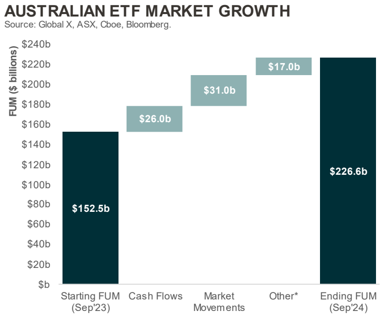
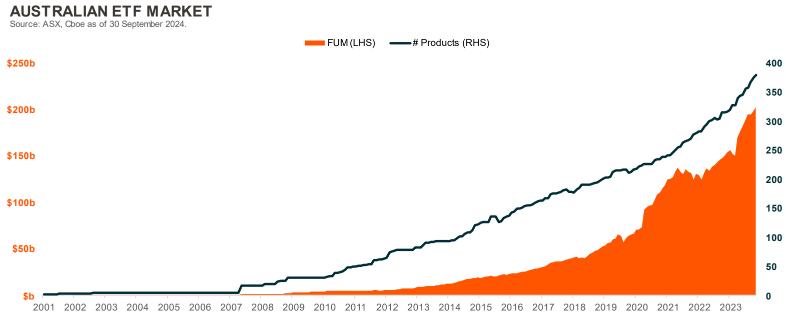
Global X Australian ETF Market Scoop

Industry Overview

The Australian Exchange Traded Fund (ETF) market grew 48.6% over the past year to $226.6 billion across 394 products. This was driven by $26.0 billion in net inflows, positive market movements, and numerous unlisted active funds converting into active ETFs.





*'Other' includes active ETFs that have launched via conversion from unlisted managed funds or dual-listed share classes.

Best Performing ETFs

Cryptocurrency ETFs continue to be the best performing ETFs over the past year, buoyed by a falling interest rate environment, higher risk appetite by investors and strong flows into bitcoin ETFs. As share markets across the globe continue to reach all-time highs, funds that had magnified exposure to these markets, such as leverage ETFs, also made it into the top-performing funds over the past year.

Ticker	Fund Name	1-Year Total Return
EBTC	Global X 21Shares Bitcoin ETF	+ 118.1%
GGUS	Betashares Geared U.S. Equity Fund – Currency Hedged (hedge fund)	+ 76.8%
CRYP	Betashares Crypto Innovators ETF	+ 76.7%
LNAS	Global X Ultra Long Nasdaq 100 Complex ETF	+ 71.6%
MCCL	Munro Climate Change Leaders Fund (Managed Fund)	+ 59.1%

Source: Bloomberg as of 30 September 2024.

Worst Performing ETFs

Clean energy ETFs have continued to struggle with weak performance over the past year. The transition to net zero may be more costly than anticipated, and many companies within these ETFs have faced pressures from rising borrowing costs. However, as global interest rate regimes shift, there is potential for a rebound. Inverse ETFs, meanwhile, continue to be among the lowest performers over the past year, largely due to the strength of broader share markets.

Ticker	Fund Name	1-Year Total Return
SNAS	Global X Ultra Short Nasdaq 100 Complex ETF	- 50.9%
BBUS	Betashares U.S. Equities Strong Bear Hedge Fund – Currency Hedged	- 47.9%
BBOZ	Betashares Australian Strong Bear (Hedge Fund)	- 29.8%
ETPMPD	Global X Physical Palladium	- 28.3%
HGEN	Global X Hydrogen ETF	- 22.4%

Source: Bloomberg as of 30 September 2024.

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Most and Least Popular ETFs by Net Flows

Australian investors seem to be favouring two things – low cost and simplicity. Most of the investor dollars have flown into broadly diversified cheap ETFs such as A200 and VAS, with both funds each receiving around $2 billion in net flows. Factor ETFs such as quality remain popular, and greater product proliferation (such as those combining factors like growth and value) could see continued interest. However, not all factors are winning, with minimum volatility seeing less popularity. High-cost active ETFs continue to be shunned by investors in favour of their low-cost index ETFs. MGOC led the outflows with -$2.9 billion, while minimum volatility strategies also saw large withdrawals.

