

**Voiceover** Welcome to the monthly Ideas Exchange podcast, brought to you by ASX, the heart of Australia's financial markets. Each month we'll connect you to a range of leading industry experts who'll give you a look into the finance industry and deliver valuable insights. Hear about important market events, industry research, tips for your own market research, as well as innovative products to help you diversify your investment portfolio. Your host, Martin Dinh, has a passion for all things investing, and is a major player in the investment product game having assisted in the release of over 150 investment products since 2013 with ASX. Join him as he explores investment opportunities beyond just shares, from ETFs, rates, LICs, mFund, and much more.

**Martin Dinh** Hi everyone, welcome to another episode of the Ideas Exchange podcast. In August 2021 the ETF market turned 20 years old. To celebrate 20 years of ETFs I thought, let's do an episode on the history of the ETF market, because although I think many of us are familiar of what ETFs are, I don't think many of us know the origins of the ETF market and how it has evolved over time. To help us navigate the ETF journey I'll be joined by Meaghan Victor, head of SPDR ETFs Asia Pacific from State Street Global Advisors, an ETF provider that's been there since the beginning of the ETF market. So a fun episode lined up, come join Meaghan and me as we take a journey through the past, present, and future of ETFs.

**Martin Dinh** Hi, Meaghan, welcome to the ideas exchange podcast, it's great to have you here today.

**Meaghan Victor** Thanks so much for having me.

**Martin Dinh** So the ETF market, it turned 20 years old early in August, and boy, what an incredible journey it has been. As of 31 August 2021, Australian ETFs were valued at over \$122 billion, with 226 ETFs across a diverse range of asset classes. Interestingly, over 50% of that ETF growth has occurred over the last two years, which is a number that would impress anyone.

So Meaghan, I guess a great place to start is I wanted to talk about the ETF journey, and I wanted to rewind the clock back 20 years when the first ETF launched in Australia. So when I think of ETFs, Meaghan, I think of ETFs as a financial innovation, which has changed the way we've invested, and I

guess with any innovation I like to ask myself the following question, how did this idea come about in the first place? So Meaghan, in the context of ETFs, how did this ETF idea come about in the first place?

**Meaghan Victor** Martin, that's a fantastic question, and we're talking about the last 20 years, but I think we need to go back just a little bit further. ETS started in the US, the first US listed ETFs launched in 1993, and that ETF was actually born out of a crisis. Now ETS were developed to allow institutional investors to be able to invest their cash, that saw the S&P 500 ETF, so it was an ETF that tracked the S&P 500, the top 500 stocks in the US, and in wrapped into an ETF wrapper, and now that's the largest ETF in the world.

If we fast forward to 2001, we saw the launch, as you rightly pointed out, the launch of the first ETFs in the Australian market. Interestingly they came to the market at the end of August, 24th of August in 2001, that was just before September 11, you think about where we sit today, just before September 11, another poignant milestone in history, and we saw that the ETF in Australia, again, around the top 200 stocks in this instance in Australia, and the top 50 stocks, were brought to market as an innovation. It democratized investing, meant that not only were institutional investors able to invest in a diverse range of stock, so the top 200 stocks in a single trade, but also retail investors were able to invest as well, which revolutionize the investment marketplace here in Australia.

**Martin Dinh** Yeah, I think not many people know, if they're not an ETF nerd like myself, that ETFs, yes, you're right, they are born out of a financial crisis. And some interesting points that you make there is that ETFs, they were initially promoted to institutional investors as a way to invest their spare cash, and now ETFs have grown so much in popularity to financial advisors and investors because they love the fact that ETFs can provide that instant diversification and allow them to spread their risk in a very simple and cost-effective way.

So I guess now that we have an idea of how the ETF idea began, I wanted to ask how has the ETF market evolved since that time?. And before you respond, Meaghan, I think this is a perfect question for you, as you've already mentioned that State Street, you were there since the very beginning of the ETF market, so I don't think there's a better question to ask than yourself. So can you take us through the ETF journey and how it has evolved since State Street listed its first ETF back in 2001?

