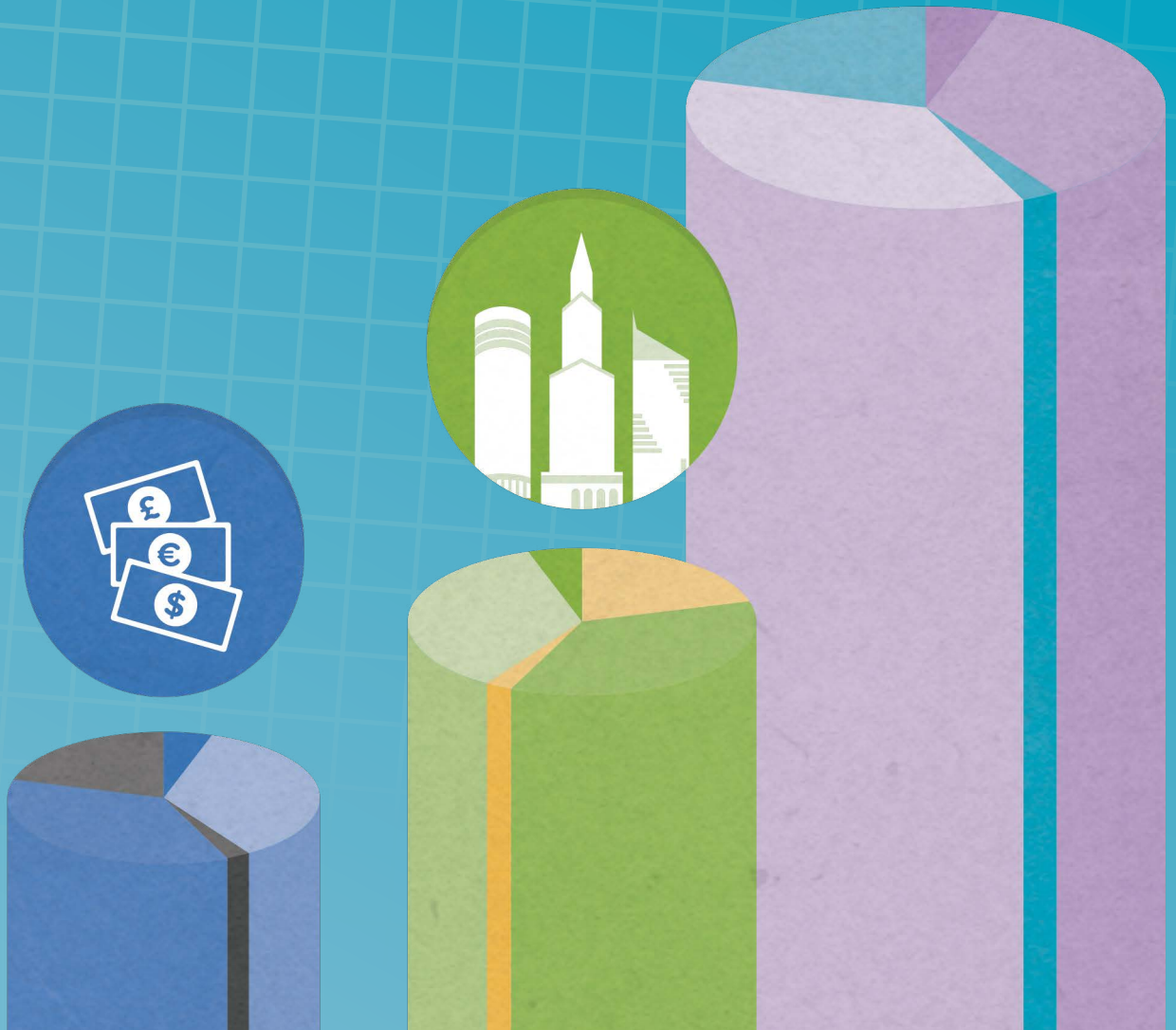
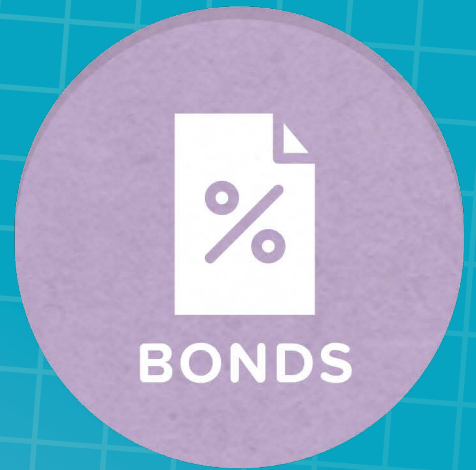


Australian ETF Report

2016





Contents

About this report	4	ETF Sectors	21
What are ETFs?	6	Australian Shares (Broad Market)	22
Types of ETF	8	Australian Shares (Sectors)	24
ETF Market Summary	10	Australian Shares (Strategies)	26
Key Stats	10	Global Shares (Broad Market)	28
By Sector Group	12	Global Shares (Sectors)	32
By ETF Issuer	14	Currency	33
By Performance	16	Fixed Income & Cash	34
By Funds Under Management (FUM)	18	Commodity	36
New Listings	19	Alternative Indexing	38
		Conclusion	39
		Glossary	40

About this report

Welcome to our second Australian ETF report which aims to help investors understand and compare ASX listed ETFs. We want to provide consumers with an objective, independent view of the ETF landscape.

The ETF market in Australia grew from \$17.8 billion to \$21.3 billion over the past year. This represents an increase in funds under management (FUM) of 20% and follows 66% growth last year. ETFs have become increasingly popular in Australia due to their low-cost, transparency and diversification benefits.

ETFs have become increasingly popular in Australia due to their low-cost, transparency and diversification benefits.

We've analysed 128 ETFs and given them a rating out of 5 which takes into account factors including **fees**, **performance**, **size** and **activity**.

In the report we also look at recent ETF market trends including the continued growth in **international ETFs**, the wide gap between the performance of different sectors, the **demand for defensive ETFs**, and the disappointing performance of **alternative index ETFs**.

We hope you find the report useful and please let us know your feedback.

Chris Brycki
Founder & CEO, Stockspot



About Stockspot

Stockspot is Australia's first online, automated investment adviser and fund manager. Our aim is to make professional wealth management accessible to more Australians.

We want to do away with the high fees, confusing jargon, endless paperwork and lack of transparency that gives the wealth management industry a bad reputation.

We can see that:

- The high fees charged by many traditional wealth managers are completely unnecessary and are eating away at investment returns.
- Many Australians are unable to access a professionally managed portfolio due to the significant minimum balances.
- Those who are trying to invest themselves are usually missing out on the returns and diversification benefits of other assets like bonds and international shares.

That's why we created Stockspot.

We're helping Australians manage their money smarter with our simple, low-fee, online investment service.

Find out more:

www.stockspot.com.au

What are ETFs?

An exchange traded fund (ETF) is an open-ended investment fund that is traded on a stock-exchange. ETFs first emerged in the USA in the early 1990s and their recent explosive growth has led to more options being available across the world, including Australia since their introduction in 2001.



COMMON TYPES OF ETFS



Australian Index



Australian sector



International index



International sector



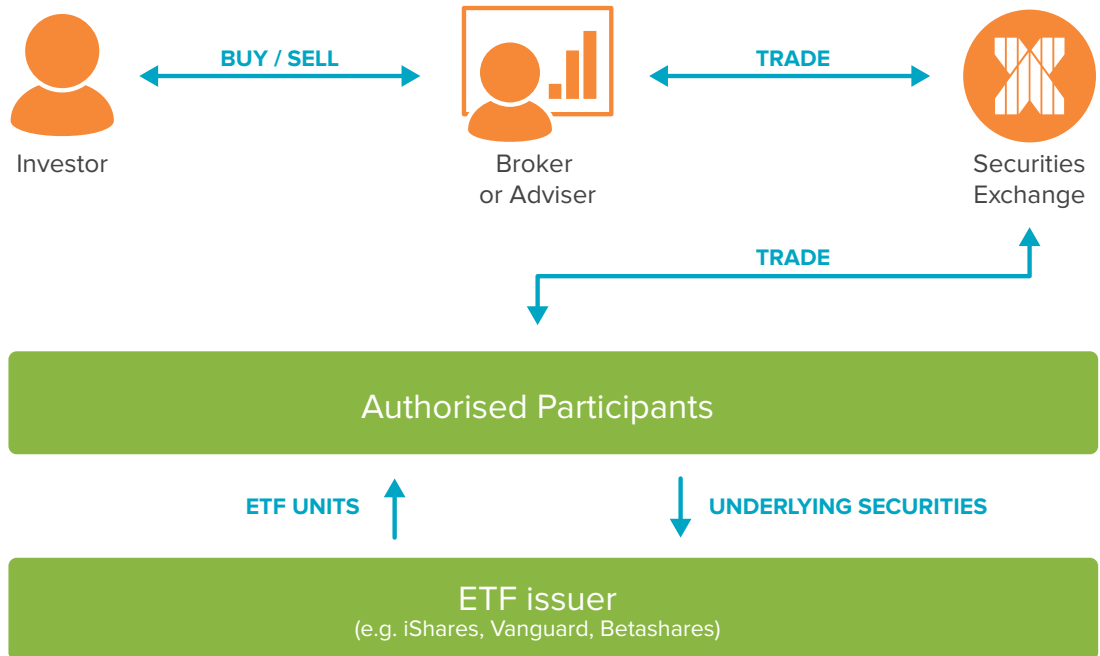
Fixed Income



Commodities

ETFs can be traded on the ASX in the same way as shares in a company. Rather than owning shares in a business, an ETF tracks an asset class, such as Australian shares or global shares, and provides direct exposure to a wide range of investments within that asset class.

HOW IT WORKS



Types of ETF

INCLUDED IN THIS REPORT

We have included several exchange traded products (ETPs) in this report. Broadly they are all described as exchange traded funds (ETFs), however the ASX has more specific naming conventions to capture some of the subtle differences between exchange traded products:

Exchange traded fund (ETF) —

Under ASX naming conventions, ETF technically refers only to funds that passively track an index. These are usually structured as a managed investment scheme, where investors hold units in a trust. The majority of ETPs are indeed ETFs and the remaining ETPs are types of actively managed funds with additional identifying characteristics.

Exchange traded structured products (SP) —

These exchange traded products do not typically invest in the underlying asset, but instead aim to mimic the performance of an index synthetically via a structured agreement or derivative over a futures contracts. This structure is most commonly used by issuers creating commodity indices as it is not feasible to hold most physical commodities. Where investors are exposed to counterparty risk of more than 10% of the fund's net asset value structured products must have the word 'synthetic' as part of their name for easy identification.

Exchange traded managed fund (MF) —

These are also admitted to trading status on the ASX like ETFs, but are actively managed funds. Similarly to ETFs they are typically structured as managed investment schemes.

