

The Aussie yield ETF that challenges active managers

ETFs S&P/ASX 300 High Yield Plus ETF (ZYOU)

- In the wake of S&P Dow Jones Indices recently published SPIVA® report, this week we have taken a look at how our ETFs have fared against active managers over time.
- This note highlights ZYOU, which has produced strong excess returns since inception and outperformed many well-known active managers.
- Investors looking for cost-effective excess returns from domestic equities should consider evaluating ZYOU.



In this week's *ETFs Trade idea*, we look at the results of the SPIVA® Australia Scorecard released by S&P Dow Jones Indices last month and compare the performance of ZYOU to a collection of well-known active funds focused on Australian equity-income.

SPVIA® Australia Scorecard 2017

S&P Dow Jones Indices have been publishing SPIVA® Scorecards for major markets since 2002 and have become leading contributors to the active versus passive debate worldwide. The SPIVA® Scorecards track the performance of active fund managers in each market against benchmark indices across a variety of categories and across multiple time horizons.

Looking specifically at Australian large-cap equity funds, as at the end of 2017 59% of funds underperformed the S&P/ASX 200 Index. Over 3, 5 and 15 year periods, respectively, 67%, 63% and 77% of funds underperformed the national benchmark. An equally-weighted portfolio of active funds would have underperformed the benchmark over 1, 3, 5, 10 and 15 years.

Similarly, in the mid- and small-cap categories, 74% and 75% of funds underperformed the S&P/ASX Mid-Small Index over 1 and 3 years.

Fund Category	Comparison Index	1-Year	3-Year	5-Year	10-Year	15-Year
Australian Equity General	S&P/ASX 200	59.00%	66.77%	63.00%	73.94%	77.00%
Australian Equity Mid- and Small-Cap	S&P/ASX Mid-Small	74.04%	75.00%	55.67%	40.00%	54.72%

Table 1: SPIVA® Australian Scorecard; percentage of funds outperformed by the Comparison Index

Source: S&P Dow Jones Indices

How does ZYOU compare to active funds?

ZYOU sits in-between a traditional active fund and a purely passive index tracker in the area commonly termed 'smart-beta' or 'enhanced-alpha'. Smart-beta funds passively track an index, but the index they track has features that differentiate it from a standard market capitalisation-weighted index and aim to outperform a standard index in much the same way that active funds do.

In the case of ZYOU, it tracks the [S&P/ASX 300 Shareholder Yield Index](#), which aims to outperform the S&P/ASX 300 benchmark by selecting a sub-set of constituents based on 'shareholder yield' – a combined measure of dividend yield and buy-back yield.

Because ZYOU's investment strategy is pre-defined it has several potential advantages over active funds:

- its strategy is consistent, published and available for investors to evaluate and scrutinise
- its holdings are published in the public domain on a daily basis

- because it trades on exchange, investors can trade intra-day, unlike with many active funds
- because the fund does not require a team of fund managers to continually evaluate its holdings, it can charge management fees more in-line with passive index trackers.
- **ZYAU's** stocks selections tend to be more “active” than many active funds, with its *Active Share*, or non-overlapping weight, versus the S&P/ASX 200 currently at 80.5%. This means that **ZYAU** can better compliment a core index holding in a portfolio.

Table 2, below, shows comparative performances and headline management fees of **ZYAU** against a collection of well-known active funds that focus on Australian equity and equity income.

		MER (%)	Excess return relative to S&P/ASX 200 Index			ZYAU inception to present (p.a.)
			YTD	2017	2016	
ZYAU AU Equity	ETF S&P/ASX 300 ETF (ZYAU)	0.35	-0.17%	0.63%	5.42%	2.19%
DEUUAL AU Equity	Aberdeen Australian Equities Fund	0.80	0.86%	-0.09%	-1.42%	0.11%
CHAUSSH AU Equity	Alphinity Australian Share	0.90	0.93%	-0.14%	-2.89%	-0.64%
AMP9025 AU Equity	AMP Capital Australian Equity Income	0.90	-1.43%	-4.73%	-6.66%	-4.01%
ARENHLD AU Equity	Armytage Australian Equity Income	0.97	0.25%	-0.19%	-2.60%	0.87%
BENLAEQ AU Equity	Bennelong Australian Equities	0.95	4.71%	7.37%	-9.46%	5.11%
BTEFSAS AU Equity	CFS Wholesale Australian Share Fund	0.97	3.45%	-2.30%	-9.74%	-1.12%
FIDAUEQ AU Equity	Fidelity Australian Equities Fund	0.85	-1.22%	-0.42%	-3.33%	-0.30%
LMAEINA AU Equity	Legg Mason Martin Currie Equity Income A	0.85	-0.25%	-2.93%	1.38%	0.94%
ETL0324 AU Equity	Lincoln Wholesale Australian Income	0.95	-0.02%	-3.57%	-6.67%	-3.88%
MITINCB AU Equity	MLC Wholesale IncomeBuilder™	0.72	-2.24%	-6.83%	0.28%	-3.06%
TYNASIN AU Equity	Nikko Australia Income Equity Fund D1M	0.85	-1.35%	-0.79%	3.54%	1.37%
PERPFAI AU Equity	Perpetual Australian Share Fund	0.99	-1.93%	-1.47%	-4.30%	-1.91%
WHT0039 AU Equity	Plato Australian Shares Income	0.90	-1.76%	-4.97%	-2.67%	-2.79%
RIM0044 AU Equity	Russell Australian Shares Enhanced Inc A	0.92	-0.96%	-0.50%	-3.40%	-1.15%
SCHAUFU AU Equity	Schroders Australian Equity Fund	0.62	-0.16%	0.60%	6.08%	-0.54%
TRPAUEQ AU Equity	T. Rowe Price Australian Equity	0.60	0.97%	2.50%	0.58%	1.87%
VANHYS AU Equity	Vanguard High Yield Australian Shares	0.38	-2.61%	-2.52%	-1.74%	-4.79%
				S&P/ASX 200 Index total return		
ASA51 Index	S&P/ASX 200 Index	n/a	-3.86%	11.80%	11.80%	6.55%