**Meaghan Victor** Thank you so much, and look, you're right, State Street Global Advisors were the first to launch ETFs here in Australia. At the time they were called StreetTRACKS, so some of you may recall StreetTRACKS as a name, and it's still referred to today, and a lot of people are say, no, it's just for STW as the ticker. But regardless of the product, it was actually the innovation from a product development perspective that we've seen

change over this period, and we might've been the first, but there's been so many more issuers that have come on the journey with us. We've actually seen the number of products available change, there's been diversification in the offerings that are made available for investors.

So in the beginning there were core holdings that we spoke about before, but over time what we've actually seen is the offerings go much broader now into sectors. We're starting to see smart beta, we're starting to see ESG, there's just been this evolution of product. I think we've also seen their take-up of ETS actually changed as well. If we look back to the beginning in Australia, we spoke about the institutional investors, self-managed super funds were the first to adopt them in Australia right at the very beginning. But what we have seen over the last 20 years is a shift in demographics, so it's in the number of younger investors start to really take up ETFs as well.

We did some research earlier on this year at State Street And as part of that research what we saw is that just under half of the new investors this year in 2021 are millennials, so about 47% of the millennials, 23% of them are gen X, and 25% of them of investors are baby boomers. Now if we were to go back two decades ago, only 24% of investors were actually millennials and the majority were gen Xers and baby boomers. So we're seeing that shift in the demographic change, and a lot of it's come down to product development too. So now we can actually invest in an ETF, as you would know, Martin, you can just buy one share. So we've seen this growth of micro investing as well and the improvement of technologies making ETFs much more accessible for investors as well. So technology has really been on a journey for the last 20 years as well, which has been an enabler for investors, and make them more accessible for investors as well. So I think that they're probably the big key things that we've seen over the last 20 years.

**Martin Dinh** Yeah, I think your point about millennial investors, that's where that growth has come from, and seeing that evolve from ETFs being primarily promoted to institutional investors, and then going to direct retail, and then now to millennials, has been incredible. And you mentioned an incredible stat, over the last 12 months you said, I think it was, 50% of investors that went into ETFs were millennial investors. I'm not a millennial investor, but I am under 39, so I'm actually one of those people that have added to that statistics.

And you mentioned some great points in terms of why millennials, or younger investors, like ETFs, and for me one of my favorite things about ETFs, yes, one is you can build a diversified, or you can use it as a core part of your portfolio, but the second reason why I really like it is that I can bet on certain megatrends and sectors. I think that's something that a lot of my friends, younger friends, that's something that they've said that really appealed to them about ETFs because they can invest in things that are

really resonating, or they're really close to, like cloud computing, or cyber technology, or video games and e-sports. But yeah, you've provided some very interesting insights and stuff that I can definitely resonate with.

So we've talked about how the ETF market has evolved over the last 20 years, and this has not surprisingly also coincided with the ETF also becoming increasingly popular, and the funds under management, I published a report and I found that over the last 12 months the funds under management has increased by 70%, and to me that's absolutely mind boggling. So my question to you, Meaghan, is, can you tell us what you think has driven ETF growth?

**Meaghan Victor** So I think, if we go back to what we were just talking about before, we've had an environment which none of us expected, so we've been part of a pandemic, to your point there's been more people at home, they've been researching, they've been spending time getting a better understanding of investment markets, and a whole bunch of other things too, so therefore there's a greater interest in investing, and that accessibility comes into play too. So if we talk about that demographic, such as the younger individual, something that the interest is absolutely there, but I also think that when we look at the users of ETFs more broadly they're becoming mainstream.

If we're going back 20 years ago and we think about the market 20 years ago, let's just take a segment of the market, say it might be the direct investors or the financial advisors, they'd have really two options that they choose to invest in, they would really probably go down either direct equities or they'd be looking at managed funds. And you think about the costs, and so forth, of doing that, in some instances it was quite high. We've seen over that 20 year period, we've seen that shift, and technology has driven a lot of that too, as well as regulation, but if we look at where we stand today, that growth has really been significantly driven by the reduction in cost, so there's a cost conscious approach to people investing now more than ever, and ETFs do provide that low cost accessibility to the market, but also the ability for people to execute, as we spoke about before.