Exchange traded hedge fund (ETHF) —

These are a specific type of exchange traded managed fund that fits within the regulations set out by ASIC criteria and class orders. These are funds that use complex instruments such as borrowing, options and short selling and are required to have the words 'hedge fund' in their title for identification. The 'hedge fund' title is a little confusing since these funds are not actually hedge funds as most people know them to be, but rather funds that offer leverage like the Geared Australian Equity Fund (GEAR) - or an inverse pay-off to the market like BetaShares Australian Equities Bear Fund (BEAR).



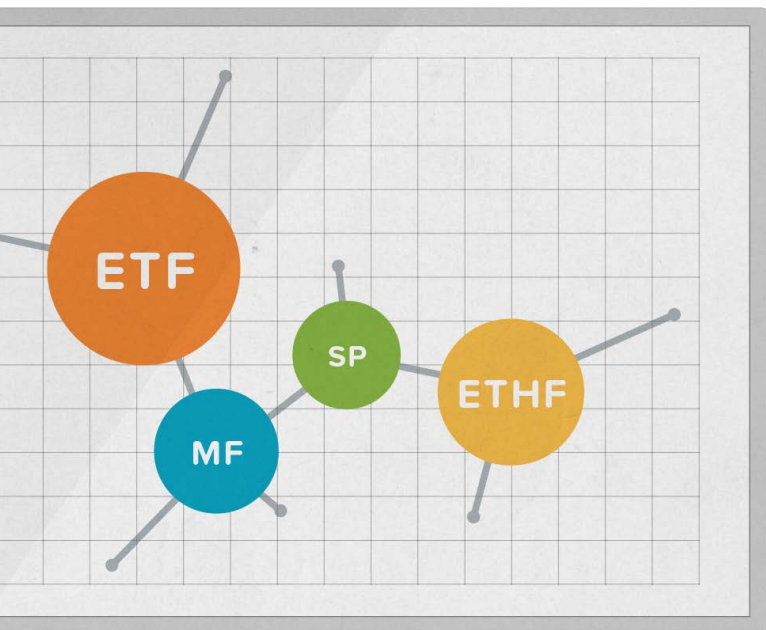
NOT INCLUDED IN THIS REPORT

There are also other investment fund options available on the ASX, which this report does not cover:

mFunds — This is an ASX-linked platform which enables investment in a range of range of unlisted managed funds via the ASX CHESS system. However there is no standard settlement timeframe across issuers and products. In addition there is no live pricing so investors must wait until after the close of trading each day to know the price of units that have been bought or sold.

Listed Investment Companies (LICs) — these are usually managed funds which are actively managed in a closed ended structure, which means that there is no unit creation/redemption process. Investors in LICs own shares in a company, which may trade at premium or discount to net asset value so there is no guarantee that the prices of LICs will resemble the value of underlying investments. As a result LICs often vary considerably from their Net Asset Value (NAV).

Infrastructure funds and Real Estate Investment Trusts (REITs) — these give investors exposure to portfolios of infrastructure or property assets. Similar to LICs, they can trade at a premium or discount to their Net Asset Value (NAV).



ETF Market Summary

+20% »» \$21.3B
ETF FUNDS UNDER MANAGEMENT

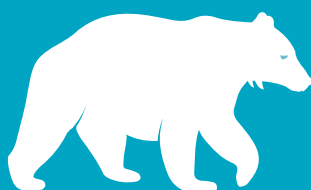
ETF funds under management grew 20% over the past year to \$21.3 billion



13
NEW INTERNATIONAL
SHARE ETFS

13 out of 28 new ETFs of the year were international share ETFs.

+11%
BEST PERFORMER



Best performing ETF was BetaShares Australian Equities Bear (Hedge Fund) +11%.

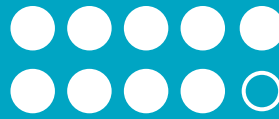


-44%
WORST PERFORMER

Worst performing ETF was Betashares Crude Oil Index ETF-Currency Hedged (Synthetic) ETF with -44%.

23 ETFs earned our highest ratings of 4 or 5 spots.

23
ETFs

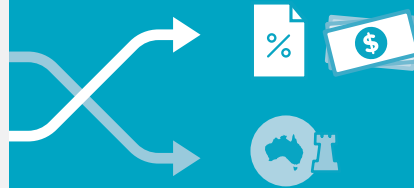


37 ETFs earned our lowest ratings of 0 or 1 spots.



37
ETFs

Fixed income and cash (\$2,191M) overtook Australian shares strategies (\$2,042M) to become the third largest ETF sector.



FIXED INCOME AND CASH ETF SECTOR GAINS POPULARITY

Fixed income and cash was the best performing ETF sector, returning 2% for the year.

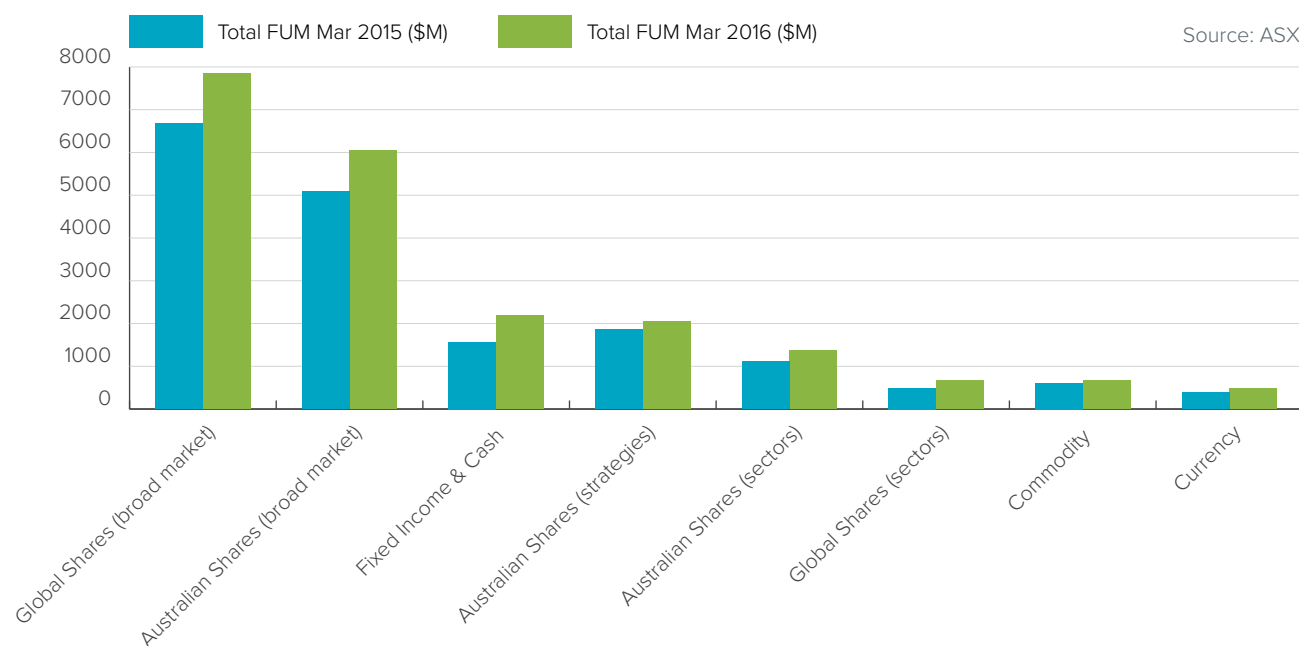
BEST PERFORMING ETF SECTOR FIXED INCOME AND CASH



Sector	Number of Products	FUM (\$M) Mar'15	FUM (\$M) Mar'16	Annual change in FUM (\$M)	Annual change in FUM (%)
Global Shares (broad market)	49	6,674	7,855	1,180	18%
Australian Shares (broad market)	15	5,095	6,036	941	18%
Fixed Income & Cash	16	1,569	2,191	622	40%
Australian Shares (strategies)	16	1,850	2,042	192	10%
Australian Shares (sectors)	10	1,105	1,372	267	24%
Global Shares (sectors)	5	493	665	171	35%
Commodity	12	610	664	55	9%
Currency	5	385	473	88	23%
Totals	128	17,782	21,299	3,517	20%

Source: ASX

ETF GROWTH BY SECTOR



WE HAVE DIVIDED THE AUSTRALIAN ETF UNIVERSE INTO 8 BROAD SECTOR GROUPINGS:

Sector	Types of ETFs
Australian shares – broad market	ETFs which track the broad Australian market
Australian shares – sectors	ETFs which track sectors within the Australian market (e.g. Property, Financials or Resources)
Australian shares – strategies	ETFs which only include some Australian stocks rather than the entire index. Stocks are selected according to certain rules-based factors (e.g. dividend yield, or research rating)
Global shares – broad market	ETFs which track the broad international markets
Global shares – strategies	ETFs which only include some international stocks rather than the entire index. Stocks are selected according to certain rules-based factors (e.g. quantitative valuation overlay)
Fixed income & cash	ETFs which track fixed interest (bonds) and cash
Currency	ETFs which track currencies
Commodity	ETFs which track commodities (e.g. gold, oil)

Each ETF sector saw growth over the year, with the largest inflows coming into international shares, Australian shares and fixed income.

Over 5 years the average international share ETF returned 8.7%, compared to a 3.8% return from the average Australian share ETF. The underperformance of the local market since 2010 has led many Australian investors to look at adding international ETFs into their portfolios. The recent worldwide volatility in share markets has also seen investors diversify their portfolios into fixed income ETFs.

All sectors except for commodities had double-digit percentage growth in FUM, with the smaller sectors growing at faster rates. The gap between the largest sectors of international shares (\$7,855M) and Australian shares (\$6,036M) remained constant, as international shares did not reproduce the high level of outperformance as last year. The international sector again had the highest number of new ETFs, with 13 out of 28.

Fixed income and cash (\$2,191M) overtook Australian shares – strategies (\$2,042M) to become the third largest sector, with 40% growth in FUM. Weak share markets and an increased appetite for defensive assets saw 5 new fixed income ETFs launch during the year including the first global fixed interest ETFs to be listed on the ASX.

Within Australian shares the divergence of the property and commodity sectors was also evident, with high inflows into the property ETFs that have continued to perform strongly compared to the commodity sector.

The Australian dollar's moves were relatively subdued over the past year after an initial fall, and then recovery. The differences between the performances of unhedged ETFs and equivalent hedged ETFs over the year was minimal. For instance the unhedged gold ETF (GOLD) delivered 3.3% compared to the 'Australian dollar hedged' gold ETF (QAU)'s annual returns of 3.5%. Investors in ETFs should understand any currency exposure embedded in the investments. Typically 'hedged' ETFs benefit from a rising Australian dollar whereas 'unhedged' ETFs have better relative performance when the Australian dollar falls.

