



The Evolving ETF Landscape in NZ | 2016

Aaron Jenkins, Head of NZX Funds Management, NZX

Agenda

- History of NZ ETF Market
- Recent developments
- Types of ETF structures used in NZ
- What is next?

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Where did it all begin?

Canada – 1990, Toronto 35 Index Participation Fund, now known as the iShares S&P/TSX 60 Index Fund (XIU)

Europe – 2000, iShares Euro STOXX 50 UCITS ETF (EUN)

China – 2005, China AMC China 50 ETF (510050)

Japan – 1995, Nikkei 300 Stock Index Listed Fund (1319)

US – 1993, SPDR S&P 500 ETF (SPY)

MEA – 2000, SATRIX40 (STX40)

South Korea – 2002, Samsung KODEX 200 ETF (069500)

Asia Pacific – 1999, HK Tracker Fund (2800)

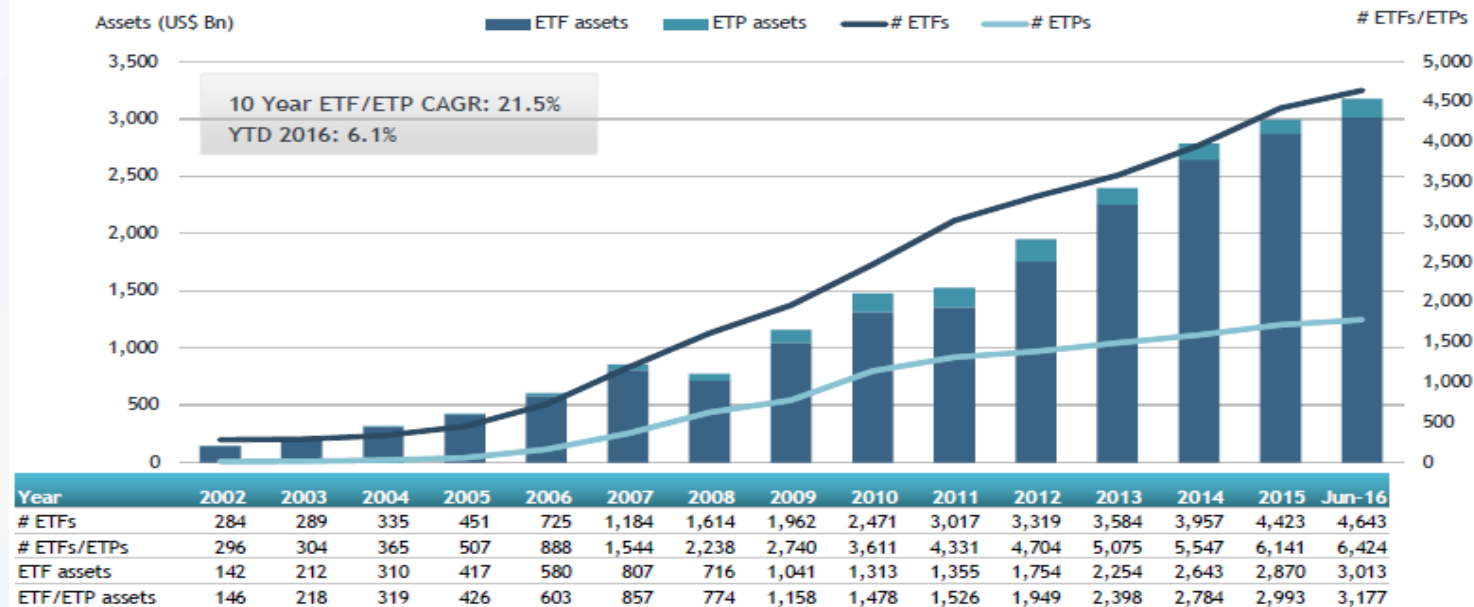
Australia – 2001, SPDR S&P/ASX 200 (STW)

LatAm – 2002, iShares NAFTRAC (NAFTRAC)

New Zealand – 1996, SmarTENZ NZSX 10 (TNZ)