You can play those themes that you were just talking about, you and your friends, you've got the accessibility to do that, but it's also about the fact that you can access more asset classes today via ETFs, just as you were saying before. Now who would have thought that you could access gold through an ETF, or silver, or copper, you've got commodities that you can now physically back securities in many instances, assets that you can actually invest in via an ETF. So that growth, and I think that will continue.

The other thing I would say is that in Australia the market construct is changing. So when we go back 20 years we were looking at ETF issuers, or even 10 years, ETF issuers were bringing product to market, and in the

main those issuers were bringing market cap product to market. But today we've got more choice again, and that choice is not just about the sector you're investing in, but it's a construct. So you can now buy an active ETF, as well as an active managed fund, which has also seen that growth in the assets under management in the market and Austria.

**Martin Dinh** Yeah, I mean, ETFs have really democratized investing, and like you said, there's all these strategies out there, and I think we take it for granted, or at least for me as investors, that a lot of these areas and markets previously were difficult to get access to. You mentioned gold, there's no one they're going to go and buy physical gold. So ETFs provide a structure that can allow investors to access particular strategies and invest in markets that were historically difficult to get access to, and some of them were just only simply available to institutional investors, so I think that was a great point there. With the drivers of ETF growth, was there anything there that surprised you in terms of what drove ETF growth?

**Meaghan Victor** From my perspective I think it was more the really singular focus on things like the gaming, and so forth, when we really get down into the really fine sectors. But I think the other pleasing thing, whether it'd be a surprise, it's probably more pleasing, is that ESG is no longer that tick box, it's becoming mainstream. And we've spoken about ESG for a long time, the G being about the governance, but now we're starting to see ESG really coming into just being the way things are being done, and we've seen that comes through in the flows that have come into the market in Australia in particular over the last few years as well.

**Martin Dinh** Yeah, I was crunching actually some of the numbers in for ESG ETFs, I think they accumulated over \$1.5 billion since the beginning of the year, so that's surpassed that a level of 2020, which was already a banner year, and I think you're right, investors, they're becoming more conscious about investing in sustainable companies. I'm beginning to recognize that a lot of these companies, the ones that adopt a more sustainable approach, they're probably in the best positions to grow, because there's a shift to a net zero economy, and investors are looking for opportunities in investing in companies that can develop the technologies to transform the economy into a net zero economy, so some good points there about the growth in ESG ETFs.

Now we've talked a lot about the journey about the ETF market since the beginning, and what's happened over the last 20 years, which I think is a perfect segue to talk about a recent survey that you conducted in June and July of this year in relation to the ETF market. Now I think you conducted the survey at a pretty opportune time given ETFs, they've been around for 20 years, and I'm sure you would have found some pretty interesting insights in light of the current global pandemic. So Meaghan, I was wondering, can you share some of the results from the survey?

**Meaghan Victor** Sure. When we think about the COVID-19 pandemic, it did actually bring really extreme challenges across the globe, as we know, in that actually impacted on the liquidity of nearly all investment vehicles and asset classes that were available. But if we look at the challenges that we experienced and we actually look at ETFs in isolation, they performed very well. They provided market participants with the liquidity and the price discovery metrics when it was most needed, at that point in time, and investors were actually drawn to ETFs during this period, as you mentioned, Martin. They were drawn in that way because they took advantage of the market downturns and they saw the ETF vehicle as being the way to take advantage.