Ticker	Fund Name	1-Year Net Flows
A200	Betashares Australia 200 ETF	$2.0b
VAS	Vanguard Australian Shares Index ETF	$1.8b
QUAL	VanEck MSCI International Quality ETF	$1.5b
VGS	Vanguard MSCI Index International Shares ETF	$1.4b
IVV	iShares S&P 500 ETF	$1.2b

Source: ASX, Cboe, Bloomberg as of 30 September 2024.

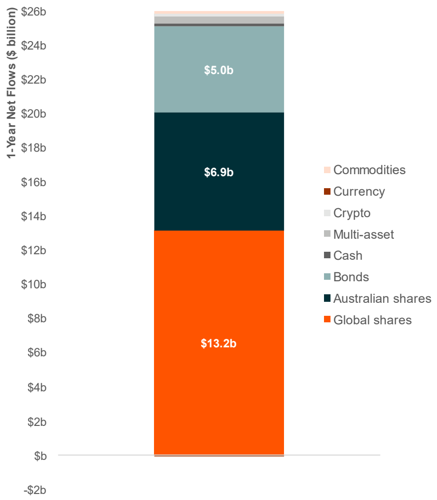
Ticker	Fund Name	1-Year Net Flows
MGOC	Magellan Global Fund - Open Class Units (Managed Fund)	-$2.9b
AMVE	AllianceBernstein Managed Volatility Equities Fund (Managed Fund)	-$413m
XARO	ActiveX Ardea Real Outcome Bond Fund (Managed Fund)	-$344m
WVOL	iShares MSCI World ex Australia Minimum Volatility ETF	-$214m
FAIR	Betashares Australian Sustainability Leaders ETF	-$140m

Source: ASX, Cboe, Bloomberg as of 30 September 2024.

ETFs continue their best start to the year in terms of net flows, with the industry seeing $20.6 billion of money pouring in. The industry's 2024 trajectory seems well on track to exceed the calendar year net flow record of $23.6 billion set in 2021. Global shares continue to be the most popular asset class among Australian ETF investors, with over $13.2 billion allocated to this category over the past year. Commodity ETF inflows have turned positive over the past year, as investors have increasingly been allocating to metals such as gold, which saw its price reach an all-time high.

ETF NET FLOWS BY ASSET CLASS

Source: Global X, ASX, Cboe, Bloomberg as of 30 September 2024.



ETFs can provide access to a range of different asset classes, countries, sectors and niche thematics. While the ability to gain broad and diversified exposure is a major advantage of using ETFs, some investors may not fully consider the tax efficiency inherent in the ETF structure. This tax efficiency can help reduce the overall tax burden compared to other investment vehicles, making ETFs an attractive option for long-term investors.

Feature Insight: ETFs Flex Their Tax Advantage

ETFs offer significant tax efficiencies compared to traditional unlisted managed funds, thanks to their unique structure. One key advantage is that ETFs trade directly on the stock exchange, allowing investors to buy and sell shares among themselves without requiring the fund to adjust and excessively trade its underlying portfolio holdings.