Global ETF and ETP Growth June 16

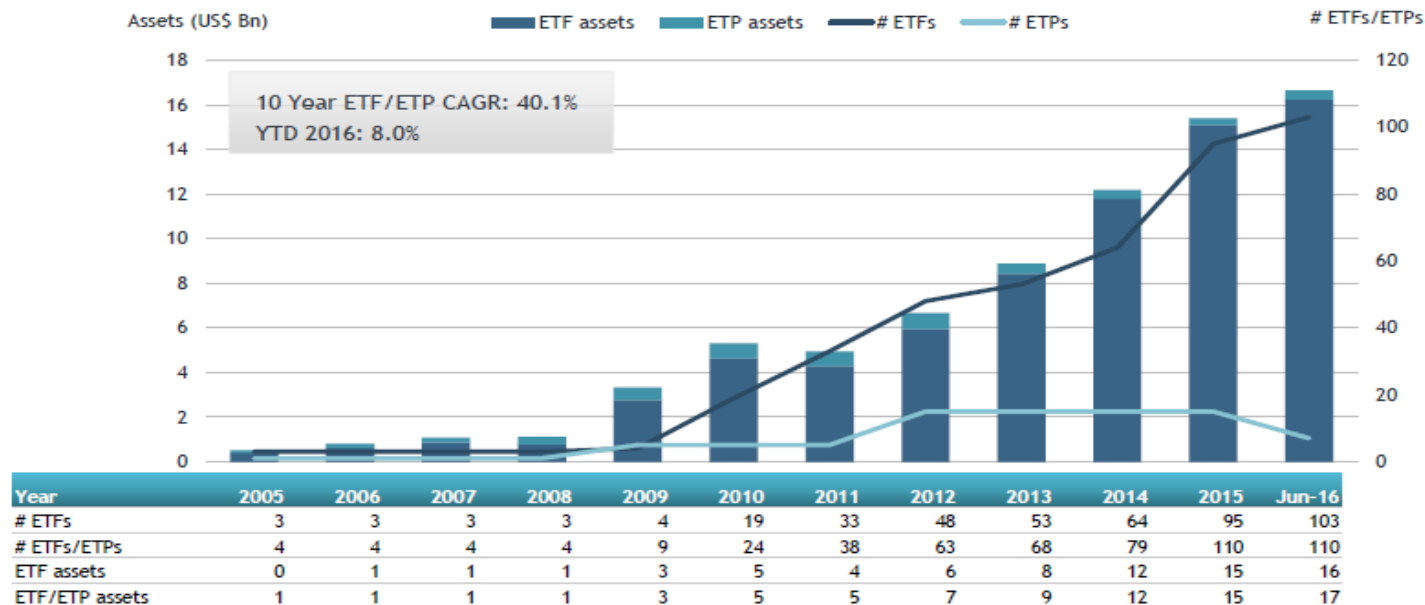
At the end of June 2016, the Global ETF industry had 4,643 ETFs, with 9,801 listings, assets of US\$3,013 Bn, from 250 providers on 63 exchanges. At the end of June 2016, the Global ETF/ETP industry had 6,424 ETFs/ETPs, with 12,268 listings, assets of US\$3,177 Bn, from 284 providers on 65 exchanges.



Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources and data generated in-house.
 Note: "ETFs" are typically open-end index funds that provide daily portfolio transparency, are listed and traded on exchanges like stocks on a secondary basis as well as utilising a unique creation and redemption process for primary transactions. "ETPs" refers to other products that have similarities to ETFs in the way they trade and settle but they do not use a mutual fund structure. The use of other structures including grantor trusts, partnerships, notes and depositary receipts by ETPs can create different tax and regulatory implications for investors when compared to ETFs which are funds.

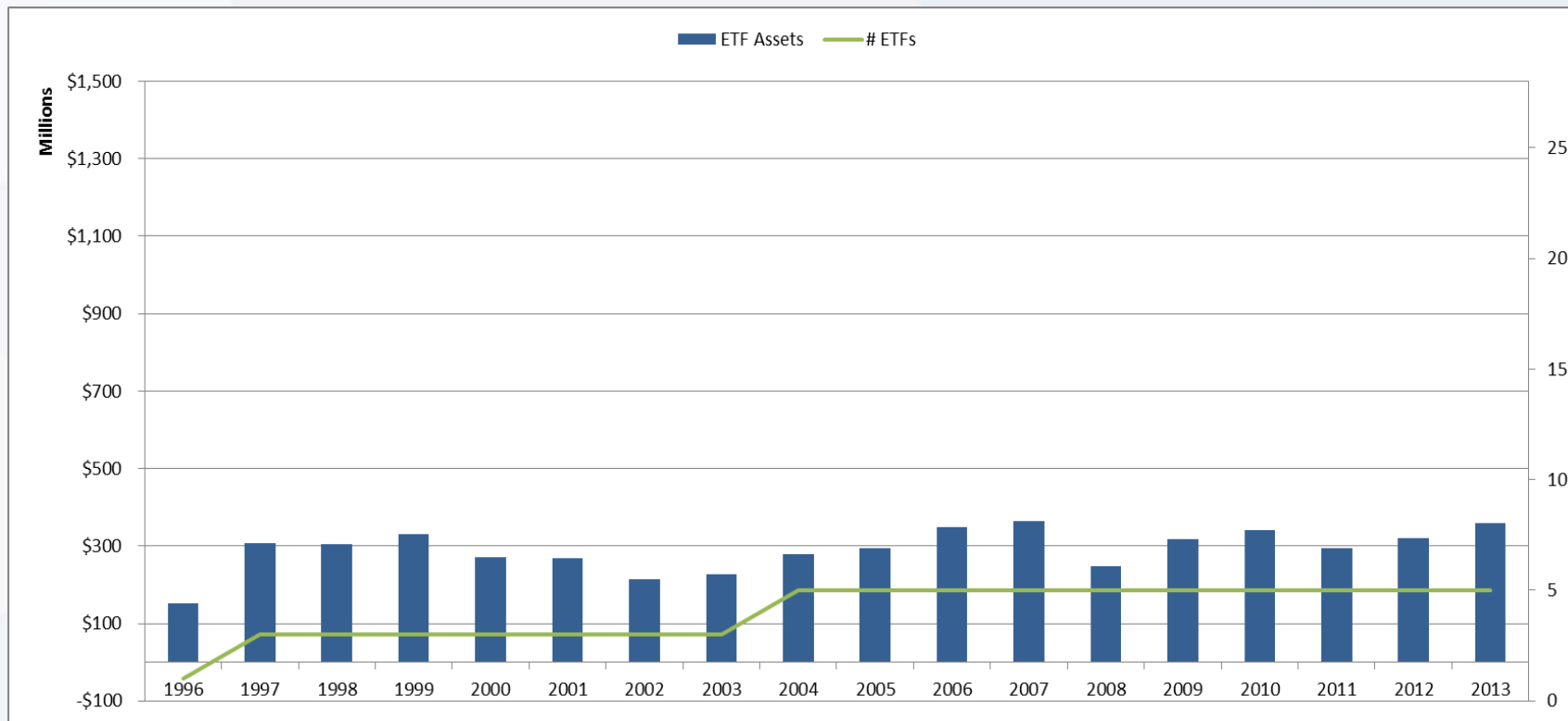
Australia ETF and ETP Growth June 16

At the end of June 2016, the Australian ETF industry had 103 ETFs, with 128 listings, assets of US\$16 Bn, from 10 providers on 1 exchange. At the end of June 2016, the Australian ETF/ETP industry had 110 ETFs/ETPs, with 135 listings, assets of US\$17 Bn, from 12 providers on 1 exchange.



Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources and data generated in-house. Note: "ETFs" are typically open-end index funds that provide daily portfolio transparency, are listed and traded on exchanges like stocks on a secondary basis as well as utilising a unique creation and redemption process for primary transactions. "ETPs" refers to other products that have similarities to ETFs in the way they trade and settle but they do not use a mutual fund structure. The use of other structures including grantor trusts, partnerships, notes and depositary receipts by ETPs can create different tax and regulatory implications for investors when compared to ETFs which are funds.

NZ ETF Market – 1996-2013



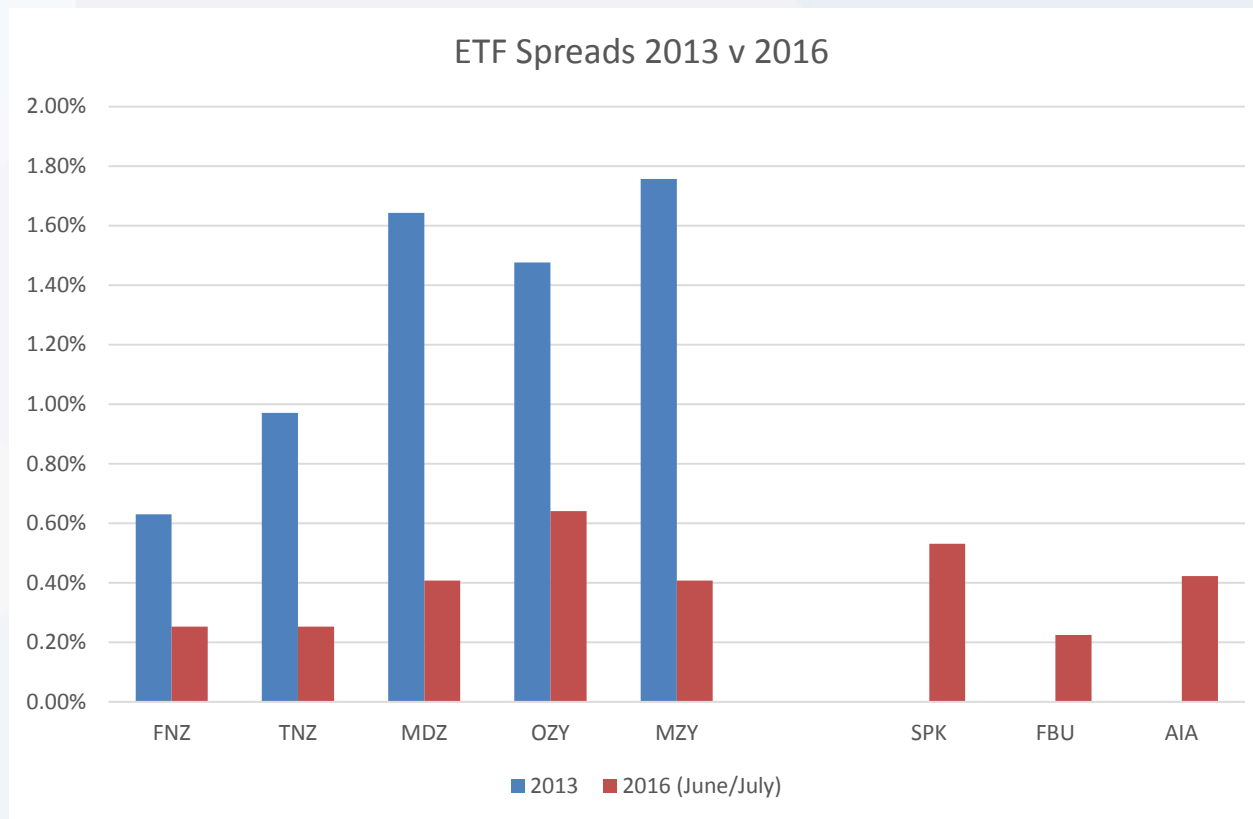
What affected growth in NZ?

