaque and expensive actively managed funds, with one in three exchange traded products (ETPs) expected to be a smart beta product in 2021 as the ETP market heads towards a record $100 billion market capitalisation.

Smart beta is the name given to an index strategy that systematically selects, weights and rebalances portfolio holdings on the basis of factors or characteristics versus a market capitalisation approach. The rapid growth in smart beta use is illustrated by the high number of listed products. One in four ETPs listed on ASX is now a smart beta ETF. At the end of November 2020, 13% of assets managed by the ETP industry were in smart beta products, up from 8% in 2016. The ETP's market size was $92 billion as at 30 November 2020, up 53% from a year earlier, and almost double the size of the listed investment company/trust sector at $52 billion, unchanged from a year earlier.

Arian Neiron, VanEck's Managing Director and Head of Asia Pacific, said: "The next year will likely bring further momentum in smart beta's disruption of active funds management. In the new world advisers and investors are demanding their investment managers be transparent and offer a true to label investing edge - without that they will simply be displaced.

"ETPs offer diversification - in assets, sectors, and geographies through a single ASX trade. Their appeal is long lasting and growing as they open up previously inaccessible asset classes and through smart beta, rules-based investment strategies that can help investors to cost-effectively target specific investment outcomes.

"Advisers and investors are finding many actively managed funds have significantly underperformed their benchmarks over short and long-term periods – a finding backed by independent research. Research by VanEck too has found that many Australian equity active fund managers don't add value because they tend to 'hug' market-capitalisation based benchmarks[1]. Yet those active managers charge significantly higher management costs than those charged by passive managers on ETFs.

"Given intense competition in the investment management industry and investors' demands for better outcomes, only those active managers who demonstrate identifiable and persistent outperformance will prevail. The difficultly for investors is finding those active managers that consistently outperform or are true to label," said Neiron.

[1] *When are fees too high? The potential impact of smart beta to disrupt active Australian equity strategies.*

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.

VanEck's fifth annual smart beta survey reveals the majority of adviser respondents, or 73 per cent, increased their use of ETFs in the last year. The main drivers of this move to ETFs has been the desire to reduce portfolio costs, while smart beta ETFs are being sought by investors and advisers who are not impressed with the broad-based underperformance by active management.

"With an expanding diversity of assets being offered by ETPs, and smart beta ETFs in particular, we believe even more funds will flow into the ETP market in 2021, which could take it to a market capitalisation of $120 billion. Flows to smart beta ETFs totalled $3.4 billion over the year to 30 November 2020, up 34% over the same period a year ago, so disruption is already taking place."

ENDS

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ABOUT VANECK

VanEck is one of the world's largest issuers of ETFs (Exchange Traded Funds), managing in excess of $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 products 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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