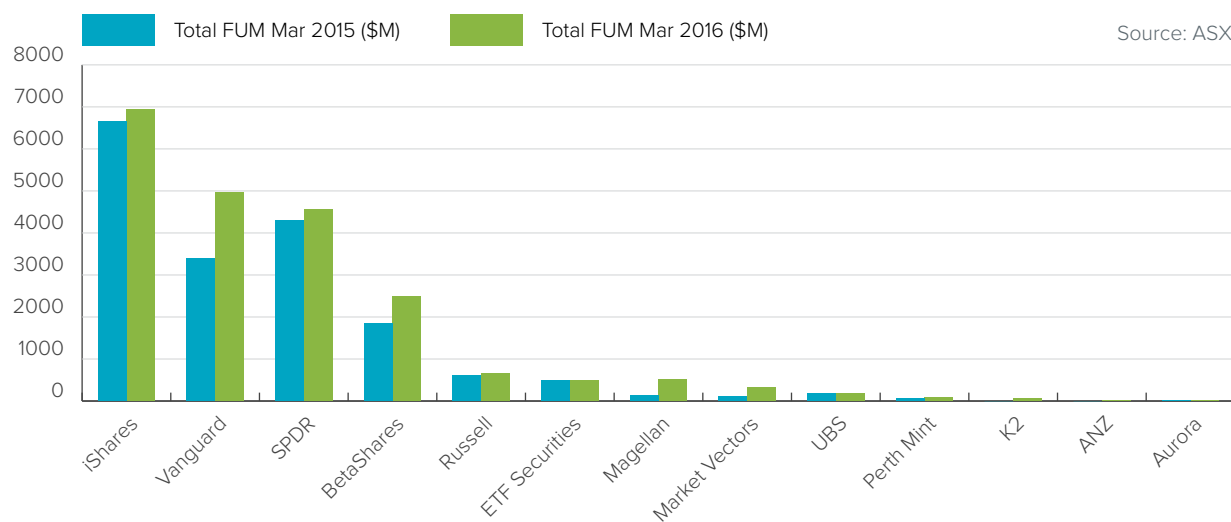
There are now ETFs listed on the ASX that track most major asset classes, with the exception of alternatives (hedge funds) which are notoriously difficult to track with an index.



Sector	Total FUM 2014 (\$M)	Total FUM 2015 (\$M)	Change in FUM over last 12 months (\$M)	Change in FUM over last 12 months (%)
iShares	6,649	6,942	293	4%
Vanguard	3,383	4,973	1,590	47%
SPDR	4,291	4,565	274	6%
BetaShares	1,854	2,477	623	34%
Russell	610	652	43	7%
ETF Securities	497	478	-19	-4%
UBS	179	186	7	4%
Magellan	126	512	386	306%
Market Vectors	115	327	213	186%
Perth Mint	56	88	32	56%
ANZ	-	23	23	n/a
K2	-	63	63	n/a
Aurora	23	14	-9	-40%

Source: ASX

ETF GROWTH BY ISSUER



The majority of ETFs are managed by the largest four competitors; with iShares, SPDR, Vanguard, BetaShares accounting for 89% of funds.

iShares (owned by BlackRock) retained its leading position with \$293M of new FUM, going majority into international ETFs. iShares annual growth was slower compared to the other large issuers Vanguard and BetaShares, largely due to a slowdown in demand for its core global ETFs.

iShares launched three new international ETFs, focusing on international bonds during the year - iShares Global Corporate Bond (AUD Hedged) ETF, iShares J.P.Morgan USD Emerging Markets Bond (AUD Hedged) ETF and Shares Global High Yield Bond (AUD Hedged) ETF.

iShares reduced fees by 0.01% to 0.05% p.a. for fourteen of its ETFs in December and January and increased fees by 0.01% to 0.02% p.a. for its South Korea (IKO), Taiwan (ITW) and China focused ETF (IZZ).

Vanguard was a standout performer for the year, increasing their FUM by 47% (\$1,590M). Their growth came largely from their Australian and international share ETFs, as well as fixed income. Vanguard overtook SPDR to become and second largest issuer in Australia. They also launched four new ETFs, extending international offerings to include Asia, Europe and fixed interest ETFs.

Rather than offering individual country ETFs like iShares, Vanguard has focused on offering broad market exposures across US shares, global shares (ex US) and emerging markets. Vanguard also has the lowest average fees of all ETF issuers at 0.24%.

SPDR saw subdued growth for a second year, adding just \$274M and falling behind Vanguard to become the third largest ETF issuer in Australia.

SPDR has come under fee pressure and has both decreased and increased fees by the largest amounts. For its SPDR S&P World ex Australia (Hedged) Fund (WXHG) and SPDR S&P World ex Australia Fund (WZOZ) fees declined by 0.13% and 0.12% respectively to 0.35% and 0.30% in January. The SPDR S&P Emerging Markets Fund (WEMG) increased its fees from 0.5% to 0.65% in June 2015.

The stalwart SPDR S&P/ASX 200 ETF (STW) added \$243M of new funds for the year, contributing most of SPDRs increase in FUM, but fell short of Vanguard Australian Shares Index (VAS), which grew by \$469M. Likely in response to slower growth, SPDR decreased fees from 0.29% to 0.19% on STW to bring it closer in line with VAS at 0.15%.

BetaShares had another great year, adding the second largest amount of new FUM (\$623M). Most of the new funds came via BetaShares Cash ETF (\$172M), US Dollar ETF (\$83M) and their listed managed fund (HVST) which focuses on dividend paying stocks (\$80M).

BetaShares have successfully focused on niche offerings, which typically have a structured element, such as gearing as well as a higher expense ratio.

It launched five new ETFs during the year, including three hedge funds, one managed fund and an ETF providing exposure to US technology stocks by tracking the NASDAQ index.

Russell had slower growth this year, with the majority of incoming FUM entering the Russell Australian Government Bond ETF. It also launched an Australian responsible investment ETF which is targeted at investors who are after an ETF with a socially responsible investment tilt.

ETF Securities has had a decline in FUM, largely due to the fact that it only issues commodity ETFs (which had a poor year), and it closed 10 of its 15 ETFs. ETF Securities announced a joint venture with ANZ in 2015 to launch a series of new ETFs.

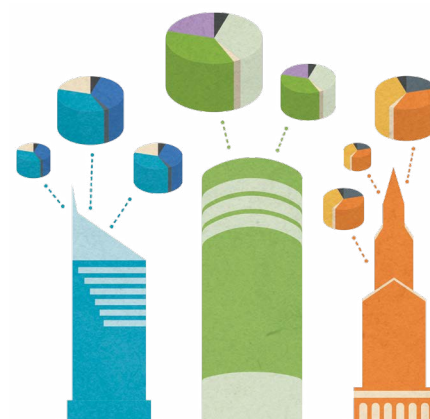
Magellan has continued its success in attracting a large amount of inflows into its global fund and has launched a second exchange traded managed fund. **K2** has not been able to replicate Magellan's success.

Market Vectors has seen some early traction from its suite of 'alternative indexing' ETFs adding \$200m over the year. It launched four new ETFs across different sectors and is the only smaller issuer to have at least ten ETFs.

UBS had slower growth and launched one new ETF for Asian shares. UBS also changed the benchmarks and names of two existing ETFs (ETF & DIV) after several years of underperformance. These ETFs are now tracking MorningStar indices rather than UBS research indices.

ANZ was the first major bank to issue ETFs, with six entries across Australian shares, global shares, currency and commodity sectors. Notwithstanding, ANZ have only attracted a small amount of FUM due to a lack of product differentiation. Most of the ANZ ETFs closely resemble existing ETFs so ANZ may need to rely on internal distribution to grow its FUM.

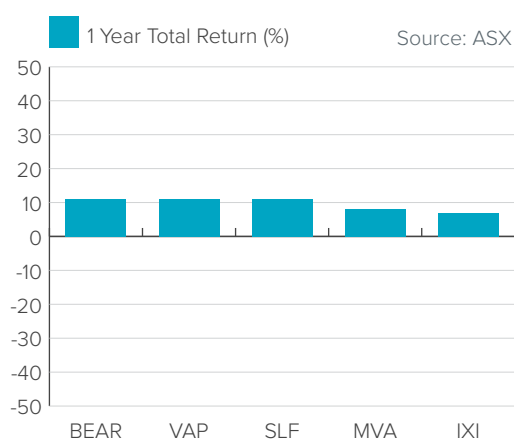
Perth Mint and **Aurora** only have one ETF each, with a focus on gold and a managed fund respectively.



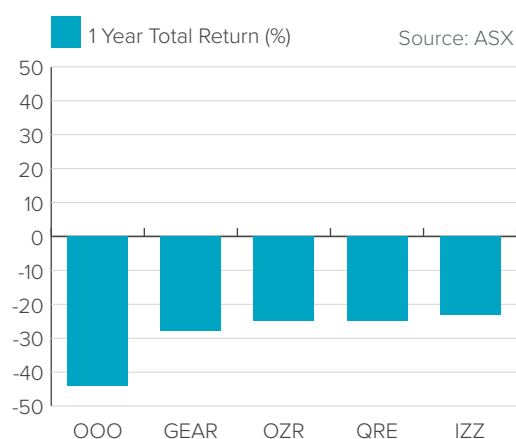
ASX code	ETF name	Issuer	Total FUM 2015 (\$M)	1 year total return
Positive performance				
BEAR	BetaShares Australian Equities Bear (Hedge Fund)	BetaShares	62	11%
VAP	Vanguard Australian Property Securities Index ETF	Vanguard	582	11%
SLF	SPDR S&P/ASX 200 Listed Property Fund	SPDR	623	11%
MVA	Market Vectors Australian Property ETF	Market Vectors	52	8%
IXI	iShares S&P Global Consumer Staples	iShares	149	7%
Negative performance				
OOO	Betashares Crude Oil Index ETF-Currency Hedged (Synthetic)	BetaShares	47	-44%
GEAR	BetaShares Geared Australian Equity Fund (Hedge Fund)	BetaShares	71	-28%
OZR	SPDR S&P/ASX 200 Resource Fund	SPDR	19	-25%
QRE	Beta Shares S&P/ASX 200 Resources Sector ETF	BetaShares	5	-25%
IZZ	iShares FTSE China Large-Cap	iShares	75	-23%

Source: ASX

ETFs BY PERFORMANCE



Top 5 ETFs by returns



Worst 5 ETFs by returns

POSITIVE PERFORMANCE

BetaShares Australian Equities Bear (Hedge Fund) provided the highest returns for the year at 11%, as share markets around the world fell. The resilience of Australian property companies in a time of share market uncertainty is evidenced with three of the top five performers. The iShares S&P Global Consumer Staples ETF has continued to deliver as a defensive ETF. The top performing ETFs highlighted the shift of funds into ETFs that tend to benefit from risk aversion, low yields and equity market falls.