- Liquidity and spread
- Lack of choice
- Fees

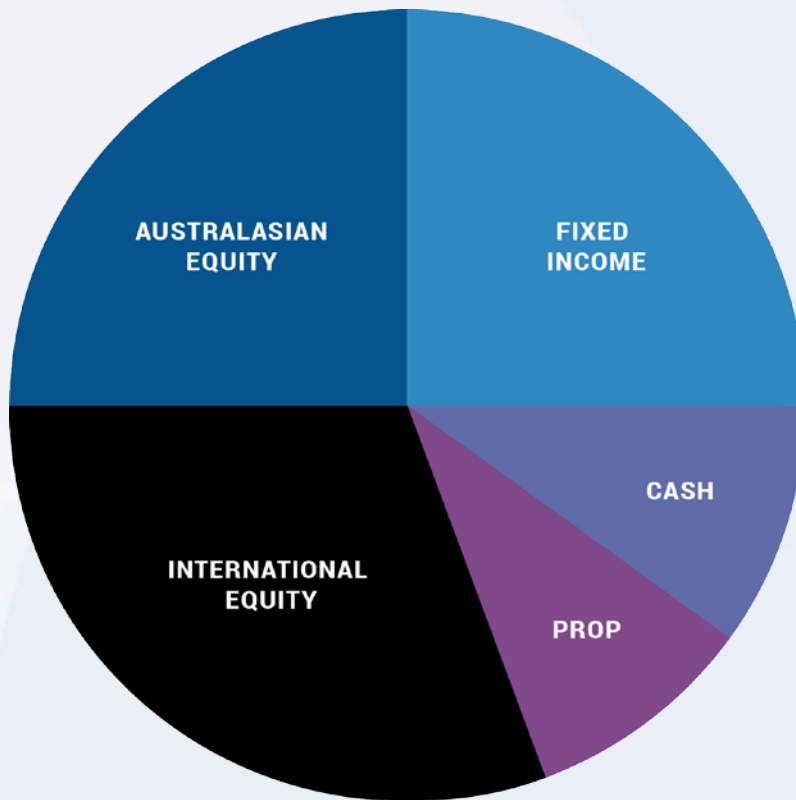
Liquidity

- How liquid is the underlying market?
- Underlying liquidity determines ETF unit liquidity
- Presence of market making and basket creation process aid liquidity