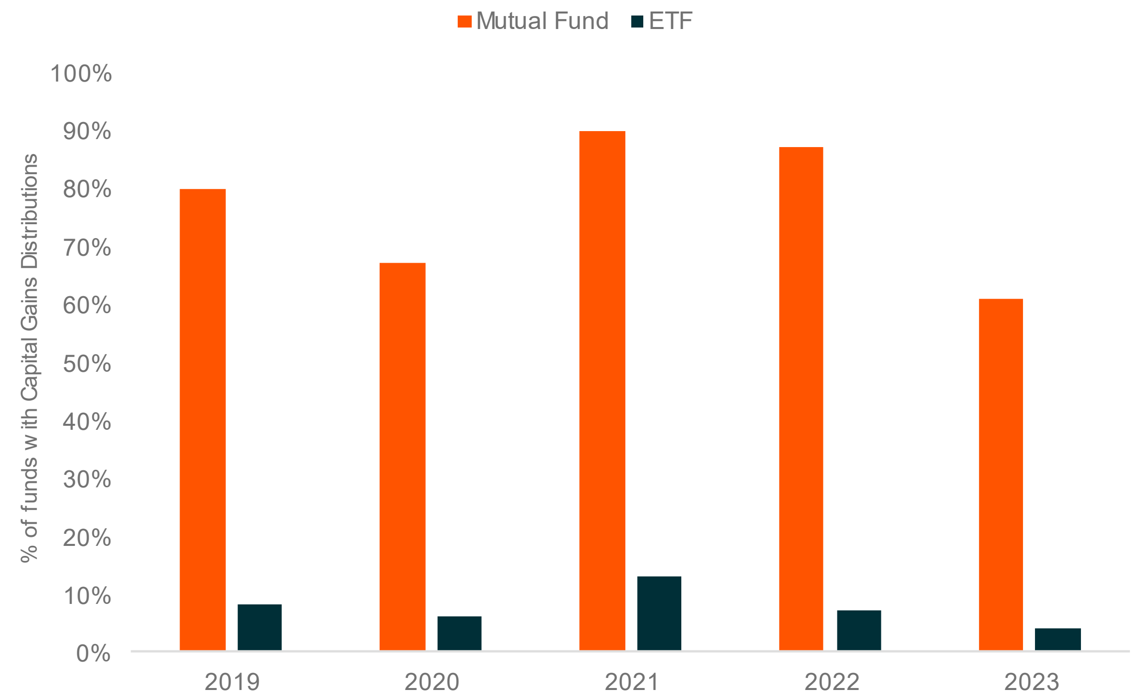
Passive ETFs, in particular, benefit from lower portfolio turnover due to their index-tracking nature, in contrast to actively managed funds, which often experience higher turnover and, as a result, more frequent capital gains tax (CGT) liabilities. If an ETF has a lower turnover, it means the ETF will buy and sell fewer securities within its portfolio as part of its rebalancing process. This can result in fewer transaction costs and potentially lower tax consequences for investors, as there are fewer capital gains from selling securities. Low portfolio turnover can also mean a larger portion of the assets are likely held for more than a year, allowing investors to benefit from CGT discounts on long-term holdings. In Australia, individual investors can apply a 50% CGT discount when selling investments that have been held for over a year.

Additionally, ETFs can facilitate "in-kind" redemptions, where the underlying securities are transferred out of the portfolio to meet redemption requests, rather than selling assets to raise cash. This process helps to avoid triggering CGT events that are common in traditional funds.

The ETF creation and redemption mechanism enables ETFs to "stream" capital gains liabilities to market makers who are the financial intermediaries responsible for providing liquidity by facilitating the buying and selling of ETF shares. This process further enhances the tax efficiency of ETFs. Data from JP Morgan and Morningstar reveals that fewer than 5% of ETFs distributed a capital gain in 2023. When excluding active ETFs, that figure drops to just 1.2% for passive, index-based ETFs.[1]

ETFs Flex Their Tax Advantage

Source: Morningstar using US Equity ETFs.



[1] JP Morgan: Guide to ETFs (August 2024).

ETFs can also distribute franking credits to investors, which can help reduce their overall tax liability. These credits, generated from dividends on some Australian shares and securities held within the ETF, flow directly to investors through the ETF's regular distributions, providing an additional tax benefit for income-focused investors.

While most investors typically compare ETFs and managed funds based on after-fee returns, many overlook the crucial impact of tax implications. By considering both after-fee and after-tax returns, investors can get a clearer picture of their true net returns. In this regard, ETFs are not only widely recognised for being more cost-effective, but they are also far less likely than managed funds to distribute capital gains, offering additional tax advantages

It's also important for investors to see if their ETF holds any underlying managed funds even if they are index funds (which some ETFs in Australia do hold). The great thing about ETFs is their transparency, given portfolio holdings for most ETFs are disclosed daily. However, if an ETF includes managed funds, it could be more exposed to higher tax implications, as managed funds may need to sell securities to raise cash for departing shareholders, potentially triggering capital gains.

While ETFs are tax efficient, they should not be mistaken for tax immunity. ETF investors are still responsible for paying taxes on regular income distributions (which can consist of dividends, interest, capital gains and other foreign income) and CGT will still apply when selling an ETF for more than the purchase price. However, ETFs remain a tax-efficient vehicle for investors to use as part of their investment portfolio. This is one of the many reasons (alongside cost, transparency, liquidity etc…) we believe ETFs will continue to garner assets more many years to come.

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About Global X

Global X ETFs is a leading ETF provider with a growing range of innovation-led products built to help Australian investors and their advisers achieve potentially better investment outcomes. Global X's nuanced understanding of the local market is backed by an international network providing access to a pool of thematic, commodity, income, core, and digital asset ETFs. Our product line-up features 40 ETFs, with more than $8 billion in assets under management.

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