What we actually saw was that, if we look at it from an investor's perspective, 58% of the current ETF investors that we surveyed, and there was 2,160 ETF investors who we surveyed, 58% of the current ETF investors said that they would increase their allocation to ETFs, they had increased it during that coronavirus period, and 68% of millennial ETF investors increase their allocation during that same period, while only 45% of baby boomers increase their allocation. I think the trend there is they all increase their allocation, it was just the percentage by which, but it was close to 50% or upwards of people increasing their allocation. And that just goes to show that long-term investors were actually taking advantage of some of these downturns, using ETFs as the best product to actually take advantage of the opportunity.

**Martin Dinh** I think you revealed some pretty interesting research, and you've mentioned about the millennials, but I think the one thing that really stood out for me when I looked at your research was actually the average amount invested into ETFs. So Meaghan, you mentioned some really interesting insights from your research, in particular about the millennials, in terms of the number of millennials investing, in particular in the context of the coronavirus pandemic, but I think one of my favorite stats when I was reading your research was the actual average amount that was allocated to ETFs. I found, and correct me if I'm wrong, Meaghan, that the average amount invested into ETFs was around 175,000. Was that correct?

**Meaghan Victor** That is correct. What we saw was that the average initial investment of ETF investors, new ETF investors, was actually \$62,000, which was half of what was invested 20 years ago. So what that's showing is 20 years ago investors would have been investing more than \$125,000 into an ETF, but today they're now only investing \$60,000, and that's meaning that more people can invest. So it's no longer an investment just for the wealthy, it's that democratization that we were talking about before.

**Martin Dinh** Those are some really important points, and I've spoken to my brothers and sisters, and one of the reasons why they've actually

commenced investing is because the minimum investment amounts are a lot lower right now.

**Meaghan Victor** Yeah.

**Martin Dinh** I know that for unlisted managed funds, some of the minimum investment amounts can be 20 to \$30,000, and my brother and sisters, there are under the age of 30, and they don't have that money lying around. But now there is a proliferation of, I guess, financial online brokers that charge or provide that have very low minimum investment amounts, and it's made investing so much more accessible to this younger generation.

So we've talked a bit about the coronavirus pandemic, and one question that a lot of people have asked about, and you just need to Google coronavirus pandemic and ETFs, is how did ETFs do during the coronavirus pandemic? And just to give you a bit of context, there are a lot of people, or naysayers, and we spend time trying to educate those people is that ETFs, during a market sell off they will heighten volatility, they'll cause high volatility because investors, market participants in ETFs, they're going to run for the door. Meaghan, how did ETFs performed during the coronavirus pandemic?

**Meaghan Victor** Well it's a great question, and I think it's a valid question too, for those people that are looking for a better understanding of an ETF. We have to think about the fact that trading volumes, particularly in March last year, March 2020, the volumes of ETFs and the trading volumes increased significantly, and that actually highlighted the fact that ETFs actually function very well. Because you've got to remember the liquidity of an ETF is based on the liquidity of the underlying assets that sit within that, so the underlying holdings drives the liquidity of that ETF. So we actually saw that the ETFs acted as a buffer, but they also acted as sources of liquidity in times of distress within the market. So we saw that they did what they were supposed to do, they provided that opportunity for people to access the market, as you spoke about, but also gave people certainty around the liquidity profile and prices for the ETFs, whether they be equity or bonds.

**Martin Dinh** Yeah, that's spot on. ETFs, I just want to give a couple of stats that I was just crunching just before us talking, Meaghan, and at the peak of the sell-off in March 2020, ETF trading activity was more than four times higher than the monthly average in 2019. So I think that what that really shows is that investors, they were able to enter and exit their investments quite quickly. And I think it's really important to note that during that sell off, market participants, such as market makers and liquidity providers, they were continually providing prices, they didn't exit the door, and one really interesting fact is that in March, the peak of the

sell-off, ETFs had inflows. So despite everything that happened, there was actually more money going into ETFs.

So what that showed was that investors, they were staying the course, and even in some cases increasing their allocation. So I think spot on ETFs, they've been around for 30 years now, and they've withstood numerous shocks. You've got the global financial crisis, the Asian financial crisis, and now you have the coronavirus pandemic, and it shows that the ETF structure, it does work, even during market sell-offs and turbulent market conditions. So we've covered the past and the present for ETFs, so I guess the only remaining question to ask you, Meaghan, is, what does the future for ETFs look like?