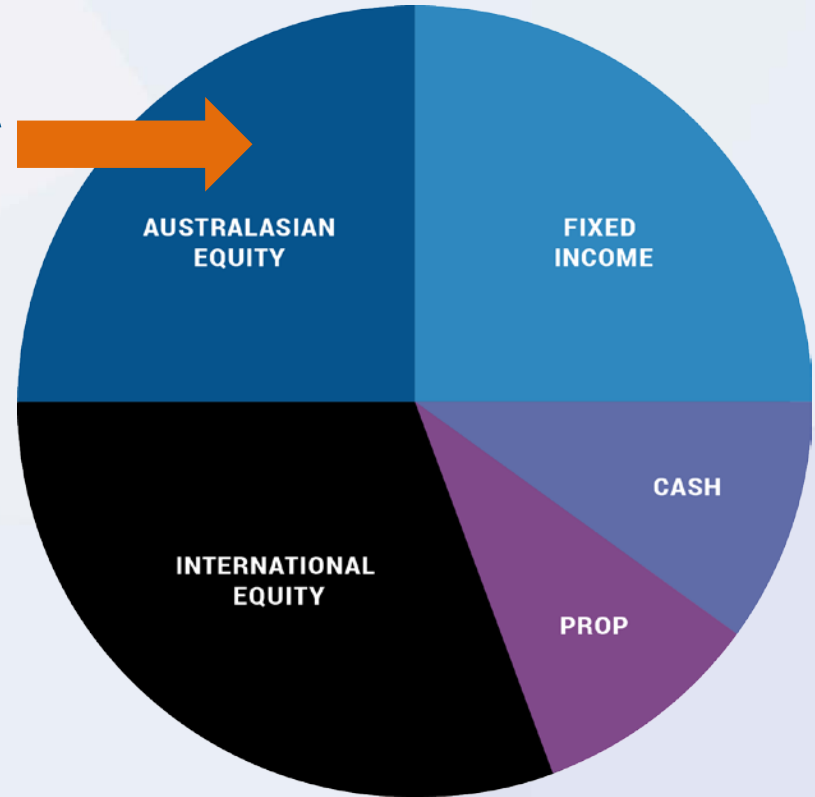
ETF Spreads – 2013 v 2016



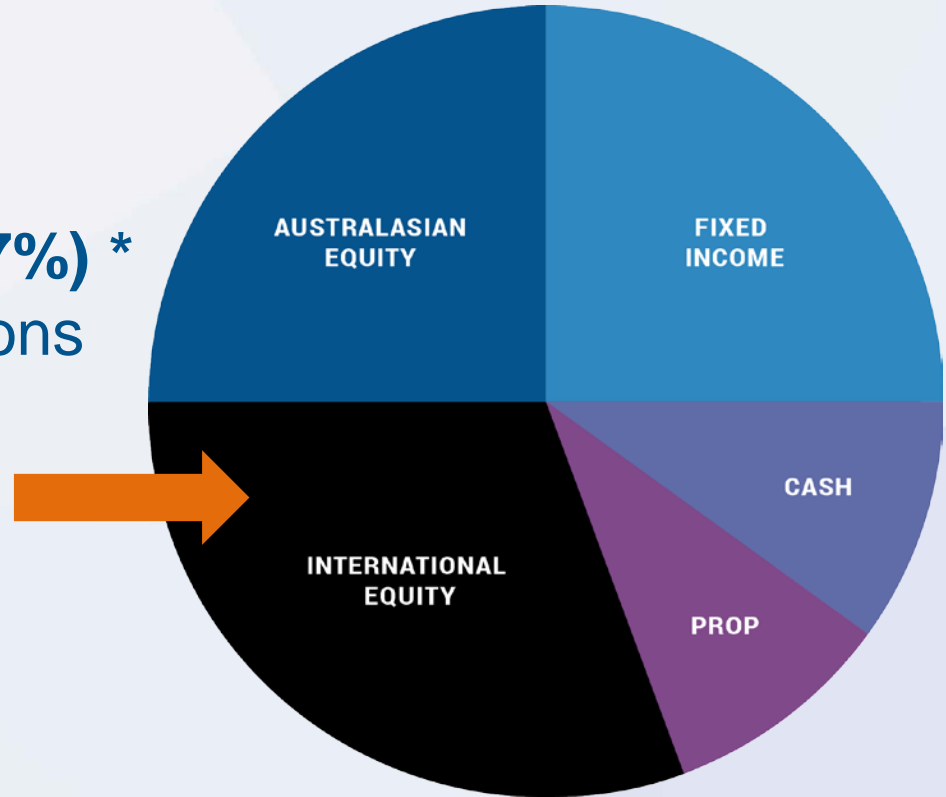
BALANCED PORTFOLIO EXAMPLE



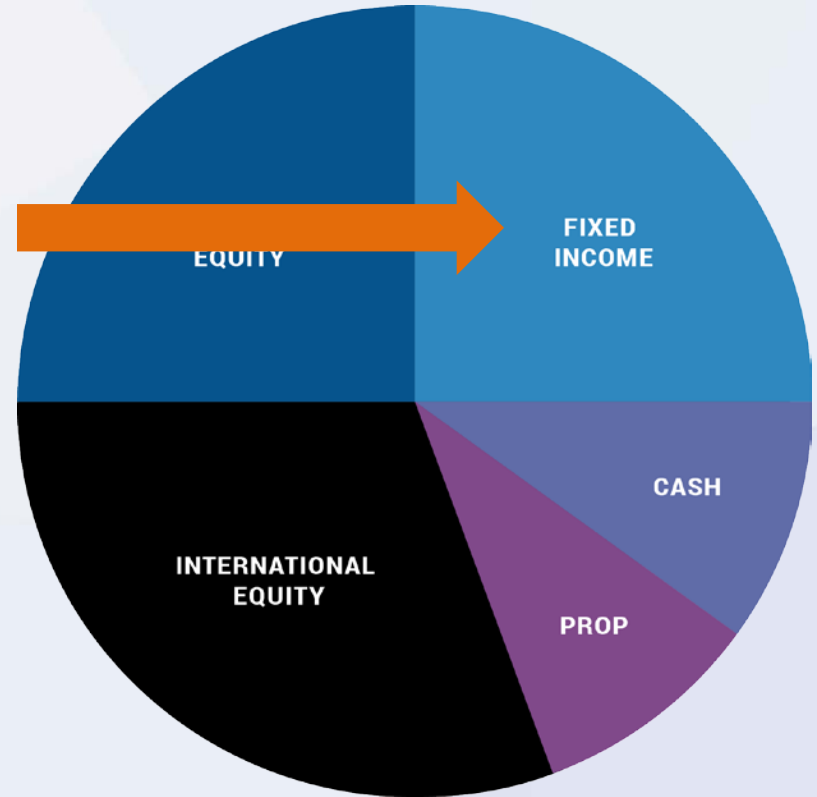
Australasian Equity (18%) *
9 Smartshares ETF options
including:
New Zealand Top 50 (FNZ)
Australian Dividend (ASD)



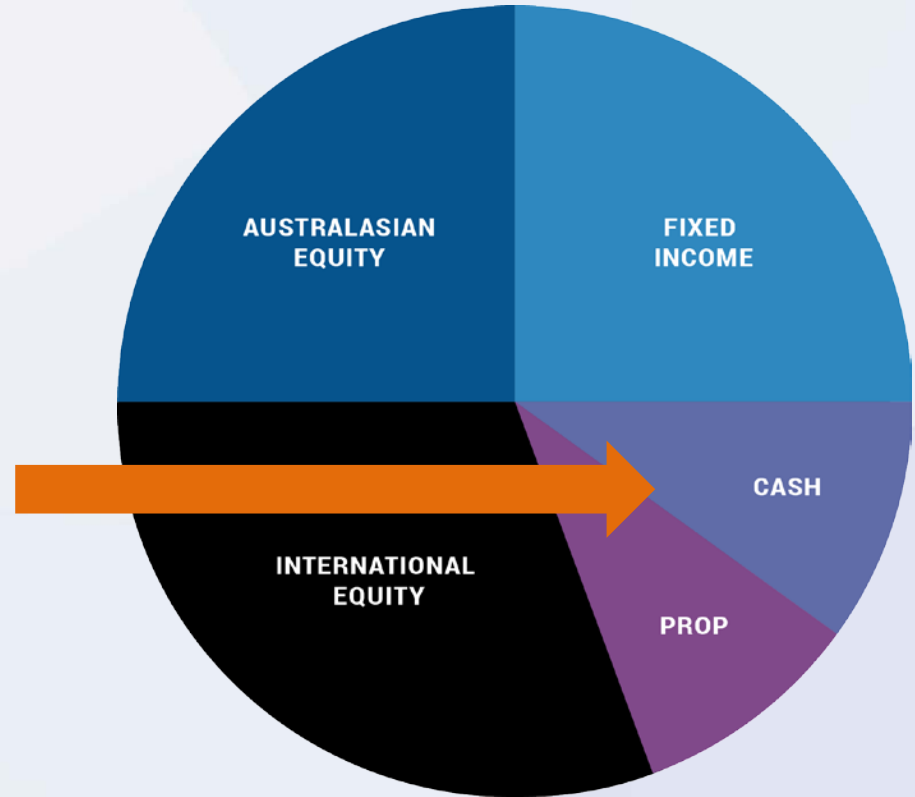
International Equity (27%) *
9 Smartshares ETF options
including:
US 500 (USF)
Total World (TWF)



