



2023 **COMPUTERSHARE ETF INSIGHTS**

Exploring emerging trends in the
Australian ETF industry.



Contents

Introduction	> 3
Who is investing?	> 5
Where are the inflows coming from?	> 6
What are the portfolio values?	> 7
How many ETFs do investors hold?	> 8
How long do investors hold ETFs?	> 10
Where are the cross investment opportunities?	> 12
The outlook for ETFs in Australia	> 13

Methodology

Computershare's ETF Intelligence solution employs a comprehensive methodology utilising ETF registry data from the past 24 months. The analysis encompasses various dimensions, including holder types, geographical distribution, holding balances, ETF types, sectors, tenure, ownership breakdown, preferred brokers, cross-investments, and benchmarking across Computershare's ETF clients.

The data is aggregated, and holder details are anonymised to uphold privacy and confidentiality. The methodology involves data extraction, cleansing, and transformation (e.g. formatting) to ensure accuracy and relevance. Statistical techniques are applied to derive meaningful insights, facilitating informed decision-making for ETF clients in the Australian market.

Introduction

Computershare is pleased to bring you the first edition of our ETF Insight Report highlighting key trends from the Australian Exchange Traded Fund (ETF) market over the past year.

The analysis in this report uses data extracted from Computershare's ETF Intelligence Solution¹, which has been providing our clients with key market insights since it was launched in 2021.

The ETF industry has evolved and experienced significant growth, especially over the past 10 years. **The first ETF was listed on the ASX in 2001** and since then we've witnessed a surge of listings covering a wide range of asset classes.

ETFs are becoming increasingly popular, especially with retail investors. This is due to relatively low fees, the popularity of passive investing, the emergence of retail investment platforms and the level of diversification offered.

In fact, the Australian market now offers **over 220 ETFs** across a broad range of asset classes. It's also one of the fastest growing markets in the world, **exceeding \$148 billion** in Assets Under Management (AUM) in 2023.

In Australia, most ETF holdings on the share market are held directly by the beneficial owners. This is different to other global markets where ETFs are held via an intermediary such as a broker. This offers Australian ETF issuers a unique opportunity to build investor loyalty and design better products by leveraging market data.

Computershare has a long history of managing investor records around the world, including ETFs, which is underpinned by our robust technology and expert people.

In Australia, Computershare currently manages over 130 Exchange Traded Products (ETPs) covering all asset classes. Our clients' total AUM accounts for **54.6% of ETF AUM in Australia**.

With footprints in major ETF markets, Computershare uses key learnings from around the globe to implement best practices in Australia. This global exposure enables us to tailor our approach locally and offer our clients a market advantage. This is why Computershare has invested in ETF data intelligence, to help issuers grow their businesses by building better relationships, understanding asset utilisation and market appetite.

We hope this report will provide you with a greater understanding of the Australian ETF market.

For more information, please feel free to contact me.



Ibrahim Hussein

Head of ETFs

Computershare Australia and New Zealand

etfenquiries@computershare.com.au

¹ The data in this report is accurate as of 30 September 2023 and any observations are limited to Computershare's client base unless expressly stated otherwise.

Australian ETF market overview



1.5M

Australians hold at least one ETF²



The Australian ETF industry is worth

\$148B³

Top two exposures by AUM⁴

Equities

33.5%

Large cap

32.6%

Computershare ETF clients account for

54.6% of AUM

in Australia

² ASX Australian Investor Study, 2023.

³ ASX Investment Products Monthly Update, September 2023.

⁴ Based on data from Computershare's ETF Intelligence Solution.

Key insights from this report

50.5%

of all investors only have **one ETF** in their portfolio

47.7%

of all investors have a portfolio value of less than \$10k

73.1%

of ETF investors are **retail** investors

61.1%

of **retail** investors have a portfolio value of less than \$10k

Who is investing?

The Australian ETF landscape includes a diverse investor base, of which retail is the fastest growing segment.

Our data shows that since 2020, the **retail investor segment has grown by approximately 230%**. This growth is influenced by many factors, the first of which is the increased accessibility provided by retail trading platforms. Another significant contributing factor is the fee reductions implemented by some of the largest issuers, making ETFs even more attractive to a broad range of investors.

