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Survey Reveals Smart Beta ETFs Are Preferred Investments

Sydney, 7 August 2017 – At least 50% of financial professionals are using smart beta strategies in client portfolios, up from 37% last year, with outperformance the biggest draw, followed by lower costs compared to actively managed funds, according to VanEck's second annual smart beta survey.

The new survey of Australian financial advisers and brokers by global ETF provider VanEck found an overwhelming 91% believe smart beta strategies will outperform or perform in line with active strategies; just 9% think smart beta would underperform.

Highlighting its growing appeal, smart beta is being used as a replacement for actively managed funds by 64% of financial advisers and brokers and an almost equal proportion are using smart beta to replace market capitalisation based index managed funds.

Arian Neiron, Managing Director, VanEck Australia said, "The survey reveals smart beta strategies are quickly gaining traction among investment professionals. We are nearing a tipping point where smart beta ETFs will become as prevalent as market cap weighted ETFs given their strong performance and cost advantages compared to active funds.

Smart beta ETFs combine aspects of active and passive management by tracking indices that deliver a targeted investment outcome. Yet they retain the transparency, liquidity, ease and rules-based approach of market-capitalisation based ETFs.

"A clear sign that smart beta is winning backers is that 73% of financial professionals using smart beta are 'very or extremely satisfied' and only 1% unsatisfied. Over 70% agree that smart beta will become more prevalent in portfolios, up from 51% in 2016. Only 1% disagree with this view," Neiron said.

"Another sign that smart beta is gaining traction is its broader use by all investment professionals, including advisers working with the big banks. While IFAs were the early adopters of smart beta, aligned advisers are now the fastest growing users," said Neiron.

"Nearly all respondents are familiar with smart beta, or 97%, up from 81% last year. For those that aren't already users, 95% of financial advisers and brokers would consider investing in smart beta strategies in the future."

Globally, smart beta is the fastest growing segment of the investment management industry, with over 1,200 products listed with US$592 billion of funds invested in exchange traded products. In Australia, approximately 10% of ETPs are smart beta; while in the US, smart beta products capture nearly a quarter of the market.

"We expect, in terms of flows, to be in a similar position to the US within five years. Over the past six years, the number of smart beta ETFs listed on the ASX has increased to 34 from 5 in 2011. Today, smart beta ETFs account for $3.2 billion in assets under management, up from $250 million in 2011, highlighting their rapid growth," Mr Neiron said.

"Much of the appeal lies in the broad investment strategies smart beta offers and the fact that smart beta indexes are designed with investment outcomes in mind, something market cap weighted indexes are not. Nearly three quarters of respondents investing in smart beta use two or three smart beta strategies as they allow investors to target specific investment objectives, cost effectively," said Neiron.

"While most respondents use smart beta strategies for Australian equity and international equity exposure, smart beta ETFs now allow investors to easily diversify into sectors not well represented on the ASX such as healthcare and technology. In addition, with newer sophisticated offerings in other asset classes, such as bonds, we expect usage within other investment categories to grow in the future," said Neiron.

"For example, the recently launched VanEck Vectors Australian Corporate Bond Plus ETF (ASX:PLUS) is a portfolio of the highest yielding investment grade Australian dollar fixed rate corporate bonds," said Neiron.

"However, there is still a need for more education to ensure advisers and clients have adequate information to confidently invest in smart beta strategies."

The survey found VanEck is considered the most well-known brand when considering smart beta strategies.

"As the popularity of smart beta grows, so too will flows into ETFs that adopt targeted strategies and the number of smart beta ETFs traded on the ASX. Investors are now realising that active funds do not always achieve higher returns than the benchmark and are seeking more cost effective and transparent options to achieve investment objectives."

About VanEck Smart Beta Second Annual Survey
This is the second annual VanEck Smart Beta study and this year's survey was conducted in July 2017. The number of respondents participating in the survey increased over 30% and helps us to understand the opinions of financial professionals on smart beta investing in Australia. The survey is based on the responses of over 150 Australian-based financial professionals working in an advisory capacity in Australia.

The majority of respondents in this survey work for independent financial services firms (54%), larger organisations owned by a bank or wealth manager (24%), broking firms (11%) and other (11%). The majority of survey respondents are a CEO, managing director, owner or partner (31.7%), financial planner (34.7%), broker, trader or implementation manager (15.8%) or portfolio manager, researcher, analyst (9.9%).

ENDS

About VanEck
Founded in 1955, VanEck was among the first asset managers helping investors achieve greater diversification through global investing. Today we are recognised for being a pioneer in global markets and for drawing on our experience to offer innovative solutions. We offer these solutions to individual investors and institutions, including endowments, foundations, pension plans and private banks.

VanEck is one of the world's largest exchange traded product issuers. In Australia our range of ETFs (exchange traded funds) offer investors intelligently designed investment strategies that take advantage of targeted market opportunities. With offices in key financial centres and regions including New York, Sydney, Shanghai, Frankfurt, Madrid and Zurich, VanEck offers investors broad investment reach with deep experience.
Further information about VanEck is available at vaneck.com.au

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