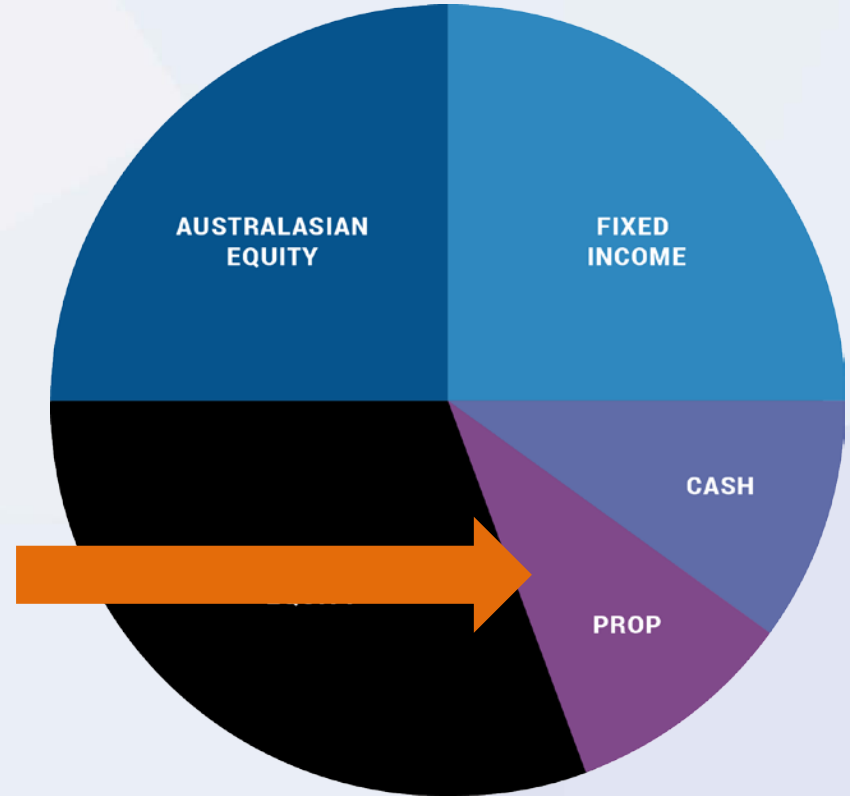
Fixed Income (33%) *
New Zealand Bond (NZB)
Global Bond (GBF)



Cash (12 %) *
New Zealand Cash (NZC)



Property (6%) *
Australian Property (ASP)
New Zealand Property (NPF)



Benefits of an ETF

- Diversification
- Lower costs
- Access
- Liquidity and transparency
- Tax

ETF structures in NZ

ETF structures in NZ

- Index funds
- ETF over ETF
- Active funds



SPIVA® Around the World

PERCENTAGE OF ACTIVE FUNDS
OUTPERFORMED BY BENCHMARKS
OVER 1-, 3-, AND 5-YEAR PERIODS

CANADA

1-YEAR 74% | 3-YEAR 61% | 5-YEAR 80%

BENCHMARK*:
S&P/TSX Composite

U.S.

1-YEAR 86% | 3-YEAR 76% | 5-YEAR 89%

BENCHMARK*:
S&P 500®

MEXICO

1-YEAR 73% | 3-YEAR 61% | 5-YEAR 81%

BENCHMARK*:
S&P Mexico BMI

CHILE

1-YEAR 47% | 3-YEAR 84% | 5-YEAR 97%

BENCHMARK*:
S&P Chile BMI

EUROPE

1-YEAR 83% | 3-YEAR 76% | 5-YEAR 82%

BENCHMARK*:
S&P Europe 350®

INDIA

1-YEAR 24% | 3-YEAR 58% | 5-YEAR 53%

BENCHMARK*:
S&P BSE 100

JAPAN

1-YEAR 51% | 3-YEAR 70% | 5-YEAR 53%

BENCHMARK*:
S&P TOPIX 150

SOUTH AFRICA

1-YEAR 84% | 3-YEAR 82% | 5-YEAR 85%

BENCHMARK*:
S&P South Africa DSW

AUSTRALIA

1-YEAR 61% | 3-YEAR 63% | 5-YEAR 78%

BENCHMARK*:
S&P/ASX 200

BRAZIL

1-YEAR 50% | 3-YEAR 56% | 5-YEAR 54%

BENCHMARK*:
S&P Brazil BMI

THE SPIVA DIFFERENCE

1

Accounts for the entire opportunity set—not just the survivors—thereby eliminating survivorship bias.

2

Applies an apples-to-apples comparison by measuring a fund's returns against the returns of a benchmark appropriate for that particular investment category.

3

Shows that asset-weighting matters by using both equal- and asset-weighted averages.

4

Uses only the share class with greater assets, which avoids double counting multiple share classes in all count-based calculations.

*Regional benchmarks included here are large-cap, with the exception of Brazil, Chile, and Mexico whose SPIVA results displayed reflect regional broad market indices. Multiple benchmarks exist in all regions tracked by SPIVA. For more information on SPIVA methodology, including a full list of regional benchmarks and results, visit www.spdjl.com/spiva.

Source: S&P Dow Jones Indices LLC, Morningstar, Funddata, CRSP. Data as of December 31, 2014. Charts and tables are provided for illustrative purposes. Past performance is no guarantee of future results.

SPIVA: S&P Indices Versus Active

www.spdjl.com/spiva

ETF structures in NZ – Index Funds

S&P/NZX 10 INDEX

TICKER : NZSE10

INDEX FINDER ➔

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The index is designed to measure the performance of 10 of the largest companies in the S&P/NZX 50 Index. Dual and overseas listed companies are not eligible for index inclusion.