Another key consideration is the correlation between the growth of ETFs and the implementation of Future of Financial Advice (FOFA) reforms. Advisors are increasingly recommending ETFs, especially since the recent legislative amendments to the FOFA reforms. In part, these reforms banned conflicted remuneration which required advisors to recommend products in the best interest of their customers instead of products that yielded the most commission.

It's also important to consider the influence of the global pandemic on retail asset inflows. During this period, we witnessed many investors opting to reallocate their disposable income into the share market, with a particular focus on ETFs.

Retail investors now account for **over 70% of all ETF investors**, which is significantly higher than any other investor category. Accordingly, retail investors now hold 11.5% of total ETF AUM, equivalent to \$17 billion, and their numbers are steadily increasing month on month. The only investor category surpassing them in terms of AUM is Custodians, with \$21 billion or 26.7%.

Self-managed super funds (SMSF) hold

\$3.2B
in AUM

Retail investors hold

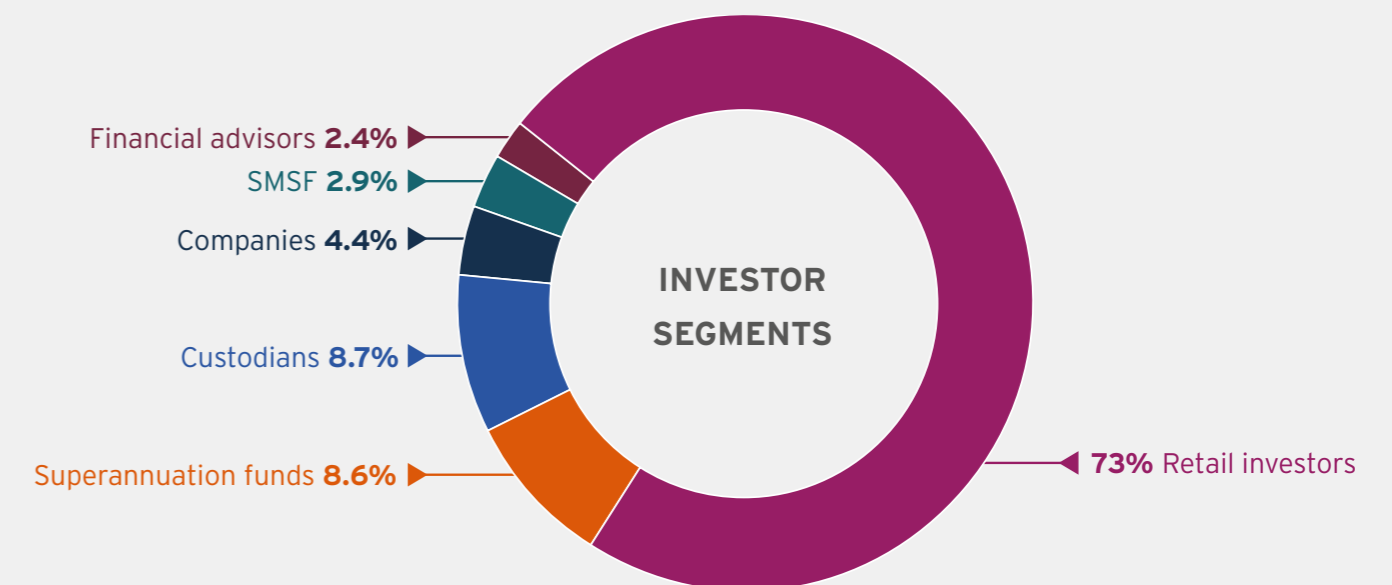
\$17.4B
in AUM

Number of investors vs AUM

(*Point size based on units held)



Breakdown of investor segments



Where are the inflows coming from?

Investor inflows across Australia



According to our observations, the majority of Australian market inflows come from locally domiciled investors.

The asset inflows from overseas investors are notably modest in contrast with Australian domiciled holders. The total AUM originating from overseas domiciled investors currently sits around **\$400 million**, with most of these investors domiciled in New Zealand. Flows from New Zealand account for around 0.3% of total AUM. This is to be expected, given the close geographical proximity of New Zealand and the relative ease of access these investors have to Australian equities.

This relatively slow uptake from other overseas investors is mainly due to the access these investors have to local ETFs without exposure to potential tax liabilities and foreign exchange risks.