NEGATIVE PERFORMANCE

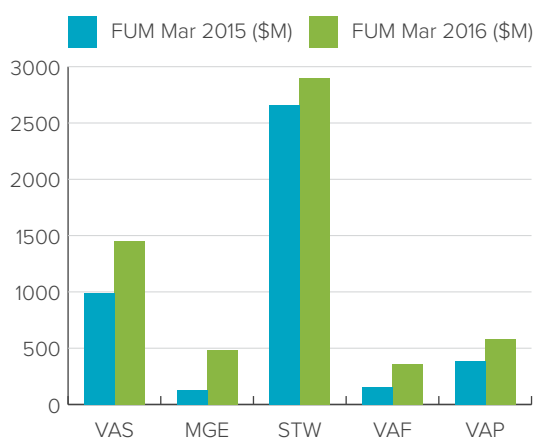
Betashares Crude Oil Index ETF-Currency Hedged (Synthetic) ETF has retained its place as the worst performer. The pressure of the ongoing downturn in energy prices appears to have affected ETF Securities, with the other energy ETFs being delisted due to investor inactivity. BetaShares's top performing ETF was balanced out by several ETFs in the commodity sector and its other hedge fund (GEAR), which magnified the Australian share market's negative returns. The volatility in China's share market has come through in one-year returns, reversing its position as a top performer in last year's report.



ASX Code	ETF Name	Issuer	FUM(\$M) Mar'15	FUM(\$M) Mar'16	Annual change in FUM (\$M)	1 Year Total Return
Increases in FUM						
VAS	Vanguard Australian Shares Index	Vanguard	987	1,456	470	-10%
MGE	Magellan Global Equities Fund (Managed Fund)	Magellan	126	485	361	1%
STW	SPDR S&P/ASX 200	SPDR	2,658	2,900	242	-10%
VAF	Vanguard Australian Fixed Interest Index	Vanguard	151	361	210	2%
VAP	Vanguard Australian Property Securities Index ETF	Vanguard	383	582	200	11%
Decreases in FUM						
IEM	iShares MSCI Emerging Markets	iShares	518	339	-179	-13%
IZZ	iShares FTSE China Large-Cap	iShares	137	75	-62	-23%
ETF	UBS IQ Morningstar Australian Quality ETF	UBS	60	7	-53	-5%
SYI	SPDR MSCI Australia Select High Dividend Yield Fund	SPDR	183	142	-41	-15%
ISO	iShares S&P/ASX Small Ordinaries	iShares	60	33	-27	2%

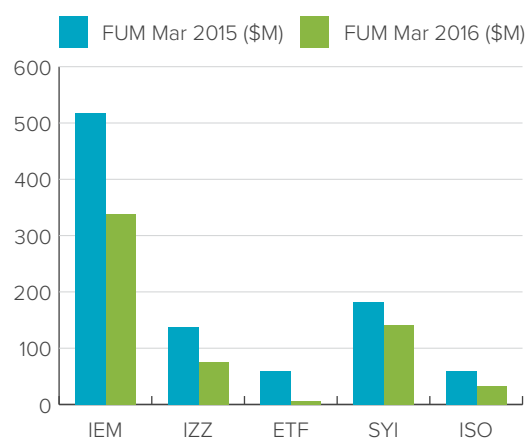
Source: ASX

ETF GROWTH BY FUM



Source: ASX

Top 5 by FUM growth



Source: ASX

Worst 5 by FUM growth

ETF Market Summary

By Funds Under Management (FUM)

INCREASES IN FUM

Fund inflows and outflows for the year revealed a shift to local shares, ahead of last year's strong demand for international shares.

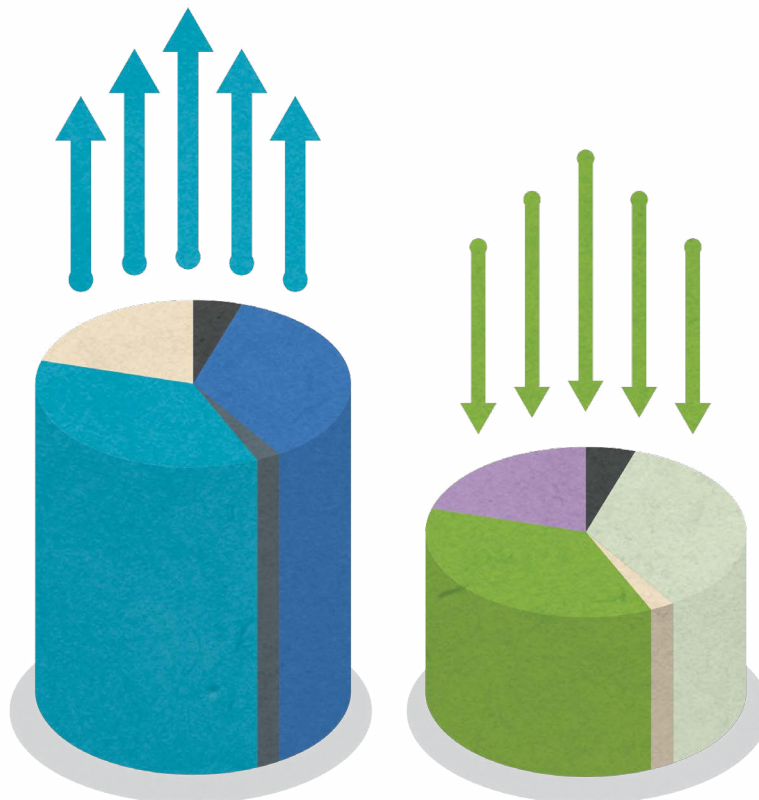
The largest fund inflows were all into Australia-based shares, with a two ETFs following the ASX200 (VAS and STW), property (VAP) and fixed interest (VAF). These large inflows into Australian share ETFs, despite lower returns signal a greater demand for ETFs in general as an alternative to managed funds or direct shares, including more defensive stocks.

Magellan's managed fund has proved very popular, showing that traditional active fund managers with strong brands can successfully expand their offerings with exchange traded products.

DECREASES IN FUM

Outflows were relatively small compared to inflows, despite a volatile year for markets. The volatility in the Chinese stock market affected both IEM and IZZ, which contrasts their positive performances last year. Other emerging markets were also affected by low commodity prices and political instability, especially Russia and Brazil.

UBS changed the reference index of several ETFs – which led to significant outflows. Small Australian shares (ISO) also saw outflows, despite a relatively good year performance-wise.



NEW LISTINGS

13 of the 28 new ETFs launched in Australia over the past year were international share ETFs - demonstrating the growing appetite for low-cost overseas investments. There are now a broad range of global share ETFs listed in the ASX for investors to choose from. This group has the largest number of different ETFs, with 49 investment options in total (from 36 last year).

Russell launched its Russell Australian Responsible Investment ETF (RARI) – tapping into the trend towards socially responsible investing. BetaShares and Market Vectors launched new active and alternative indexing international ETFs across Australian and international share categories.

The number of managed fund ETFs has more than doubled to 15.

Vanguard and iShares appear to have focused on the growing demand for fixed income ETFs and established several international ETFs in the area.

ANZ's launch of six ETFs signalled that the bank recognises the importance this investment product for its clients. The ANZ launch also showed success isn't a function of size and distribution alone. Most of ANZ's products closely resemble existing ETFs and this failure to differentiate has led to a slow start in attracting FUM.

DELISTINGS

After a period of continual underperformance, ETF Securities delisted ten of its commodity based ETPs in March 2016. With a combined value of \$3.4M and only single product with FUM of \$1M, there overall market impact was minimal. However, it highlights how sensitive ETFs with small amounts of FUM may be being delisted when they fail to attract funds. This is why we target ETFs with at least \$25 million of funds under management for our clients.



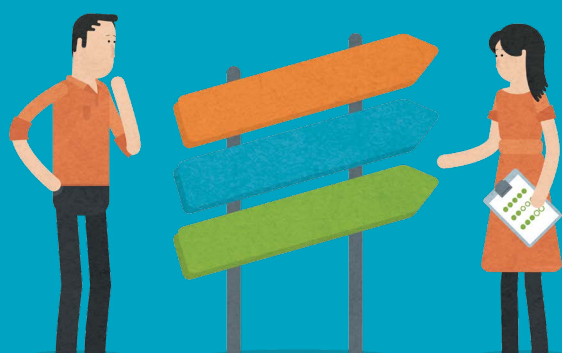
ETF Sectors

SPOTS EVALUATION

Spots are a measure we have developed to compare ETFs across 5 common characteristics: Fees, Slippage, Liquidity, Size and Counterparty risk. Spots are a quantitative measure and do not constitute a recommendation.

ETFs can qualify for up to 5 spots based on the following criteria:

Measure	Criteria
Fees: total fund management fees and expenses as a percentage of average net assets, and is equivalent in calculation to the indirect cost ratio (ICR) and the management expense ratio (MER).	Less than 0.25% per annum
Slippage: average percentage bid/ask spread during the ASX trading hours.	Less than 0.25%
Liquidity: average daily volume on the ASX over the past calendar quarter. Volume is a measure of market making activity and the trading environment. It may not reflect liquidity in the underlying securities.	More than AU\$500,000
Size: Funds Under Management (FUM)	More than AU\$25M
Counterparty risk: Synthetic ETFs and Structured Products use derivatives to achieve their investment objective. If you invest in these you are subject to the risk that the counterparty to the derivative may fail to meet some or all of their obligations. Some ETFs can also 'lend out' the underlying securities to earn a fee. Securities lending can boost investor returns but also increases counterparty risk. We prefer ETFs that are exposed to very low or zero counterparty risk.	Investors are exposed to counterparty risk of less than 10% of the fund's net asset value



