BetaShares
Exchange Traded Funds

Media release

BetaShares/Investment Trends ETF Report: Number of ETFs investors forecast to increase 35-50% by end of 2012

- Diversification and low cost continue to be the key attraction of ETFs
- Advisers slowly embracing ETFs
- Australian ETF market may have reached 'tipping point' of mainstream acceptance

SYDNEY, 22 June 2011: The meteoric rise of exchange traded funds (ETFs) is set to continue with between 72,000-80,000 investors expected to be using ETFs by the end of 2012, according to forecasts contained within the BetaShares/ Investment Trends ETF report released today. As at December 2010, there were 53,500 ETF investors with 67,500 contemplating an investment towards ETFs over the next 12 months.

The comprehensive research conducted in late 2010 surveyed 7,811 investors and 778 advisers around how ETFs are being used in portfolios, where investors are learning about the product, barriers in making investment in ETFs and the demographics of the average ETF investor.

The findings show the average ETF investor has $53,000 invested in ETFs and invest on average 22,000 per trade. A quarter of ETF users are retired with an average age of 48 years old.

The research also found very few investors had problems with ETFs with just one in 10 encountering any issues. This has led to a very high reinvestment rate by existing users with 60% stating that an ETF will be their next non-mainstream investment.

"We found the most important drivers of ETF use are diversification and low cost," said Drew Corbett, Head of Investment Strategy and Distribution at BetaShares. "It also appears the main barriers to ETF investment are solvable, being lack of familiarity and understanding of the products, which indicates importance of continued investor education on the benefits and use of ETFs."

Advisers slowly but surely embrace ETFs

Although early adopters of ETFs were primarily self-directed, the influence of advisers is increasing with 30% of investors discussing ETFs with their adviser (financial planner, stockbroker), up from 18% in 2009. This is in line with ETF use among planners increasing with 27% currently using and another 27% planning to implement them in the future.

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"As adviser use increases, we are also starting to see growing interest from planners looking to embrace ETFs and use them in client's portfolios over the following year. Interestingly, the research also found planners who are embracing the structure typically have above average funds under advice and inflows," said Mr Corbett.

However, there were still barriers for advisers using ETFs with the top reason being lack of knowledge of the product (28%) followed by a preference to actively managed funds (27%). For ETF providers, one in five advisers said the limited ETF range on the ASX affected their investment decisions. Also, approved product lists and supporting research continues to be a barrier for half the advisers surveyed when selecting alternative assets including ETFs.

"Although being on an approved product list was important for advisers, a third of planners were comfortable using ETFs off platform or via another platform," Mr Corbett said.

Australian ETF market approaching 'tipping point'

The ETF market in Australia is still severely underpenetrated even though the industry has doubled in size over the last two years.

However, of all the major ETF markets, Australia has been the fastest growing since the global financial crisis which has magnified the underperformance of active Australian equities fund managers with approximately 70% not beating the benchmark S&P/ASX 200 over a five year period and with global equities not fairing much better.

"The underperformance of active managers across common indices also highlights the role of fees over a long term investment horizon. When looking at a $100,000 investment in the S&P/ASX 200 Resources Accumulation index over a 10 year period, an investor would be $82,000 better off if management fees were 0.39% compared to two per cent which is the approximate difference between an ETF and an active fund," he said.

Although low costs are one of the benefits of ETFs, as advisers and investors become savvier, further strategies such as portfolio tilting and constructing core-satellite portfolios using ETFs will become more common.

"ETFs are not just passive investment and can be used for a range of strategies, both over short and long term horizons. With new ETFs expected across asset classes previously unavailable such as fixed income, other commodities and leveraged and short, it appears as though the ETF market is approaching a tipping point of investor acceptance, broader product range and increasing adviser usage," Mr Corbett concluded.

Further information can be found at www.betashares.com.au and www.asx.com.au.

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About BetaShares

BetaShares is a specialist provider of ETFs designed for Australian investors. BetaShares objective is to expand the universe of investment possibilities open to investors by providing ETFs that empower investors to implement their investment strategies with ease.

About BetaShares ETFs

BetaShares ETFs are Australian domiciled ETFs which trade on the Australian Securities Exchange, and are bought and sold by investors like shares. BetaShares will deliver ETF products that allow investors to track the performance of a range of market indices and asset classes.

Australian-owned and managed, BetaShares is affiliated with BetaPro Management, one of the largest ETF issuers in North America.