Investor inflows from overseas

NEW ZEALAND	\$262.4M	(0.33%)
UNITED KINGDOM	\$31.3M	(0.04%)
HONG KONG	\$29.1M	(0.04%)
SINGAPORE	\$25.8M	(0.03%)
UNITED STATES OF AMERICA	\$22.9M	(0.03%)
SOUTH AFRICA	\$18.2M	(0.02%)
GERMANY	\$10.3M	(0.01%)
SWITZERLAND	\$7.0M	(0.01%)
MALAYSIA	\$3.6M	(0.01%)

What are the portfolio values?

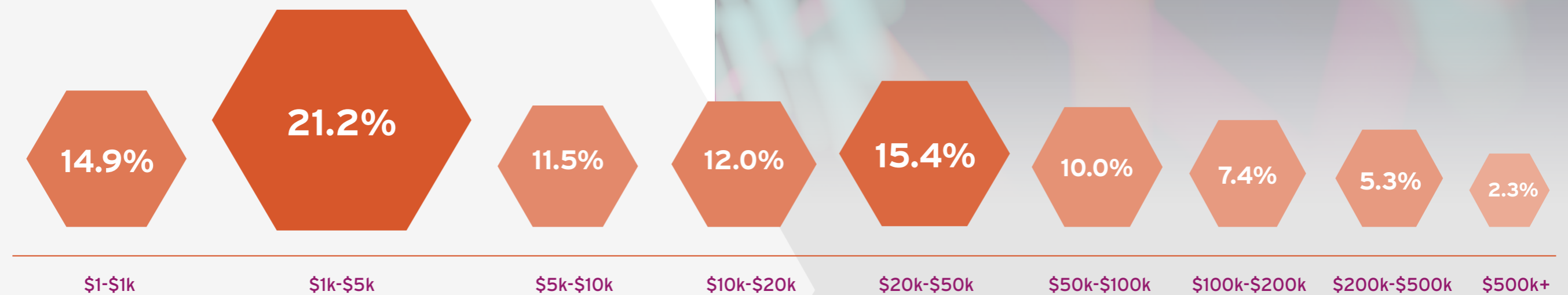
Australian investors are currently experiencing historically low ETF fees. But what does this mean for issuers?

While the surge in new investors presents issuers with an opportunity to increase their AUM, our data indicates a lower average holding size or spending capacity among retail investors. This could have an impact on issuers' cost to serve, but **facilitating cross investment opportunities** among existing retail holders might offer a potential offset.

Our analysis of portfolio values spans multiple categories covering investor segments and ETF product types. The purpose of this analysis is to help issuers understand trends related to wallet size, ultimately helping them to refine their forecasting abilities.

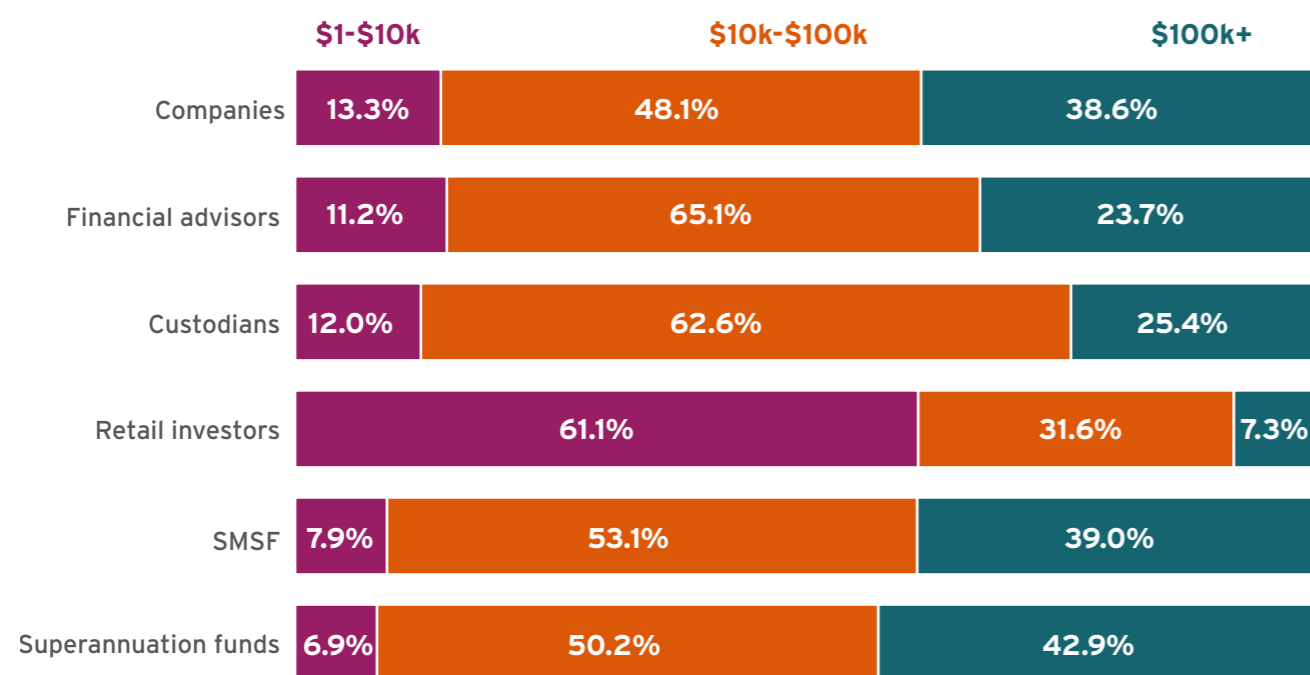
21.2% of investors have an average portfolio value of between \$1,000 and \$5,000.