FACTSHEET

METHODOLOGY

ADDITIONAL INFO

RELATED INDICES

S&P/ASX 300 ex A-REIT Franking Credit Adjusted Annual Total Return Index (Tax-Exempt)

3,808.81 19.9 0.53% ▲

This index adjusts the total return of the S&P/ASX 300, comprised of the 300 largest stocks in the Australian equity market by float-adjusted market ...

[VIEW INDEX](#) ➔

✚ S&P/ASX MidCap 50 ex A-REIT Franking Credit Adjusted Annual Total Return Index (Tax-Exempt)

✚ S&P/ASX Small Ordinaries ex A-REIT Franking Credit Adjusted Annual Total Return Index (Tax-Exempt)

✚ S&P/ASX 300 ex A-REIT Franking Credit Adjusted Annual Total Return Index (Superannuation)

✚ S&P/ASX MidCap 50 ex A-REIT Franking Credit Adjusted Annual Total Return Index (Superannuation)

INDEX NEWS AND ANNOUNCEMENTS

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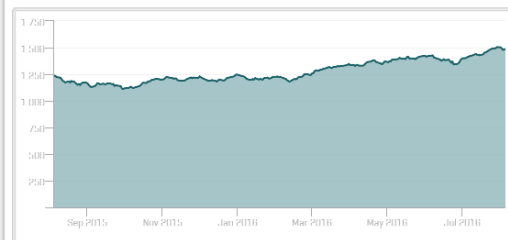
S&P 500 Foreign Sales at 44.3%, Lowest Level Since 2006

July 27, 2016 at 9:30 AM EDT

PERFORMANCE CHARACTERISTICS SECTOR BREAKDOWN ADD ➕

MTD QTD YTD 1 YEAR 3 YEAR 5 YEAR 10 YEAR

ADD ➕



AS OF AUG 05, 2016

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Index Name	Price Return	1 Yr Ann. Returns
■ S&P/NZX 10 Index LAUNCH DATE: DEC 31, 1989	1,489.18	20.21 % ▲

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All information for an index prior to its Launch Date is back-tested, based on the methodology that was in effect on the Launch Date. Back-tested performance, which is hypothetical and not actual performance, is subject to inherent limitations because it reflects application of an index methodology and selection of index constituents in hindsight. No theoretical approach can take into account all of the factors in the markets in general and the impact of decisions that might have been made during the actual operation of an index. Actual returns may differ from, and be lower than, back-tested returns.

RELATED PRODUCTS

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Smartshares - NZX 10 Fund

WHAT DOES \$10K INVESTED LOOK LIKE?

 <p>Auckland Airport</p> <p>14.50%</p> <p>\$1,450</p>	 <p>Fletcher Building</p> <p>14.31%</p> <p>\$1,431</p>	 <p>meridian</p> <p>7.42%</p> <p>\$742</p>	 <p>Contact</p> <p>8.27%</p> <p>\$827</p>	 <p>Z</p> <p>7.32%</p> <p>\$732</p>
 <p>SKY</p> <p>4.11%</p> <p>\$411</p>	 <p>Spark</p> <p>14.85%</p> <p>\$1,485</p>	 <p>Fisher & Paykel HEALTHCARE</p> <p>12.78%</p> <p>\$1,278</p>	 <p>RYMAN HEALTHCARE</p> <p>9.29%</p> <p>\$929</p>	 <p>SKYCITY</p> <p>7.15%</p> <p>\$715</p>

* Based on a \$10,000 investment in the New Zealand Top 10 Fund (TNZ) as at 8 August 2016

