betashares

Why SMSFs are turning to ETFs

And how they can help trustees meet their long-term wealth goals

Explore betashares.com.au/smsf-investors

Key findings

SMSFs were among the earliest adopters of ETFs in Australia.

And their appetite for the convenient and cost-effective investment vehicle has continued to grow, reaching a new record high again this year.

26%

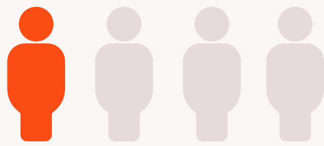
The number of SMSFs holding ETFs has grown to 505,000 – a 26% increase from 400,000 last year.

58%

of SMSFs holding ETFs intend to re-invest in ETFs in the next 12 months

1 in 4

ETF investors hold ETFs within an SMSF structure



Access to global equities

or to specific asset classes like fixed income, is a key motivator for SMSF investors' decision to use ETFs.

Based on these recent findings, **nearly 45% of all SMSF members have exposure to an ETF** – a significant percentage that is expected to continue to grow as adoption of ETFs to meet retirement goals also grows.

Source: Betashares Investment Trends 2023 ETF Investor and Adviser Report, based on survey undertaken between June – August 2023 involving over 1750 respondents.

What are some factors driving the rapid uptake?

We believe the following key factors may be driving the increased uptake of ETFs by SMSFs:

1

ETFs can be used as a tool to gain exposure to a greater range of asset classes and investment styles

This trend started when ETFs first democratised access to international equities and is now playing out for fixed income, Australian equities, thematic exposures, equity sectors and other asset classes.

2

ETFs can be used by SMSFs to replace higher cost active managers and unlisted funds

These investment vehicles often cannot match the convenience of ETFs. Many active funds have also tended to underperform their benchmark, and investors will typically pay relatively higher fees.

3

ETFs offer diversification benefits

SMSFs can consider ETFs to replace single stock holdings in their Australian and international equities allocations, allowing more diversified exposure in a single trade.

Future state

Given more investors are attracted to SMSFs by the benefits of being in control of their own super, along with the improved transparency, flexibility and customisation offered, we expect continued adoption of ETFs by SMSFs.

If current trends continue, we expect half of all SMSF members will have exposure to ETFs in the coming years to help grow their retirement savings or meet their income needs.

Broader SMSF industry trends

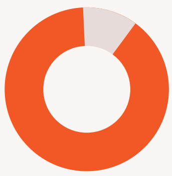
$899.5 billion

total estimated assets,
up by 2.6% per annum over
the five years through 2022-23

(Source - Ibis World 2024)

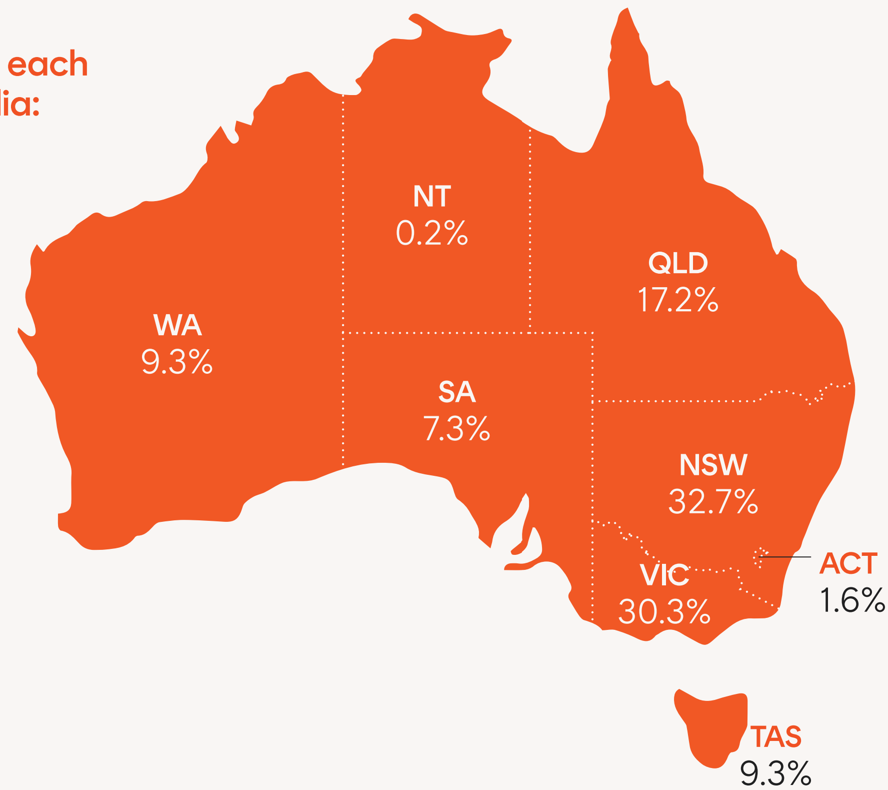
53%
of SMSF members are male, while
47%
are female.

There are more than
600,000
active SMSFs in Australia.