ASX code	ETF Name	Issuer	MER (%p.a)	FUM (\$M) Mar'15	FUM (\$M) Mar'16	Change in FUM (\$M)	Traded value in Mar'16	% Spread	Historical Distribution Yield	1 Year Total Return	Stockspot Rating
Australian Broad Based											
IOZ	iShares S&P/ASX 200	iShares	0.15%	373	405	32	21,470,640	0.16%	8%	-11%	
STW	SPDR S&P/ASX 200	SPDR	0.19%	2,658	2,900	243	147,770,745	0.08%	4%	-10%	
VAS	Vanguard Australian Shares Index	Vanguard	0.15%	987	1,456	469	192,313,232	0.12%	5%	-10%	
ILC	iShares S&P/ASX 20	iShares	0.24%	299	299	-1	15,119,873	0.15%	6%	-18%	
UBA	UBS IQ MSCI Australian Ethical ETF	UBS	0.17%	80	131	51	14,072,621	0.14%	5%	n/a	
VLC	Vanguard MSCI Australian Large Companies Index	Vanguard	0.20%	42	58	16	1,797,042	0.16%	5%	-15%	
MVW	Market Vectors Australian Equal Weight ETF	Market Vectors	0.35%	26	97	71	8,150,587	0.11%	2%	-1%	
QOZ	BetaShares FTSE RAFI Australia 200 ETF	BetaShares	0.30%	62	84	23	5,409,957	0.19%	9%	-12%	
SFY	SPDR S&P/ASX 50	SPDR	0.29%	447	435	-12	13,460,246	0.07%	5%	-12%	
VSO	Vanguard MSCI Australian Small Companies Index	Vanguard	0.30%	51	67	15	2,165,403	0.24%	3%	0%	
ZOZI	ANZ ETFs S&P/ASX 100 ETF	ANZ	0.24%	-	3	3	467,965	0.16%	3%	n/a	
ISO	iShares S&P/ASX Small Ordinaries	iShares	0.55%	60	33	-27	1,334,131	0.53%	3%	2%	
MVS	Market Vectors Small Cap Dividend Payers ETF	Market Vectors	0.49%	-	38	38	947,075	0.27%	2%	n/a	
SSO	SPDR S&P/ASX 200 Small Ordinaries Fund	SPDR	0.50%	9	8	-1	108,142	0.21%	3%	3%	
KSM	K2 Australian Small Cap Fund (Hedge Fund)	K2	2.00%	-	23	23	269,896	1.86%	0%	n/a	
Averages			0.41%					0.30%	4%	-8%	
Totals				5,095	6,036	941	424,857,555				

Source: ASX

ETF Sectors

This group of ETFs track broad Australian share market indices such as the S&P/ASX300.

The average 1 year return was -7.6% after fees including a distribution yield of 4.2%. Many of these ETFs also distribute franking credits to investors, which can be an additional benefit to Australian taxpayers.

Australian share ETFs added \$941M of FUM for the year with 50% of that money finding its way into Vanguard's VAS and 26% into SPDR's STW.

The Australian equity market is dominated by a few large capitalisation stocks — in particular financials, resource companies and Telstra. The top 10 companies account for 48% of the S&P/ASX200 Index. As a result, investors are exposed to significant industry and single-stock tilts when investing in broad Australian equity market; with the market concentrated in financials (~46%) and materials (~13%). Information technology accounts for only 1%, which is very low compared to 20% in the United States major S&P 500 index. This reveals that indexed investment products can have higher exposure to some sectors over others.

Australian Shares (Broad Market)

There were three new entrants with different focuses this year, one from each of Market Vectors, K2 and ANZ. K2 listed its own hedge fund as an ETF, whilst Market Vectors focuses on small companies with high dividends and ANZ the 100 largest companies in Australia.

ETFs tracking the Small Ordinaries performed better than those tracking large companies due higher exposures to consumer discretionary companies and REITs.

Despite negative capital returns, only 1 ETF did not provide a distribution yield of at least 3%.

The SPDR (STW) and Vanguard (VAS) broad market ETFs took the majority of new funds and investors gravitated towards the largest ETFs with high trading volumes and low fees. STW lost some market share to VAS due to its higher fees.

3 ETFs earned the full 5 spots (IOZ, QOZ, SFY) with the majority receiving 3 or 4 spots.

[VAS is our current Stockspot portfolio inclusion from this asset group.](#)

[Stockspot Themes also include the option of SFY and VSO.](#)



ASX code	ETF Name	Issuer	MER (%p.a)	FUM (\$M) Mar'15	FUM (\$M) Mar'16	Change in FUM (\$M)	Traded value in Mar'16	% Spread	Historical Distribution Yield	1 Year Total Return	Stockspot Rating
Australian Sector											
SLF	SPDR S&P/ASX 200 Listed Property Fund	SPDR	0.40%	573	623	50	17,061,065	0.16%	4%	11%	●●●●○
VAP	Vanguard Australian Property Securities Index ETF	Vanguard	0.25%	383	582	199	32,695,835	0.16%	5%	11%	●●●●○
MVA	Market Vectors Australian Property ETF	Market Vectors	0.35%	34	52	18	2,332,365	0.18%	4%	8%	●●●●○
OZF	SPDR S&P/ASX 200 Financials ex A-REITs Fund	SPDR	0.40%	46	48	3	3,043,464	0.10%	7%	-19%	●●●●○
MVB	Market Vectors Australian Bank ETF	Market Vectors	0.28%	13	18	5	1,551,877	0.08%	5%	-21%	●●○○○
MVR	Market Vectors Australian Resources ETF	Market Vectors	0.35%	2	3	1	232,271	0.17%	3%	-13%	●○○○○
OZR	SPDR S&P/ASX 200 Resource Fund	SPDR	0.40%	16	19	3	2,264,561	0.25%	5%	-25%	●○○○○
QFN	BetaShares S&P/ASX 200 Financials Sector ETF	BetaShares	0.39%	25	20	-5	2,519,571	0.21%	5%	-17%	●○○○○
MVE	Market Vectors Australian Emerging Resources ETF	Market Vectors	0.49%	1	2	1	-	0.44%	1%	-23%	●○○○○
QRE	BetaShares S&P/ASX 200 Resources Sector ETF	BetaShares	0.39%	12	5	-7	837,824	0.36%	6%	-25%	●○○○○
Averages			0.37%					0.21%	5%	-11%	●○○○○
Totals				1,105	1,372	267	62,538,833				

Source: ASX

This group of ETFs track the movements of various sectors of the Australian share market. At this stage there are sector ETFs covering the Resources, Financials and Property sectors.

Performance between sector ETFs varied greatly over the year with property ETFs rising strongly (8% to 11%) while financials, resources and mining ETFs fell -13% to -25%.

Australian sector ETFs added \$267M of FUM for the year with 93% of that money finding its way into either the Vanguard or SPDR property ETFs (VAP and SLF). In a similar trend to Australian broad based ETFs, SPDR (SLF) lost market share to Vanguard (VAP) with its lower-fee option, 0.40% compared to 0.25%.

Each of the three property ETFs returned between 8% to 11% for the year.

Financial and resources ETFs had relatively low inflows, none above \$5M and the 2 BetaShares ETFs lost funds.

Investors have gravitated towards sectors with higher yields over the past year as Australian interest rates have fallen. The difference between company dividend yields have converged, despite falling stock market performances. Distribution yields still vary considerably between sectors with property ETFs yielding 4.17% on average, financial/bank ETFs yielding 5.7% and resources/mining ETFs yielding 3.9%.

There is high single-stock concentration within the Australian sector ETFs.

- Financials: The 'big four' banks typically represent around 71% of the S&P/ASX 200 Financials ex A-REIT Index.
- Property: The largest 5 REITs make up nearly 67% of the S&P/ASX200 Property Index, with Scentre Group, Westfield Corp, Goodman Group, Vicinity Centres and Stockland dominating this index.
- Resources: BHP, Rio Tinto, Woodside Petroleum make up approximately 52% of the S&P/ASX200 Resources Index, with BHP alone still contributing around 30% of this index despite the ongoing downturn of commodity prices.

[Stockspot Themes also include the option of VAP.](#)



ASX code	ETF Name	Issuer	MER (%p.a)	FUM (\$M) Mar'15	FUM (\$M) Mar'16	Change in FUM (\$M)	Traded value in Mar'16	% Spread	Historical Distribution Yield	1 Year Total Return	Stockspot Rating
Australian Strategy											
VHY	Vanguard Australian Shares High Yield ETF	Vanguard	0.25%	525	620	96	26,678,599	0.13%	8%	-15%	
YMAX	BetaShares Australia Top20 Equity Yield Max Fund	BetaShares	0.59%	335	317	-18	15,693,150	0.18%	10%	-13%	
HVST	BetaShares Australian Dividend Harvestor Fund (Managed Fund)	BetaShares	0.65%	76	157	80	18,283,046	0.15%	11%	-8%	
BBOZ	BetaShares Australian Strong Bear (Hedge Fund)	BetaShares	1.19%	-	77	77	69,443,683	0.16%	9%	n/a	
BEAR	BetaShares Australian Equities Bear (Hedge Fund)	BetaShares	1.19%	64	62	-2	27,661,442	0.14%	0%	11%	
IHD	iShares S&P/ASX High Dividend Yield	iShares	0.30%	244	231	-13	9,860,720	0.20%	7%	-16%	
RDV	Russell High Dividend Australian Shares ETF	Russell	0.34%	280	271	-9	9,523,791	0.18%	6%	-13%	
SYI	SPDR MSCI Australia Select High Dividend Yield Fund	SPDR	0.35%	183	142	-41	6,149,262	0.10%	8%	-15%	
AUST	BetaShares Managed Risk Australian Share Fund (Managed Fund)	BetaShares	0.39%	-	7	7	1,404,217	0.21%	0%	n/a	
DIV	UBS IQ Morningstar Australia Dividend ETF	UBS	0.70%	27	23	-4	374,770	0.24%	6%	-8%	
ETF	UBS IQ Morningstar Australian Quality ETF	UBS	0.70%	60	7	-53	490,249	0.21%	3%	-5%	
GEAR	BetaShares Geared Australian Equity Fund (Hedge Fund)	BetaShares	0.80%	20	71	52	25,827,791	0.26%	6%	-28%	

ASX code	ETF Name	Issuer	MER (%p.a)	FUM (\$M) Mar'15	FUM (\$M) Mar'16	Change in FUM (\$M)	Traded value in Mar'16	% Spread	Historical Distribution Yield	1 Year Total Return	Stockspot Rating
RARI	Russell Australian Responsible Investment ETF	Russell	0.45%	-	18	18	2,323,513	0.16%	3%	n/a	●●○○○○
RVL	Russell Australian Value ETF	Russell	0.34%	16	22	6	3,836,060	0.25%	12%	-19%	●●○○○○
ZYAU	ANZ ETFS S&P/ASX 300 High Yield Plus ETF	ANZ	0.35%	-	4	4	996,782	0.16%	3%	n/a	●●○○○○
AOD	Aurora Dividend Income Trust	Aurora	0.97%	23	14	-9	379,613	1.56%	6%	-16%	●○○○○○
Averages			0.60%					0.27%	6%	-12%	●●●○○○
Totals				1,850	2,042	192	18,926,688				

Source: ASX

These ETFs only include some Australian stocks rather than the entire index. Stocks are selected according to certain rules-based factors like dividend yield or research rating. Some of the strategy ETFs also seek to address concentration issues within the broad market indices by limiting sector and stock exposure limits. For instance Vanguard's VHY ETF restricts any one industry to 40% and one company to 10% of the index.

High yield and dividend themed ETFs captured most of the new flows into this group over the past year. The yield theme has been popular not only in Australia, but also overseas as interest rates remain low in most developed markets.