Table 2: Comparison of management fees and excess returns over S&P/ASX 200 produced by **ZYAU** and a selection of actively managed funds

Source: Bloomberg, Morningstar Direct as at 29 March 2018. **ZYAU** inception date is 9-Jun-2015

Low Cost

Firstly, to note, **ZYAU's** management fee compares favourably to the active funds, as would be expected. **ZYAU charges a fee of 0.35% p.a.**, which is below all of the active funds profiled and significantly below the average active MER of 0.83% p.a.

Consistent Strong Performance

With regards to performance, since its inception in June 2015, **ZYAU** has generated 2.19% p.a. excess return over the S&P/ASX 200, which puts it ahead of 16 of the 17 active funds. Only Bennelong Australian Equities Fund has outperformed, due to a very strong start to 2018.

In the calendar year 2017, **ZYAU** outperformed the S&P/ASX 200 by 0.63% and beat 14 of its 17 active peers. In 2016, **ZYAU** outperformed 16 of the 17 active funds profiled and produced 5.42% of excess return over the benchmark index.

Since inception, **ZYAU** has delivered strong performance at a fraction of the cost of many of its active peers and should be, therefore, considered by investors looking for cost-effective excess returns.



ETF Securities (Australia) Limited
Suite 2a, Level 11, 309 Kent Street
Sydney, NSW 2000
Australia

t +61 (2) 8311 3488
e infoAU@etfsecurities.com.au
w www.etfsecurities.com.au

How ZYAU invests

ETFS S&P/ASX 300 High Yield Plus ETF (ZYAU) is well positioned for investors for the following reasons:

- **ZYAU** captures the performance of a selection of 40 high yielding Australian shares selected from the S&P/ASX 300 Index and rebalanced twice annually.
- **ZYAU** initially screens stocks based on liquidity, free cash flow to equity and dividend growth rates. This excludes stocks that are illiquid, are returning more cash to shareholders than they are earning, or have recently cut their dividend payouts.
- **ZYAU** then selects the 40 stocks with the highest shareholder yields for inclusion and weights them according to a mix of shareholder yield and market capitalisation.
- **ZYAU** has an MER of 0.35% p.a.
- **ZYAU** has a Recommended rating by Lonsec.

ETFS S&P/ASX 300 High Yield Plus ETF factsheet

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CONTACT ETFS Securities

Sales and Trading

Phone: +61 2 8311 3488

Email: infoAU@etfsecurities.com.au

Ganesh Balendran

Co-Head of Sales

Phone: +61 3 8518 4824

Mobile: +61 4 2378 3284

Email: ganesh.balendran@etfsecurities.com.au

Chad Hitzeman

Business Development Manager

Phone: +61 2 8311 3472

Mobile: +61 4 6639 5271

Email: chad.hitzeman@etfsecurities.com.au

Kanish Chugh

Co-Head of Sales

Phone: +61 2 8311 3476

Mobile: +61 4 1209 1154

Email: kanish.chugh@etfsecurities.com.au

Gemma Weeks

Business Development Manager

Phone: +61 2 8311 3475

Mobile: +61 4 6636 2055

Email: gemma.weeks@etfsecurities.com.au

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ETF Securities (Australia) Limited
Suite 2a, Level 11, 309 Kent Street
Sydney, NSW 2000
Australia

t +61 (2) 8311 3488
e infoAU@etfsecurities.com.au
w www.etfsecurities.com.au