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Advisers turn from managed funds to ETFs: BetaShares

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By Alison Bevege | In Investment

The rise of exchange traded funds (ETF) is putting pressure on active fund managers and attracting financial advisers, according to a new ETF report released today.

The BetaShares/Investment Trends ETF Report predicts that ETF investor numbers will grow to 80,000 by the end of next year, a 51 per cent increase on the December 2010 figure of 53,000.

The research, conducted in late 2010, found financial adviser influence was growing with 30 per cent of investors discussing ETFs with their planner, up from 18 per cent in 2009.

The survey, which polled 7,811 investors and 778 advisers about ETF useage, found 27 per cent of financial planners use ETFs with a further 27 per cent to implement them in the future.

The top barriers to adviser take-up was a lack of product knowledge (28 per cent) followed by a preference to actively managed funds (27 per cent).

Ilan Israelstam, head of strategy at ETF provider BetaShares, said the adviser preference for managed funds was historical.

"That's the way they've been remunerated for decades," he said. "That's changing because of the quite obvious reforms taking place in the way they charge clients."

Israelstam said the FOFA reforms were pushing more planners towards ETFs.

Drew Corbett, Head of Investment Strategy and Distribution, BetaShares, said low fees and diversification were the main drivers of the product's use.

He pointed to the cost of fees on a theoretical $100,000 invested in the S&P/ASX Resources Accumulation Index for 10 years.

A low-cost ETF at a 0.39 per cent management fee cost $21,960 over the life of the investment but a 2 per cent management fee, indicative of an actively managed fund, cost $104,137.

"An investor would be $82,000 better off if management fees were 0.39 per cent," Corbett said.

"The underperformance of active managers across common indices also highlights the role of fees," he said.

At the launch, figures sourced from S&P showed more than 80 per cent of active fund managers in general Australian equities had underperformed the S&P/ASX 200 Accumulation Index last year.

A further 70.6 per cent of active fund managers underperformed the index over the past five years, BetaShares said.
