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News

AUSTRALIAN ETFS SEE 70 PER CENT GROWTH PER ANNUM

By Caroline Munro on 9 May 2011 0 comments 2 retweet

The increasing popularity of exchange traded funds (ETFs), and their development towards more complex and risky structures, means that investors and advisers must do their research, according to an ETF report released by Tria Investment Partners.

The report, titled Lift off: the Australian ETF market gains altitude, revealed that Australian ETFs have grown 70 per cent per annum over the last three years, although from a low base. State Street Global Advisors is the main provider in Australia and holds 70 per cent market share. However, the popularity of ETFs and the interest shown by self-managed super funds (SMSFs) has seen the emergence of other players, including iShares Australia, Vanguard Investments Australia and Russell Investments, along with boutiques BetaShares and Australian Index Investment, the report stated.

Investors have been attracted by the low costs, liquidity and tax efficiency associated with physical ETFs. However, the report noted that increasing popularity has resulted in the emergence of niche products, such as synthetic/swap-based and exotic ETFs.

Tria Investments Partners managing partner, Andrew Baker, said that much of the noise and regulatory focus around ETFs was due to exotic ETFs that accounted for a very low percentage of ETF assets.

"The facts are that the overwhelming majority of ETF assets relate to straightforward exposures to Australian and overseas shares, offering investors and their advisers a robust yet inexpensive new tool to construct their portfolios," he said.

The report noted that SMSFs were the early adopters of ETFs and locally represented 30-40 per cent of unit holders, although ETFs were now moving from the early adopters to the mainstream.

The report stated the vast majority of ETFs listed on the Australian Securities Exchange, and of local ETF assets under management, would continue to consist of straightforward physical ETFs focused on major equity markets. The emergence of niche products, however, meant that investors and advisers should do their homework, it added.

Niche ETFs offered "a dazzling range of specialized and exotic investment exposures", the report stated, adding that some of these were volatile and risky. Although they could have useful applications, these ETFs were likely to cause disappointments, the report stated.

Synthetic/swap-based ETFs were more popular overseas and in Australia BetaShares was the only provider. However, the report noted that overseas investors were becoming more concerned about counterparty risk.

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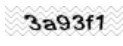
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