Investor portfolio values



Portfolio size by investor segment

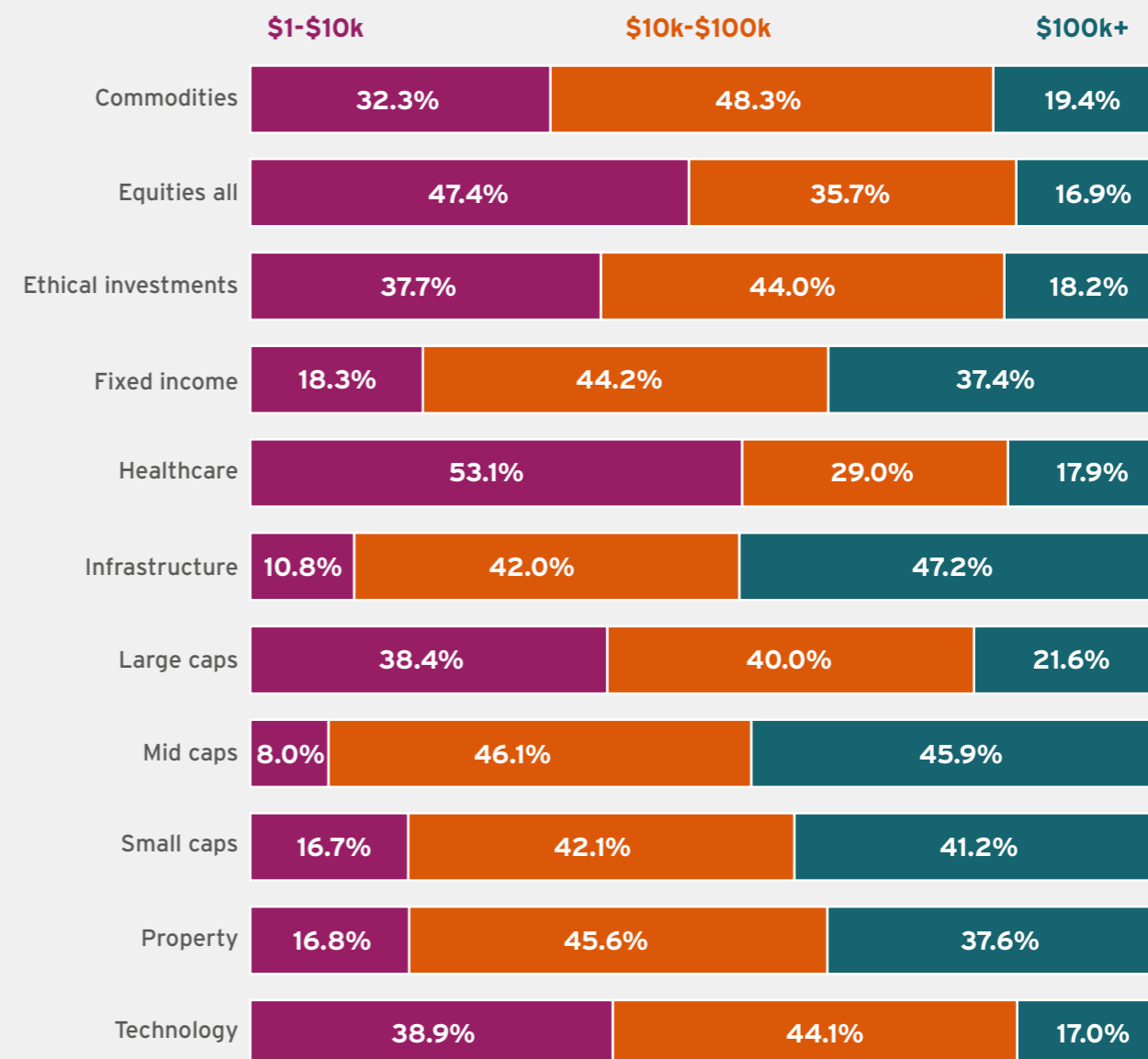
When we examine average portfolio value based on investor segments, we find that 61.1% of retail investors maintain a portfolio size of less than \$10,000. This is in stark contrast to the other investor segments who exhibit much higher values.