The best return came from the BetaShares Australian Equities Bear (Hedge Fund), which added 11% for the year, without providing a distribution. As a bear hedge fund it is designed to provide higher returns as the market falls and is targeted at investors who want to take a negative short-term view on Australian shares. On the other hand, the strategy of Geared Australian Equity Fund (Hedge Fund) exacerbating a downturn in the markets to return -28%.

All ETFs besides the bear hedge fund (BEAR) had negative returns, despite having distributions up to 12%. Distributions were generally very generous in this sector, with an average of 6%, reflecting the high number of dividend focused ETFs and synthetic yield products like YMAX. Australian companies tend

to reward shareholders with dividend promises regardless of a company's actual performance in the period.

Vanguard holds 30% of the FUM with a single ETF, with the lowest fees and also attracted the most new fund inflows. This sector has the highest fees on average and provided generally lower returns than Australian broad based ETFs. BetaShares launched two new ETFs (AUST and BBOZ) and ANZ launched one (ZYAU). Russell launched its Russell Australian Responsible Investment ETF (RARI) – tapping into the trend towards socially responsible investing.

Stockspot Themes also include the option of RARI.



ASX code	ETF Name	Issuer	MER (%p.a)	FUM (\$M) Mar'15	FUM (\$M) Mar'16	Change in FUM (\$M)	Traded value in Mar'16	% Spread	Historical Distribution Yield	1 Year Total Return	Stockspot Rating
International Broad Based											
IVV	iShares Core S&P 500	iShares	0.07%	1,887	1,870	-18	115,302,184	0.06%	2%	0%	●●●●●●
VEU	Vanguard All-World ex US Shares Index	Vanguard	0.14%	445	602	158	23,655,211	0.22%	3%	-10%	●●●●●●
VTS	Vanguard US Total Market Shares Index	Vanguard	0.05%	665	781	116	27,336,439	0.08%	2%	-2%	●●●●●●
IEM	iShares MSCI Emerging Markets	iShares	0.68%	518	339	-179	18,821,746	0.24%	2%	-13%	●●●●○
IEU	iShares S&P Europe	iShares	0.60%	469	591	122	49,537,062	0.19%	3%	-10%	●●●●○
IOO	iShares S&P Global 100	iShares	0.40%	992	1,000	8	39,610,518	0.15%	3%	-5%	●●●●○
IHVV	iShares S&P 500 AUD Hedged	iShares	0.13%	14	42	28	4,113,989	0.50%	2%	2%	●●●●○
IJH	iShares Core S&P Midcap	iShares	0.12%	84	82	-2	1,286,806	0.33%	1%	-5%	●●●●○
IJP	iShares MSCI Japan	iShares	0.48%	141	204	63	12,855,136	0.24%	1%	-8%	●●●●○
IJR	iShares Core S&P Small-Cap	iShares	0.12%	44	44	1	1,022,698	0.39%	1%	-4%	●●●●○
IRU	iShares Russell 2000	iShares	0.20%	48	47	-1	2,675,149	0.27%	1%	-11%	●●●●○
IVE	iShares MSCI EAFE	iShares	0.33%	246	261	15	12,071,995	0.24%	3%	-10%	●●●●○
MGE	Magellan Global Equities Fund (Managed Fund)	Magellan	1.35%	126	485	359	39,650,879	0.40%	1%	1%	●●●●○
SPY	SPDR S&P 500 ETF Trust	SPDR	0.09%	21	15	-6	857,837	0.15%	2%	1%	●●●●○
UBU	UBS IQ MSCI USA Ethical ETF	UBS	0.20%	3	3	-0	186,208	0.25%	1%	2%	●●●●○
VGAD	Vanguard MSCI Index International Shares (Hedged)	Vanguard	0.21%	16	87	71	11,207,182	0.33%	0%	-5%	●●●●○
VGS	Vanguard MSCI Index International Shares	Vanguard	0.18%	45	190	145	12,638,273	0.26%	3%	-6%	●●●●○
WXOZ	SPDR S&P World ex Australian Fund	SPDR	0.30%	135	120	-15	3,383,274	0.22%	5%	-5%	●●●●○
IAA	iShares S&P Asia 50	iShares	0.50%	266	253	-13	10,157,760	0.33%	3%	-11%	●●●●○
IBK	iShares MSCI BRIC	iShares	0.68%	38	33	-5	1,337,103	0.45%	3%	-16%	●●●●○

ASX code	ETF Name	Issuer	MER (%p.a)	FUM (\$M) Mar'15	FUM (\$M) Mar'16	Change in FUM (\$M)	Traded value in Mar'16	% Spread	Historical Distribution Yield	1 Year Total Return	Stockspot Rating
IHO0	iShares Global 100 AUD Hedged	iShares	0.46%	16	81	66	8,601,632	0.56%	2%	-4%	●●○○○○
ITW	iShares MSCI Taiwan	iShares	0.62%	34	41	7	2,615,758	0.41%	3%	-7%	●●○○○○
IZZ	iShares FTSE China Large-Cap	iShares	0.74%	137	75	-62	7,747,764	0.27%	3%	-23%	●●○○○○
MHG	Magellan Global Equities Fund Currency Hedged (Managed Fund)	Magellan	1.35%	-	27	27	1,793,884	0.77%	0%	n/a	●●○○○○
NDQ	BetaShares NASDAQ 100 ETF	BetaShares	0.38%	-	46	46	5,558,484	0.28%	0%	n/a	●●○○○○
QUAL	Market Vectors MSCI World Ex-Australia Quality ETF	Market Vectors	0.40%	39	91	52	9,027,823	0.29%	2%	1%	●●○○○○
UMAX	Betashares S&P 500 Yield Maximser Fund (Managed Fund)	BetaShares	0.59%	31	61	30	6,201,831	0.28%	7%	0%	●●○○○○
VGE	Vanguard FTSE Emerging Markets Shares	Vanguard	0.48%	34	47	14	1,476,978	0.56%	2%	-14%	●●○○○○
WDIV	SPDR S&P Global Dividend Fund	SPDR	0.50%	62	73	11	3,475,518	0.33%	9%	-5%	●●○○○○
WXHG	SPDR S&P World ex Australian (Hedged) Fund	SPDR	0.35%	71	57	-13	2,143,032	0.26%	5%	-4%	●●○○○○
BBUS	BetaShares US Equities Strong Bear Currency Hedged (Hedge Fund)	BetaShares	1.19%	-	24	24	10,461,330	0.24%	0%	n/a	●○○○○○
CETF	Market Vectors ChinaAMC A-Share ETF (Synthetic)	Market Vectors	0.72%	-	2	2	875,200	0.39%	3%	n/a	●○○○○○
IHK	iShares MSCI Hong Kong	iShares	0.48%	10	16	6	524,578	0.46%	2%	-9%	●○○○○○
IKO	iShares MSCI South Korea Capped Index	iShares	0.62%	11	16	5	753,571	0.46%	2%	-6%	●○○○○○
ISG	iShares MSCI Singapore	iShares	0.48%	9	7	-2	254,454	0.46%	4%	-13%	●○○○○○
KII	K2 Global Equities Fund (Hedge Fund)	K2	2.05%	-	40	40	1,457,785	1.55%	0%	n/a	●○○○○○

ASX code	ETF Name	Issuer	MER (%p.a)	FUM (\$M) Mar'15	FUM (\$M) Mar'16	Change in FUM (\$M)	Traded value in Mar'16	% Spread	Historical Distribution Yield	1 Year Total Return	Stockspot Rating
MOAT	Market Vectors Morningstar Wide Moat ETF	Market Vectors	0.49%	-	3	3	362,863	0.33%	2%	n/a	●○○○○
QMIX	SPDR MSCI World Quality Mix Fund	SPDR	0.40%	-	4	4	236,237	0.31%	0%	n/a	●○○○○
QUS	Betashares FTSE RAFI US 1000 ETF	BetaShares	0.40%	6	16	10	1,376,859	0.26%	3%	-1%	●○○○○
UBE	UBS IQ MSCI Europe Ethical ETF	UBS	0.40%	3	7	4	145,608	0.35%	2%	-11%	●○○○○
UBJ	UBS IQ MSCI Japan Ethical ETF	UBS	0.40%	5	3	-2	199,550	0.26%	1%	n/a	●○○○○
UBP	UBS IQ MSCI Asia APEX 50 Ethical ETF	UBS	0.45%	-	1	1	41,405	0.40%	2%	n/a	●○○○○
UBW	UBS IQ MSCI World ex Australia Ethical ETF	UBS	0.35%	3	12	10	109,461	0.29%	1%	-2%	●○○○○
VAE	Vanguard FTSE Asia Ex-Japan Shares Index ETF	Vanguard	0.40%	-	22	22	540,283	0.90%	0%	n/a	●○○○○
VEQ	Vanguard FTSE Europe Shares ETF	Vanguard	0.35%	-	6	6	608,593	0.67%	1%	n/a	●○○○○
WEMG	SPDR S&P Emerging Markets Fund	SPDR	0.65%	4	6	3	1,022,073	0.40%	2%	-9%	●○○○○
WRLD	BetaShares Managed Risk Global Share Fund (Managed Fund)	BetaShares	0.39%	-	2	2	776,326	0.39%	0%	n/a	●○○○○
ZYUS	ANZ ETFs S&P 500 High Yield Low Volatility ETF	ANZ	0.35%	-	11	11	1,834,867	0.26%	1%	n/a	●○○○○
GGUS	Betashares Geared US Equity Fund Currency Hedged (Hedge Fund)	BetaShares	0.74%	-	8	8	3,946,620	0.36%	0%	n/a	○○○○○
Averages			0.49%					0.37%	2%	-6%	●○○○○
Totals				6,674	7,855	1,180	461,877,816				

Source: ASX

This group of ETFs track global markets and share indices including the S&P500, various region and country markets including Europe, Asia, Japan, Hong Kong, China, Taiwan and South Korea.

International shares retained its placed as the largest sector with \$1,180M of new FUM and thirteen new ETFs. The growth in international share ETFs remained strong, but has slowed since last year's outperformance and this year's negative returns have affected FUM totals. Returns varied widely between global markets with Chinese shares worst at -23% while US Shares rose 1%.

Broad international US shares and global funds captured the majority of new inflows as investors chased the large, highly-liquid global indices with well-known constituent businesses. BetaShares launched a NASDAQ 100 ETF (NDQ) to give Australians direct access to the US technology sector.

Global dividend yields remain relatively low on average (2%) compared to Australian shares (4.2%). Three of the seven ETFs with positive annual returns followed the S&P Core 500 index.

Managed funds grew to 9% of the sector's FUM this year with five new ETFs and largely due to Magellan Global Equities Fund (Managed Fund)'s large inflows.