**Meaghan Victor** If only we had a crystal ball, Martin. We can't obviously predict the future, but what we can say is there's some great foundational trends that we'll see the continued innovation of ETS going forward. We spoke about ESG, and I honestly believe that that will be a really strong point going forward for the Australian market and more broadly, I do think that we'll start to see that being integrated completely within the way in which we invest today, and that will become the norm.

I think what we'll also see is that improvement in technology, we'll see the accessibility of ETFs also increase over time and being major contributor to portfolio construction, asset allocation, to the point that you mentioned before, with regards to the way in which you and your friends have been accessing ETFs more broadly, I think there's still a place for ETS to remain as a core to an investment portfolio, and that ability to use that satellite approach with using thematic more broadly to construct your portfolios.

But one thing I would say, and one of the constants will be, that there's a need for financial advice. So if you don't know, find out, and I think that's the important thing, whether you go and do your own research, or you get some help from an investment professional, I think it's really, really important that you do that.

**Martin Dinh** That's absolutely spot on. And speaking of financial advisors, over the years there has been increasing adoption of financial advisors who have started using ETFs. We've seen major reforms in the financial advice industry, and that's pushed a lot of financial advisors to move to that independent operating model. Just to give our listeners a bit of context, most of the models outside of the independent operating models, it generally restricted financial advisors their choice of what investments they could select for their clients, but now that we're seeing more advisors move to that independent operating models, they have more freedom of choice.

So were finally seeing financial advisors using ETFs, or finally incorporating ETFs on behalf of their clients. And really just to front another number out



there, the advisor ratings team, they found out that, at present, the number of advisors operating under that independent operating model is around 58%. But yeah, the future looks bright, yes we don't have a crystal ball, but final question before we wrap it up, Meaghan, our podcast is designed to create a lot of education for investors to learn about investment opportunities out there, and different tools that they can use, so for investors who want to learn more about ETFs, do you have any recommended resources that investors can turn to?

**Meaghan Victor** Definitely. So I think that whether it's ourselves, or any of the issuers in the markets, we all have really strong educational portals within our own websites, so I would encourage you to go and have a look. Understand what you're investing in, look under the bonnet, understand the cost, understand the holdings that you have access to, understand the broad offering and the methodology also, which index provider are they using? What's the methodology that they're adopting? It's really important to understand some of those more detailed points about the ETF you're investing in, past the name and what the asset class is and the cost, you really need to understand.

The ASX has some awesome educational material as well, whether it be on the website, the investor days that you host, I think that you do a really good job in supporting investors in the marketplace, and it's a great opportunity for people to get access to further information as well. And also the financial advisors also have a lot of information to investment brokers, there's a lot out there, even if we look at some of the robo advice apps that you mentioned before, that micro investing and so forth, they've now got some really easy to understand, simple information for you to also latch onto if you're just starting out investing in ETFs also.

**Martin Dinh** Yeah, thanks Meaghan. Right now there's just so much education out there for investors to turn to, and some great sources for our listeners to turn to. So Meaghan, that wraps up this month's episode. I wanted to thank you for taking time out of your day to share your insights into the journey of the ETF market over the last 20 years, hopefully after the lockdown ease we can all get together and celebrate 20 years of ETFs over a drink or two. We look forward to having you back down on the road.

**Meaghan Victor** Thank you so much, it's fabulous. Take care, stay safe.

**Martin Dinh** Well that concludes today's episode. As an ETF nerd, this was such a fun episode, learning about how the ETF market was born out of the stock market crash in 1987, to how much it has evolved since that time in terms of product development. In next month's episode I'll be joined by Steve Johnson, CIO at Forager Funds Management, as we take a deep dive into Foragers investment philosophy and what factors they take into account when selecting investments for their portfolios. Until then, thank you for listening, and we look forward to you joining us next month.

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