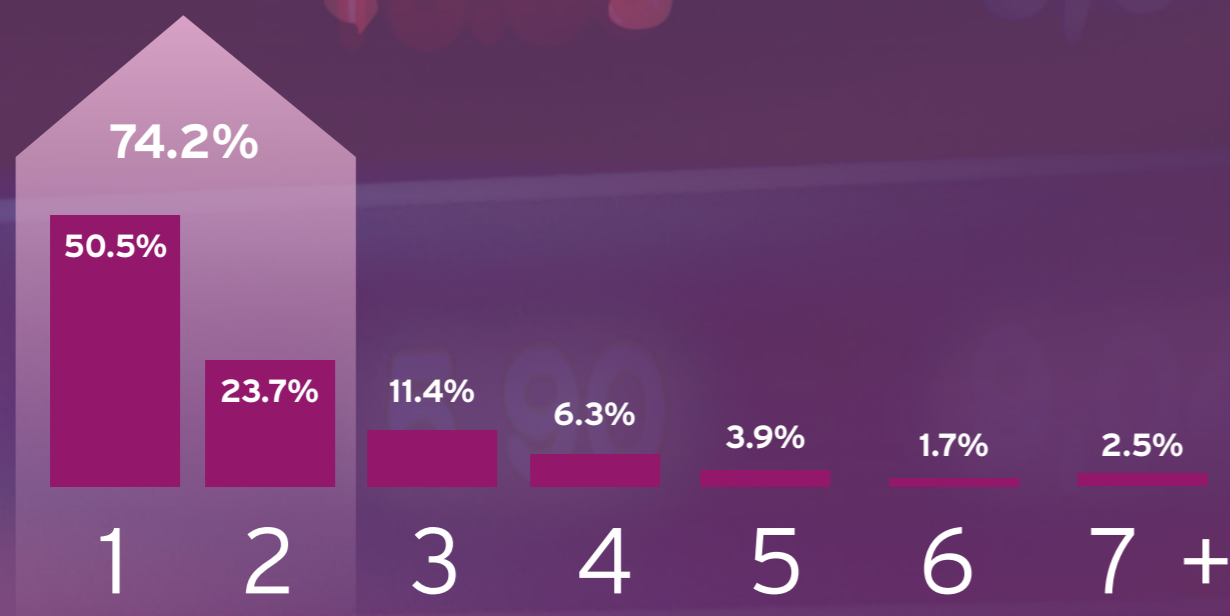
61.1% of retail investors have an ETF portfolio size of less than \$10,000.

Portfolio size by asset class

Our data shows that in terms of asset classes, over 35% of investors in **infrastructure, mid caps, small caps, property and fixed income ETFs** maintain portfolios exceeding \$100,000 in value.



How many ETFs do investors hold?



2,281

Average ETF units
per investor

1.7

Asset classes
per investor

2.1

Average ETFs
per investor

How many ETFs do investors hold?

Over half of ETF investors hold one ETF in their portfolio – measured across 130 ETFs. However, when we expand our analysis to those who have two or fewer ETFs in their portfolio, the number increases significantly to almost three quarters of investors.