87%
of SMSF members are
45 years or older

Percentage of total SMSFs in each state/territory across Australia:



(Source - ATO SMSF quarterly statistical report September 2023)

Benefits of ETFs for SMSFs

Greater control

ETFs offer exposure to a wide range of asset classes, giving an SMSF trustee many options when implementing retirement planning and wealth-building strategies. In addition, using ETFs can simplify ongoing portfolio management.

Transparency

Most ETFs disclose their holdings on a daily basis, making it easy for an SMSF trustee to understand and monitor what is in their portfolio. They also provide clear proof of ownership of assets, which can be made available to SMSF auditors and the ATO.

Cost effective

ETF fees are typically much lower than those of traditional unlisted actively managed funds. Using ETFs to invest in a portfolio of shares is also generally more cost-effective than making individual share trades.

Tax effective

Most ETFs aim to track an index, so turnover tends to be lower than for traditional actively managed funds. Lower turnover means fewer tax events, and typically has a positive effect on after-tax performance.

ETF ideas

ETFs for Accumulation

More growth than defensive

Members in this phase are typically earning income from employment or business ownership and are not reliant on their SMSF for income.

Instead, their aim is to grow their super fund through contributions and investment returns to set themselves up for retirement later.

A200 AQLT NDQ

QOZ HACK RBTZ

Funds

Australian share funds

ASX: A200

Betashares Australia 200 ETF

In a single trade, A200 offers diversified exposure to the 200 largest companies by listed on the ASX.

With annual management fees of only 0.04% p.a., A200 is current the world's lowest cost Australian shares ETF[2].

ASX: AQLT

Australian Quality ETF

Quality companies are those with high returns on equity, low leverage, and relatively stable earnings. In Australia, this has tended to result in a higher exposure to technology and consumer companies, and a lower exposure to mining companies.

Not only do these attributes favour businesses that can grow steadily while remaining resilient, but it can provide diversification benefits for Australian investors who have large exposures to mining companies or limited exposures to technology.

SMSF investors can use AQLT to replace or complement active Australian equity funds, or as a core exposure to Australian equities.

ASX: QOZ

FTSE RAFI Australia 200 ETF

Rather than weighting by market capitalisation, QOZ is weighted in a way that reflects the economic importance of its constituents. This includes accounting measures such as sales, cash flow, dividends and book value.

This approach is less affected by fads and bubbles, offers the potential for outperformance, and historically has delivered a high level of franked distributions.

In the 12 months ending 31 December 2023, QOZ had a distribution yield of 5.3%, or 6.9% when grossed up for franking credits – the distributions were 73.5% franked (total franking level)[1].

[1] Yield calculated by summing the prior 12-month per unit distributions divided by the closing NAV per unit at the end of the period. Yield will vary and may be lower at the time of investment. Franking level is total franking level over the last 12 months. Past performance is not indicative of future performance.
[2] Source: Bloomberg. Based on expense ratios of Australian shares ETFs based in Australia or on overseas exchanges. Other costs, such as transaction costs, may apply. Refer to the PDS for more information.

International share funds

ASX: NDQ

Nasdaq 100 ETF

Today's Nasdaq 100 companies make up a substantial portion of the US stock market and represent a more globalised, digitised, and innovation-driven economy.

The Nasdaq 100 Index rose by 50.75% in 2023 and has averaged over 20.76% p.a. over the last 10 years[2]. That's more than double the 9.94% p.a. that the S&P 500 Index has returned over the same period[3].

This strong fundamental growth is expected to continue for companies in the Nasdaq 100, with analysts forecasting sales growth of 11% p.a. between 2023 and 2025, compared to 5% for the S&P 500[4].

Technology funds

ASX: HACK

Global Cybersecurity ETF

Wherever crime proliferates, security is sure to follow. Global cybersecurity revenues grew from US$83 billion in 2016, to US$147 billion in 2022. In 2024, the industry is projected to hit US$183.1 billion in revenues, and this number is projected to grow to US$273.6 billion by 2028[5].

HACK's portfolio includes global cybersecurity giants, as well as emerging players, from a range of global locations.

ASX: RBTZ

Global Robotics and Artificial Intelligence ETF

RBTZ invests in companies involved in Industrial Robotics and Automation, Non-Industrial Robots, Artificial Intelligence and Unmanned Vehicles and Drones.

In one trade, investors can get diversified, cost-effective exposure to the world's leading robotics and AI companies, a sector that is heavily under-represented on the ASX.

[2] Source: Betashares, Nasdaq. As at 31 December 2023. Past performance is not indicative of future performance of any index or ETF. You cannot invest directly in an index. Does not take into account any ETF fees and costs. NDQ management fees and costs are 0.48% p.a.
[3] Source: S&P Dow Jones Indices – S&P 500
[4] Source: Nasdaq, Bloomberg. Based on Bloomberg analyst consensus as at 23 November 2023
[5] Source: Cybersecurity – Worldwide

ETF ideas

ETFs for Retirement

More defensive than growth

Generally, a larger portfolio of an SMSF's investment portfolio in retirement tends to be allocated to fixed income investments, hybrids and shares that pay meaningful dividends or provide a steady flow of income.