There is still a wide disparity in fees between international ETFs with the Vanguard US Total Market Shares Index coming in lowest at 0.05% per annum and the highest fees attached to the iShares FTSE China Large-Cap ETF at 0.74% and K2 Global Equities Fund (Hedge Fund) at 2.05%. Of the active ETFs, higher fees tend to be associated with funds with an active or alternative indexing strategy. Of the passive ETFs, higher fees tend to be associated with ETFs with lower liquidity, a higher number of constituents and exposure to several markets.

Single market exposure is still restricted to the USA and Asian countries, although several new global funds were launched. iShares was the only issuer in the sector that did not launch any new ETFs and its share of FUM declined 10% to 64% of the total amount. However, it did reduce fees by 0.05% to 0.01% for fourteen of its ETFs.

	iShares	Vanguard	SPDR
US shares	<ul style="list-style-type: none"> • IVV - large cap (0.07%) • IHVV - large cap hedged (0.13%) • IJH - mid cap (0.15%) • IJR - small cap (0.16%) • IRU - small cap (0.20%) 	<ul style="list-style-type: none"> • VTS (0.05%) 	<ul style="list-style-type: none"> • SPY (0.09%)
Regional market	<ul style="list-style-type: none"> • IEU Europe (0.60%) • IAA Asia (0.50%) 	<ul style="list-style-type: none"> • VEQ Europe (0.35%) • VAE Asia ex-Japan (0.40%) 	
Developed market World	<ul style="list-style-type: none"> • IOO (0.40%) • IHOO - hedged (0.46%) • IVE ex-US (0.33%) 	<ul style="list-style-type: none"> • VEU ex-US (0.14%) • VGS (0.18%) • VGAD - hedged (0.21%) 	<ul style="list-style-type: none"> • WXHG (0.35%) • WXOZ - hedged (0.30%) • WDIV (0.50%) • QMIX (0.40%)
Emerging market	<ul style="list-style-type: none"> • IEM (0.69%) 	<ul style="list-style-type: none"> • VGE (0.48%) 	<ul style="list-style-type: none"> • WEMG (0.65%)
Individual market	<ul style="list-style-type: none"> • IJP Japan (0.48%) • IHK Hong Kong (0.48%) • ISG Singapore (0.48%) • ITW Taiwan (0.62%) • IKO South Korea (0.62%) • IZZ China (0.74%) 		

Source: ASX

IOO and IEM are our current Stockspot portfolio inclusion from this asset group.

Stockspot Themes also include the options of IVV, IEU, IAA, IZZ, IJP and VEU.

ASX code	ETF Name	Issuer	MER (%p.a)	FUM (\$M) Mar'15	FUM (\$M) Mar'16	Change in FUM (\$M)	Traded value in Mar'16	% Spread	Historical Distribution Yield	1 Year Total Return	Stockspot Rating
International Sector											
IXJ	iShares S&P Global Healthcare	iShares	0.47%	304	390	86	18,141,042	0.18%	3%	-10%	●●●●○
DJRE	SPDR Dow Jones Global Select Real Estate Fund	SPDR	0.50%	45	81	35	5,918,220	0.22%	2%	0%	●●●●○
IXI	iShares S&P Global Consumer Staples	iShares	0.47%	127	149	23	8,748,820	0.24%	2%	7%	●●●●○
GDX	Market Vectors Gold Miners ETF	Market Vectors	0.53%	-	22	22	7,459,975	0.45%	1%	n/a	●○○○○
IXP	iShares S&P Global Telecommunications	iShares	0.47%	18	23	5	647,760	0.43%	3%	4%	●○○○○
Averages			0.49%					0.30%	2%	0%	●○○○○
Totals				493	665	171	40,915,817				

Source: ASX

This small group includes ETFs captures the performance of global stocks in specific market sectors. FUM grew by 35% over the year with its unique offerings. They offer an inexpensive way for Australian investors to gain access to specific global market sectors that are underrepresented within the Australian indices. Whilst they did not generate the exceptional returns of 2015, iShares S&P Global Consumer Staples (IXI) still had a top five performance.

Fees in this group are higher than the broad market sectors but lower than the average strategy ETFs, with MERs of 0.47% to 0.53%. DJRE has now being shifted to this sector and GDX is another gold ETF that entered following its recent popularity.

iShares still holds 85% of the FUM in this group with their three ETFs covering the healthcare, consumer staples and telecommunications sectors. Last year's outstanding annual return of 47.5% from Global Healthcare ETF (IXJ) produced a very different result this year with returns of -10%. However, investors still chased returns as it attracted 50% of the new FUM in the sector with \$86M.

All of the global sector ETFs are unhedged, so their recent returns have are impacted by a currency changes.

[Stockspot Themes](#) also includes the option of [DJRE](#).



ASX code	ETF Name	Issuer	MER (%p.a)	FUM (\$M) Mar'15	FUM (\$M) Mar'16	Change in FUM (\$M)	Traded value in Mar'16	% Spread	Historical Distribution Yield	1 Year Total Return	Stockspot Rating
Currency											
USD	BetaShares U.S Dollar ETF	BetaShares	0.45%	376	459	83	115,467,080	0.11%	0%	-1%	●●●●○
EEU	BetaShares Euro ETF	BetaShares	0.45%	4	3	-1	423,838	0.16%	0%	5%	●●○○○
POU	BetaShares British Pound ETF	BetaShares	0.45%	5	7	2	864,358	0.12%	0%	-2%	●●○○○
ZCNH	ANZ ETFS Physical Renmimbi ETF	ANZ	0.57%	-	1	1	993	0.16%	0%	n/a	●●○○○
ZUSD	ANZ ETFS Physical US Dollar ETF	ANZ	0.45%	-	3	3	625,868	0.19%	0%	n/a	●●○○○
Averages			0.47%					0.15%	0%	1%	●●○○○
Totals				385	473	88	117,382,137				

Source: ASX

These ETFs track the performance of Australian Dollar relative to selected currencies for investors who want direct access to currency performance without holding physical currency or purchasing derivatives such as CFDs.

ANZ issued two new currency ETFs - the US Dollar ETF (ZUSD) and Chinese Renmimbi ETF (ZCHN). With only 5 ETFs this group remains the smallest in terms of FUM.

BetaShares' USD ETF still holds the vast majority of FUM (97%) in the sector and received 94% of the incoming funds. All the

other ETFs remained below \$10M, despite the EEU Euro ETF's returns of 4.8%, ahead of USD's -0.8% returns. Furthermore none of these ETFs pay out distributions. It was one of the three sectors with positive average returns.



ASX code	ETF Name	Issuer	MER (%p.a)	FUM (\$M) Mar'15	FUM (\$M) Mar'16	Change in FUM (\$M)	Traded value in Mar'16	% Spread	Historical Distribution Yield	1 Year Total Return	Stockspot Rating
Fixed Income & Cash											
AAA	Betashares Australian High Interest Cash ETF	BetaShares	0.18%	782	954	172	118,805,238	0.02%	2%	3%	●●●●●●
IAF	iShares Composite Bond ETF	iShares	0.20%	209	324	114	19,007,617	0.15%	4%	0%	●●●●●●
VAF	Vanguard Australian Fixed Interest Index	Vanguard	0.20%	151	361	209	26,961,952	0.11%	4%	2%	●●●●●●
VGB	Vanguard Australian Government Bond Index ETF	Vanguard	0.20%	41	79	39	11,229,283	0.22%	3%	2%	●●●●○
BOND	SPDR S&P/ASX Australian Bond Fund	SPDR	0.24%	16	24	8	1,428,884	0.19%	4%	2%	●●●○○
GOVT	SPDR S&P/ASX Australian Government Bond Fund	SPDR	0.22%	5	8	3	523,422	0.17%	4%	2%	●●●○○
RGB	Russell Australian Government Bond ETF	Russell	0.24%	89	138	49	1,325,722	0.45%	3%	2%	●●●○○
ILB	iShares Government Inflation ETF	iShares	0.26%	34	58	25	6,917,708	0.36%	2%	-1%	●○○○○
RCB	Russell Australian Select Corporate Bond ETF	Russell	0.28%	80	80	0	6,003,580	0.29%	3%	3%	●○○○○
RSM	Russell Australian Semi-Government Bond ETF	Russell	0.26%	144	122	-22	3,081,226	0.41%	4%	2%	●○○○○
VIF	Vanguard International Fixed Interest Index (Hedged) ETF	Vanguard	0.20%	-	12	12	6,261,221	0.31%	0%	n/a	●○○○○
IGB	iShares Treasury ETF	iShares	0.26%	17	23	6	3,234,399	0.32%	6%	1%	●○○○○
IHCB	iShares Global Corporate Bond (AUD Hedged) ETF	iShares	0.26%	-	2	2	173,868	0.39%	0%	n/a	●○○○○
IHEB	iShares J.P.Morgan USD Emerging Markets Bond (AUD Hedged) ETF	iShares	0.51%	-	1	1	2,441	0.40%	0%	n/a	●○○○○

ASX code	ETF Name	Issuer	MER (%p.a)	FUM (\$M) Mar'15	FUM (\$M) Mar'16	Change in FUM (\$M)	Traded value in Mar'16	% Spread	Historical Distribution Yield	1 Year Total Return	Stockspot Rating
IHHY	iShares Global High Yield Bond (AUD Hedged) ETF	iShares	0.56%	-	2	2	10,407	0.41%	0%	n/a	●○○○○
VCF	Vanguard International Credit Securities Index (Hedged) ETF	Vanguard	0.30%	-	4	4	1,387,085	0.40%	0%	n/a	●○○○○
Averages			0.27%					0.29%	2%	2%	●●●○○
Totals				1,569	2,191	622	206,354,053				

Source: ASX

These ETFs offer exposure to fixed income and cash to Australian investors.

Historically fixed income has been a difficult asset class for many Australians to access and as a result has been largely ignored by most self-directed investors. A growing demand for fixed income as an important portfolio diversifier has seen the FUM of fixed income ETFs grow 40% in 12 months. The growth in this area has been evidenced by its overtaking of Australian shares (strategies) to become the third largest sector by FUM. Five new ETFs as well as market share uncertainty has helped this sector flourish during the last year.

The sector is dominated by the BetaShares Australian High Interest Cash ETF (AAA), which invests in short-term deposits and returned 2.6% for the year. This is the only cash ETF and attracted 28% of the sector's new FUM over the year as a growing number of self-directed investors seek a higher-yielding home of their cash in light of the falling interest rate environment.

The rest of the sector is focused on fixed income ETFs, which provide access to government, semi-government and corporate bonds. The sector benefited from falling interest rates and future expectations of declining interest rates in Australia. Fixed income ETF distribution yields averaged 2.33% over the year, which is slightly lower than the average distribution yields for other Australian share sectors.