The average number of ETFs held per investor is 1.7, but when we consider the average held in custodian portfolios, this number increases to 3.4. This indicates that **ETF cross investment is more common where securities are held via custodian arrangement**. Given most custodian holdings are held under omnibus accounts, it is difficult to analyse the flows in relation to the underlying beneficial owners.

This offers a substantial opportunity for issuers to engage in cross-selling within their existing investor base by enhancing understanding of the extensive range of products available. This is particularly relevant to the retail and SMSF segments which are inherently fragmented.

.....

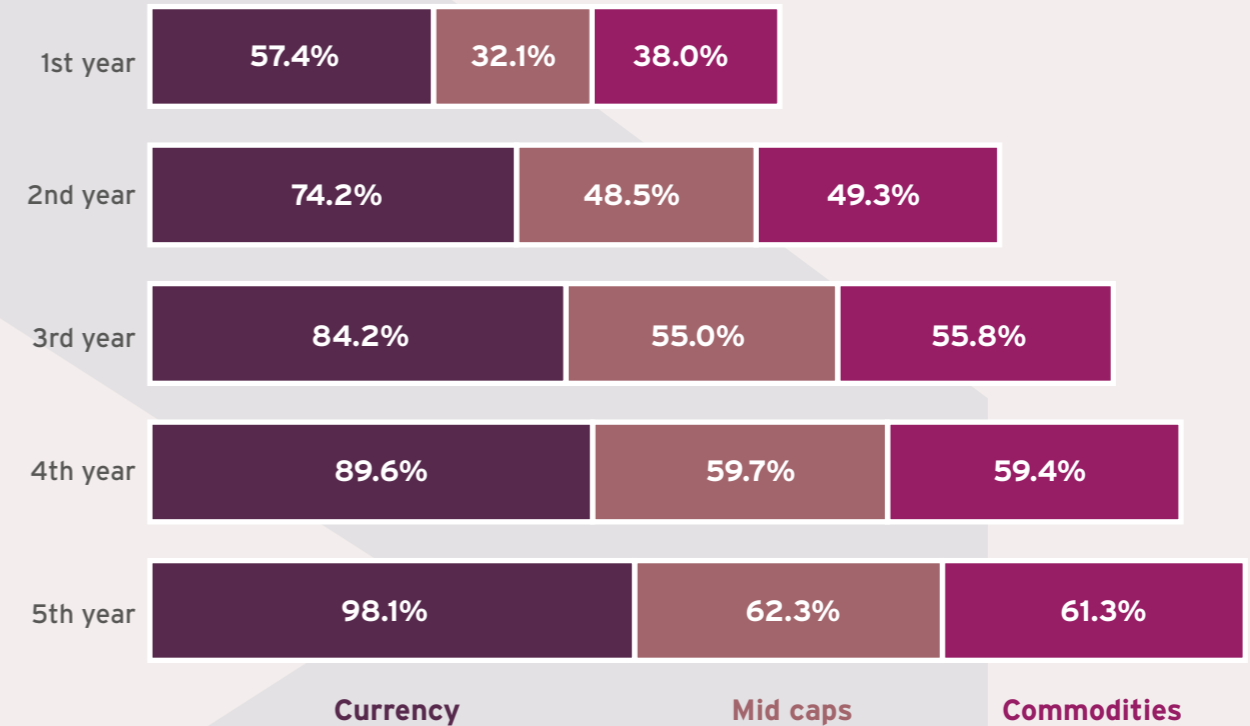
Computershare is actively exploring avenues to assist issuers to gain better intelligence regarding the flows beneath custodial omnibus positions.

How long do investors hold ETFs?

On average, ETF investors spend 787 days on the register. Further analysis shows that currency, mid cap and commodity ETFs are the assets with the highest average churn rates.

This is due to these exposures being generally more vulnerable to market volatilities such as geopolitics, interest rates and other underlying asset-related volatilities. However, tenure is also impacted by a number of factors such as individual investment goals, risk tolerance and time horizon.