However, to mitigate the effects of inflation and ensure that members don't outlive their nest eggs, an allocation to growth assets may also be considered as part of the broader investment strategy.

MMKT OZBD HBRD YMAX HVST

Funds

Cash and Fixed Income

ASX: MMKT

Australian Cash Plus Fund (managed fund)

In addition to term deposits and at-call deposits, cash can include a range of money market securities. These usually have low credit risk, are not highly sensitive to interest rate moves, and mature within 12 months. All this results in a high level of capital stability and a low risk of capital loss.

Securities like these traditionally have been inaccessible to retail investors, due to the high minimum investments and expertise required.

MMKT aims to provide enhanced returns on cash by enabling retail investors to access these money market securities.

ASX: OZBD

Australian Composite Bond ETF

This ETF is designed to be a core portfolio allocation for Australian fixed income. It invests in a diversified portfolio of high-quality Australian government and corporate fixed rate bonds. OZBD focuses on bonds with high income potential, offering a yield to worst of 4.73% p.a. (as at 12 February 2024)[6].

Markets are currently pricing in two rate cuts from the RBA in 2024[7]. If these do materialise, it may be beneficial for fixed rate bonds, as prices and yields move in opposite directions.

Hybrids

ASX: HBRD

Active Australian Hybrids Fund (managed fund)

HBRD offers convenient exposure to a diversified portfolio of hybrids, which seeks to reduce the potential downside risk of directly holding individual hybrids.

The Fund pays income monthly at a rate expected to be significantly higher than cash and senior bonds, along with franking credits.

[6] The annualized total expected return of the portfolio if underlying bonds are held to maturity and do not default, and the coupons are reinvested. Yield to Worst is the lower of Yield to Maturity and Yield to Call. Assumes no change in interest rates. Subject to change over time.
[7] Source: ASX

Equity Income

ASX: YMAX

Australian Top 20 Equity Yield Maximiser Fund (managed fund)

YMAX uses a ‘covered call’ strategy to offer additional income over and above dividends generated by the portfolio.

This strategy is best suited to sideways trading markets, as we’ve seen in Australia in recent years. These conditions allow investors to benefit from the option premiums, dividends, and franking credits, without losing too much upside. The strategy can be expected to underperform in strongly rising markets.

Covered call strategies may also help to reduce portfolio volatility – an important consideration for investors relying on their investments for income.

Scan the QR code or click on the video below to learn more about covered call strategies

ASX: HVST

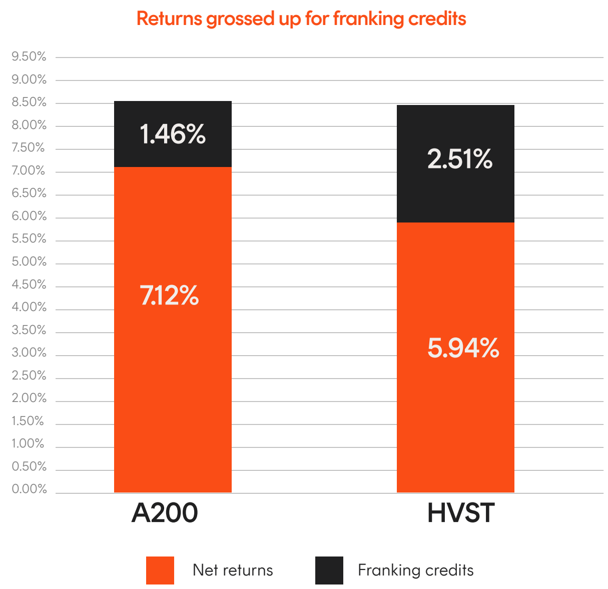
Australian Dividend Harvester Fund (managed fund)

Australians have long been attracted to equities for their dividend yields and franking credits, but there’s more to equity income than just buying blue chip stocks for their dividends.

HVST aims to ‘harvest’ dividends and franking credits by periodically rebalancing into companies that are expected to pay a dividend in the months ahead.

HVST’s income stream aims to exceed the net income yield of the broad Australian sharemarket on an annual basis, with distributions paid monthly.

The below chart shows the 1-year gross return including franking credits for HVST (8.45%) and A200 (8.58%) as at 31 January 2024. Once the additional value of the franking credits for HVST are considered, the total returns are similar to A200’s performance on an after-tax basis for Australian investors[8].



Source: Betashares. 1 year returns as at 31 January 2024. Past performance is not indicative of future performance. Not all Australian investors will be able to receive the full value of franking credits. Yield will vary and may be lower at the time of investment.

Learn more about how Betashares’ ETFs can help SMSF investors meet their retirement goals at our new SMSF hub: Learn more

[8] Not all Australian investors will be able to receive the full value of franking credits. Yield will vary and may be lower at the time of investment. Past performance is not indicative of future performance. HVST’s strategy means that income returns may account for the majority or all of HVST’s total returns. Investors should not necessarily expect HVST’s net asset value per unit to increase over time, and should be aware that it may decline, notwithstanding that positive total returns may be generated.

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