Fixed income ETFs are strongly influenced by interest rates. Bonds with a longer average term to maturity are more sensitive to interest rate changes than shorter-term bonds. The Russell Australian Select Corporate Bond ETF generated the highest 12-month return of 3.3%, ahead of the ETFs, which are focused on government bonds. Investors should be aware of the impact that interest rates and inflation can have on bond returns before choosing a fixed income ETF investment.

iShares issued three new ETFs and Vanguard issued 2 ETFs, these add an international dimension to the sector. The previous focus was on Australian bond and fixed interest ETFs.

IAF is our current Stockspot portfolio inclusion from this asset group. We feel it provides a good mix of government, semi-government and corporate bonds with a relatively short average duration. This reduces the sensitivity of IAF to short-term changes in rate expectations.

Stockspot Themes also include the options of AAA and VIF.



ASX code	ETF Name	Issuer	MER (%p.a)	FUM (\$M) Mar'15	FUM (\$M) Mar'16	Change in FUM (\$M)	Traded value in Mar'16	% Spread	Historical Distribution Yield	1 Year Total Return	Stockspot Rating
Commodity											
GOLD	ETFS Physical Gold	ETF Securities	0.39%	437	426	-10	33,846,020	0.09%	0%	3%	●●●●○
PMGOLD	Perth Mint Gold	Perth Mint	0.15%	56	88	32	3,999,502	0.51%	0%	4%	●●●●○
QAU	BetaShares Gold Bullion ETF (AU\$ Hedged)	BetaShares	0.49%	18	40	22	9,147,140	0.24%	0%	4%	●●●●○
ETPMAG	ETFS Physical Silver	ETF Securities	0.49%	47	43	-4	2,050,415	0.62%	0%	-9%	●●○○○
ZGOL	ANZ ETFS Physical Gold ETF	ANZ	0.40%	-	2	2	908,056	0.21%	0%	n/a	●●○○○
ETPMPT	ETFS Physical Palladium	ETF Securities	0.49%	1	1	-0	52,858	0.76%	0%	-23%	●○○○○
ETPMPM	ETFS Precious Metals Basket	ETF Securities	0.43%	5	4	-0	55,331	0.75%	0%	-6%	●○○○○
ETPMPT	ETFS Physical Platinum	ETF Securities	0.49%	4	3	-0	28,607	0.58%	0%	-12%	●○○○○
OOO	Betashares Crude Oil Index ETF-Currency Hedged (Synthetic)	BetaShares	0.69%	29	47	18	11,997,240	0.27%	1%	-44%	●○○○○
QAG	BetaShares Agriculture ETF-Currency Hedged (Synthetic)	BetaShares	0.69%	3	3	-0	220,062	0.60%	1%	-10%	○○○○○
QCB	BetaShares Commodities Basket ETF-Currency Hedged (Synthetic)	BetaShares	0.69%	7	8	1	588,790	0.77%	1%	-20%	○○○○○
Averages			0.49%					0.49%	0%	-11%	●●○○○
Totals				606	664	58	62,894,021				

*Not including the delisted ETFs of about \$4M FUM.
Source: ASX

This group's ETFs are all focused on the natural resources and commodity sectors.

Negative medium term price performance in many major commodities including oil, agricultural commodities and precious metals have seen FUM track sideways over the year.

Only the 3 gold ETFs delivered a positive return for the year, both hedged and unhedged ETFs had returns between 3.3% and 4.3% due to minimal moves in the Australian dollar. ANZ also launched another gold based ETF and together the 4 now account for 84% of the sector's FUM.

The Betashares Crude Oil Index ETF (OOO) again suffered the largest fall of -44% for the year. The pressure of the ongoing downturn in energy prices appears to have affected ETF Securities, with the other energy ETFs being delisted. The majority of Commodity ETFs had very low FUM and only gold, silver (EPTMAG) and oil (OOO) ETFs have more than \$7M.

ETF Securities holds its dominant position with 72% of FUM and the rest being almost equally spread between Perth Mint Gold and BetaShares.

A large number of products in this category are either Structured Products, or synthetic ETFs - indicating that they hold financial contracts rather than owning the physical underlying assets. Physically backed ETFs offer the most direct approach, but incur the cost of storage and insurance.

GOLD is our current Stockspot portfolio inclusion from this asset group. We prefer unhedged gold compared to the hedged version as a diversifier in our portfolios since it provides better protection against domestic currency debasement and a weak Australian economy.



Alternative Indexing

As the ETP market grows, the products available are becoming more complex, which gives investors more options. Between ETFs passively tracking indices and managed funds constructing their own portfolios, a new hybrid has emerged called smart beta. These ETFs try to deliver the benefits of both worlds by creating new rules around the construction of the index they track to attempt to outperform traditional market-size weighted indices.

Smart beta ETFs typically adjust the investment weights within their indices by prioritising certain factors such as dividends, research ratings, simple averages, or consistency of cash flows, ahead of market value. Prioritising certain factors can lead to higher returns, but this can also lead to higher fees and risk than traditional market indices. One of those risks is factor chasing – where market factors that have worked for a few years, and as a result attracted investors, start to underperform.

Across a selection of thirteen smart beta (alternative index) ETFs, only four had better one-year returns than the S&P/ASX300 index ETF (VAS). By focusing on popular trends from 2010-2014 (such as dividends), many of these smart beta ETFs missed out on the market themes which were successful in 2015/16.

We discussed the phenomenon of smart beta ETFs in detail [on the Stockspot blog](#).

ASX Code	Fund type	ETF Name	1 Year total Return	MER
MVW	ETF	Market Vectors Australian Equal Weight ETF	-1%	0.35%
ETF	ETF	UBS IQ Morningstar Australian Quality ETF	-5%	0.70%
HVST	MF	BetaShares Australian Dividend Harvester Fund (Managed Fund)	-8%	0.65%
DIV	ETF	UBS IQ Morningstar Australia Dividend ETF	-8%	0.70%
VAS	ETF	Vanguard Australian Shares Index (Benchmark)	-10%	0.15%
QOZ	ETF	Beta Shares FTSE RAFI Australia 200 ETF	-12%	0.30%
RDV	ETF	Russell High Dividend Australian Shares ETF	-13%	0.34%
YMAX	MF	BetaShares Australia Top20 Equity Yield Max Fund	-13%	0.59%
SYI	ETF	SPDR MSCI Australia Select High Dividend Yield Fund	-15%	0.35%
VHY	ETF	Vanguard Australian Shares High Yield ETF	-15%	0.25%
IHD	ETF	iShares S&P/ASX High Dividend Yield	-16%	0.30%
AOD	MF	Aurora Dividend Income Trust	-16%	0.97%
RVL	ETF	Russell Australian Value ETF	-19%	0.34%
GEAR	MF	BetaShares Geared Australian Equity Fund (Hedge Fund)	-28%	0.80%

Conclusion

ETFs exploded in popularity over the past year. Despite weaker stock market, ETF assets in Australia grew 20% in the 12 months to March 2016. Index funds and ETFs continue to grow much faster than direct shares and actively managed funds and we expect this trend to continue for at least the next 5-10 years.

According to Investment Trends, the number of Australians investing in ETFs increased 37%

to 202,000 in 2015 and a record number of investors intend to make an ETF investment in the next 12 months.

Stockspot focuses on using ETFs as the building blocks for its diversified investment strategies, which have been available since 2014. Despite the recent share market volatility, the Stockspot portfolios generated 4% to 4.5% p.a. in total returns over the 2 years to 30 April 2016 which

was more than double the 1.5% p.a. return from broad Australian shares over that period. This demonstrates that asset allocation is significantly more important than stock selection for investors. This fact will continue to support the growth of the ETF market as more investors abandon stock-picking to grow their wealth in a more measured and reliable way.



Glossary

Asset class:

A type of investment such as shares or property, which have similar financial characteristics, are subject to the same regulations and laws.

Sector:

Specific sections of the market.

ASX:

Australian Securities Exchange

Bear hedge fund:

A hedge fund designed to provide higher returns as the market falls, it may track the inverse of an index as an ETF.

Broad market ETFs:

Track the widest range of securities in the market that has been selected.

Sector ETFs:

Track sectors within a market. (e.g. property, financials or resources)

Strategy ETFs:

Only include some securities in the market. Securities are selected according to certain rule-based factors (e.g. dividend yield or research rating)

Bid/Ask spread:

The difference between the highest price paid by a bidder and lowest price offered by a seller for the asset.

Derivative:

A security that is dependent on one or more underlying assets.

MER:

Managed Expenses Ratio. The fees shown as a percentage that will be deducted from the total returns every year.

ICR:

Indirect Costs Ratio.

Historical Distribution Yield:

Actual distribution return over the prior 12 months as a percentage of the unit price.

Index:

A section of the stock market with a number of holdings based on their market capitalisation.

FUM:

Funds Under Management.

Hedged ETF:

Funds where strategies are used to neutralise changes in currency movements.

Unhedged ETF:

Funds which are also impacted by changes in currency movements in addition to movements in the underlying investments.

LIC:

Listed Investment Company. A managed fund which is actively managed in a closed ended structure and listed on a stock exchange. Unlike ETFs, LICs can trade at significant premium or discount to their net asset value.

NAV:

Net Asset Value. The value of a fund's asset less the value of its liabilities per unit.

Distribution yield:

A financial ratio that shows how much an ETF pays out in distributions each year relative to its unit price.

Call option:

An agreement that gives the investor the option to buy assets at an agreed price on or before a particular date.

Synthetic Returns:

Returns from financial instrument that is created artificially by combining features of different assets.

Securities:

A financial instrument with proof of ownership that can be traded.





Low fee, hassle-free investing

Stockspot is Australia's fastest growing automated investment service. We want to do away with the high fees, confusing jargon, endless paperwork and lack of transparency that gives the wealth management industry a bad reputation. We're helping Australians manage their money smarter with our simple, low-fee, online investment service.

See what we recommend for you: www.stockspot.com.au

References in this publication may rely on third parties which Stockspot Pty Ltd – Corporate Representative (No. 453421) of Sanlam Private Wealth (AFS License No. 337927) have not control or accepts no responsibility. Whilst all the information and statements contained in this publication have been prepared with all reasonable care, no responsibility or liability is accepted by any member of Stockspot for any errors or omissions or misstatements however caused or arising. Any opinions, forecasts or recommendations reflect the judgement and assumptions of Stockspot and its representatives on the basis of information as at the date of publication and may later change without notice. This publication is not and should not be construed as an offer to sell or the solicitation of an offer to purchase or subscribe for any investment. This information contains unsolicited general information only, without regard to any investors individual objectives, financial situation or needs. It is not specific advice for any particular investor. Before making any decision about the information provided, you must consider the appropriateness of the information in this document, having regard to your objectives, financial situation and needs. Investment in financial products involves risk. Past performance of financial products is no assurance of future performance.