ETF assets with the highest churn (top three)



Shortest average tenure

771 days

Custodians

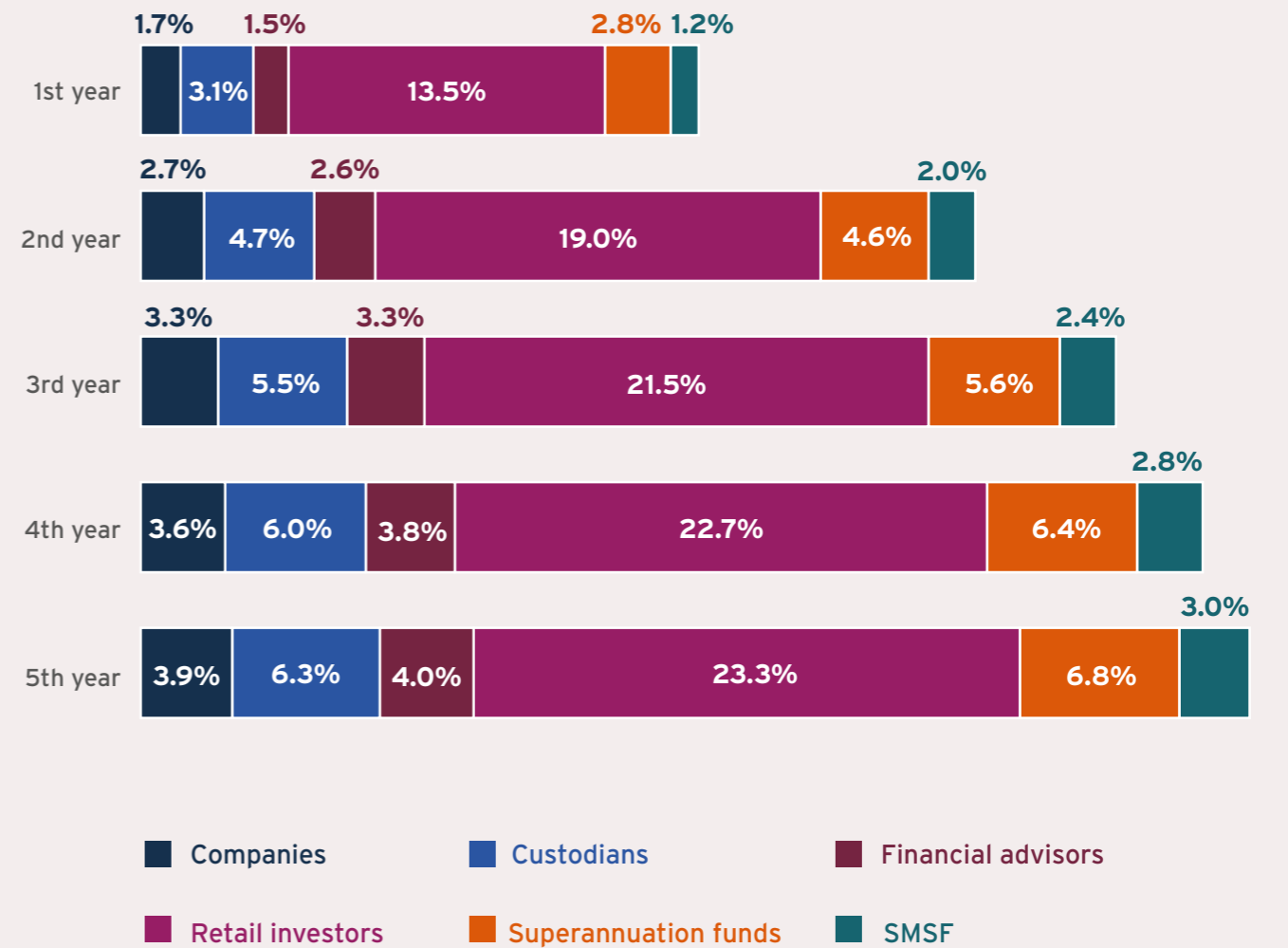
Longest average tenure

1,498 days

Financial advisors



Investor churn year-on-year



.....

Almost one quarter of retail investors churn within five years.

Where are the cross investment opportunities?

Most common ETF cross exposures

	Equities*	Ethical investments	Fixed income	Healthcare	Infrastructure	Large caps	Mid caps	Commodities	Property	Small caps	Technology
Equities*		1%	12%	3%	1%	37%	0%	0%	5%	3%	4%
Ethical investments	34%		11%	2%	1%	21%	2%	0%	4%	4%	6%
Fixed income	20%	1%		1%	1%	29%	0%	0%	5%	3%	2%
Healthcare	28%	1%	7%		1%	42%	1%	0%	3%	2%	7%
Infrastructure	26%	2%	13%	3%		26%	0%	1%	7%	5%	5%
Large caps	31%	1%	14%	4%	1%		1%	0%	4%	3%	3%
Mid caps	17%	4%	13%	4%	1%	32%		1%	3%	10%	5%
Commodities	17%	1%	11%	2%	1%	17%	1%		3%	3%	8%
Property	29%	1%	18%	2%	1%	31%	0%	0%		5%	3%
Small caps	25%	1%	14%	2%	1%	32%	2%	0%	7%		4%
Technology	23%	1%	6%	5%	1%	25%	1%	1%	4%	3%	

* This exposure includes both domestic and international equities.

Australian investors prefer domestic ETFs, and this home bias is a familiar theme with investors across the globe.

Our analysis indicates that **investors naturally gravitate towards ETFs that track their domestic equity indices**, which is largely driven by familiarity and potential tax benefits they may offer. However, our analysis emphasises the inherent risk of overexposure to domestic equities.

This potential pitfall arises because many investors might not be aware that they are already exposed to the same shares via their superannuation funds or other individual shares.

When it comes to cross investment, we see a significant correlation between large caps and other exposures such as ethical, healthcare, property and technology.

Major asset classes



The outlook for ETFs in Australia

It is our view that the Australian ETF market is expected to continue its remarkable growth trajectory. Factors such as product innovation and greater awareness of ETFs are expected to drive AUM to new heights.

Retail investors will play a more prominent role in the ETF market due to ease of trading and lower fees. With the growing popularity of ETFs, we should expect competition among providers to intensify, resulting in lower fees and greater choice for investors. Our data also indicates that Australian investors are still largely underexposed on international equity, despite issuers already providing a wide range of ETFs that offer global exposure. We believe there are opportunities for issuers to grow this part of their offering.

Improved investor education will assist potential investors to fully understand the risk and benefits of investing in ETFs. This means that ETF issuers may look to attract new investors through targeted education programs and considered product development. However, the challenge for issuers is to gain meaningful penetration into both the SMSF and retail demographics, which is not easy given how fragmented these segments are.

Given ETFs are still evolving, it is equally important for issuers and market participants to monitor regulatory developments and legislative changes that may impact them. The industry is also poised for further product diversification as we anticipate the launch of more thematic ETFs to cater to evolving investor preferences. We can expect to see new ETFs introduced to target niche exposures, alternative asset classes, and ESG-focused investors.

We also anticipate that investors will further embrace assets that align with their personal values. The ongoing development of smart beta strategies and actively managed ETFs will provide investors with greater choice and the ability to tailor their investment portfolios to meet their specific investment objectives. So, the challenge for issuers is to find a balance between innovative ideas that lean toward investor values while ensuring they sustain existing product performance.

We can expect to see new ETFs introduced to target niche exposures, alternative asset classes, and ESG-focused investors.





About Computershare Investor Services

Computershare Investor Services encompasses a broad portfolio of products and services that cover an extensive range of financial markets across every major region. Register maintenance and corporate actions are at the core of our business. We offer global coverage and deep expertise in international markets, to guide our clients through highly complex transactions.

For more information, visit www.computershare.com/au

The price of securities and income from them may go up or down. Past performance is not a reliable indicator of future performance, which involves many factors that are outside the control of Computershare. Forward looking indications or statements are only an expression of our expectations and do not guarantee that the relevant matters will eventuate. They involve known and unknown risks, uncertainties, contingencies, assumptions and other important factors that are outside the control of Computershare.

You should not place reliance on the contents of this document, including, without limitation, any statements regarding Computershare's expectations of future or current market conditions. The information in this document is general in nature only, does not take into account the objectives of any investor, and is not intended to constitute any form of advice, recommendation or offer to deal in securities. This document is not to be considered as investment research. You should seek independent advice before making investment decisions.

No express or implied warranty is provided in this document. To the maximum extent permitted by law, none of Computershare or its related bodies corporate or their respective directors, employees or agents nor any other person accepts liability for any loss arising from the use of this announcement or its contents or otherwise arising in connection with it, including, without limitation, any liability from fault or negligence.

The information in this document is not intended for recipients outside Australia and should not be distributed to, or read in, a jurisdiction where to do so would be unlawful.