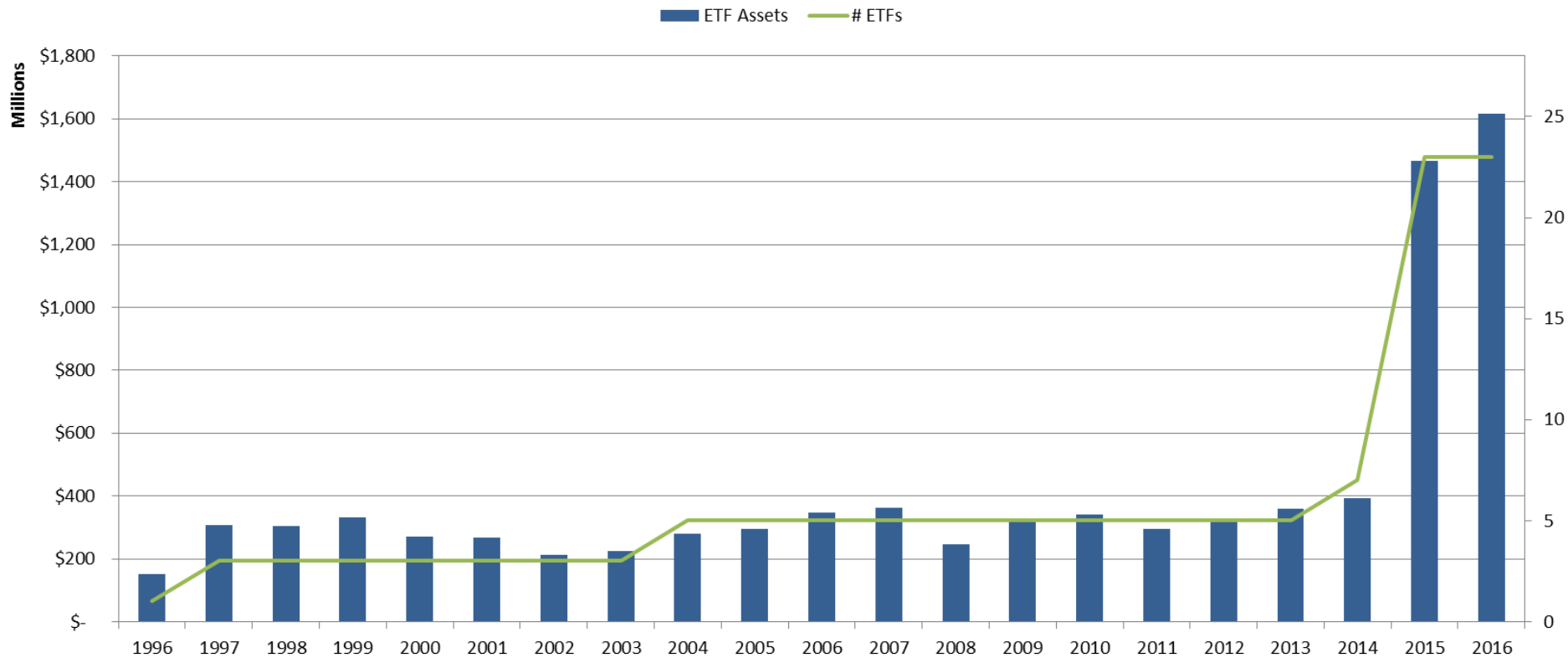
ETF structures in NZ – ETF over ETF

- ETF that invests in a single Vanguard Fund
- Simplifies offshore investment

ETF structures in NZ – Active Funds

- Active Fund Manager
- ETF wrapper
- Benefits of access, liquidity and low cost

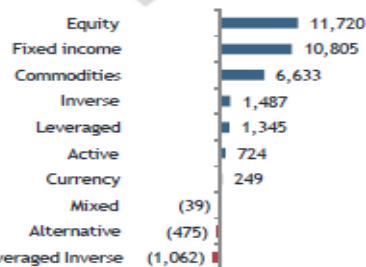
NZ ETF Growth



As at 7 August 2016

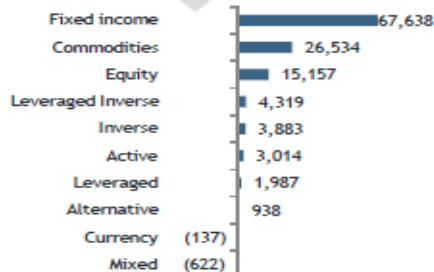
Global asset class breakdown

June 2016 ETF/ETP net new assets by type of exposure (US\$ Mn)



Total: 31,386

YTD ETF/ETP net new assets by type of exposure (US\$ Mn)



Total: 122,712

In June 2016, ETFs/ETPs saw net inflows of US\$31,386 Mn.

Equity ETFs/ETPs gathered the largest net inflows with US\$11,720 Mn, followed by fixed income ETFs/ETPs with US\$10,805 Mn, and commodity ETFs/ETPs with US\$6,633 Mn, while leveraged inverse ETFs/ETPs experienced the largest net outflows with US\$1,062 Mn.

YTD through end of June 2016, ETFs/ETPs have seen net inflows of US\$122,712 Mn.

Fixed income ETFs/ETPs gathered the largest net inflows YTD with US\$67,638 Mn, followed by commodity ETFs/ETPs with US\$26,534 Mn, and equity ETFs/ETPs with US\$15,157 Mn, while mixed asset class ETFs/ETPs experienced the largest net outflows YTD with US\$622 Mn.

Exposure	# ETFs/ETPs	Assets (US\$ Mn)	% market share	ADV (US\$ Mn) Jun-16	NNA (US\$ Mn) Jun-16	NNA (US\$ Mn) YTD 2016	NNA (US\$ Mn) YTD 2015	NNA (US\$ Mn) 2015
Equity	3,515	2,338,246	73.6%	69,994	11,720	15,157	101,894	258,154
Fixed income	935	568,149	17.9%	9,108	10,805	67,638	35,333	81,493
Commodities	687	148,054	4.7%	6,149	6,633	26,534	4,202	2,402
Active	272	38,193	1.2%	312	724	3,014	5,260	11,000
Alternative	36	3,592	0.1%	1,589	(475)	938	1,008	(104)
Currency	115	3,143	0.1%	201	249	(137)	644	509
Mixed	96	6,305	0.2%	34	(39)	(622)	296	818
Leveraged	378	42,243	1.3%	7,407	1,345	1,987	(1,065)	13,394
Inverse	207	15,756	0.5%	2,425	1,487	3,883	1,256	2,962
Leveraged Inverse	183	13,628	0.4%	3,145	(1,062)	4,319	3,836	1,441
Total	6,424	3,177,308	100.0%	100,365	31,386	122,712	152,665	372,069

Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources and data generated in-house. Note: This report is based on the most recent data available at the time of publication. Asset and flow data may change slightly as additional data becomes available. Israel ETP assets and flows are included in the total figures but are not reflected in the asset class breakdown.

What next in NZ?

- Robo-advice
- “Smart Beta” or “Factor Index”
ETFs
- Expansion of currency hedged
options

Summing up

- NZ an early adopter but slow to grow ETF market
- Recent step change in ETFs offered in NZ improving spread and fees
- Or think of it like this...



**More ETF
Less WTF**



Thank you for investing your time

Global Equity Funds

FUND NAME	TICKER	UNIT PRICE	UNDERLYING VANGUARD ETF	AUM (M)	MGMT FEE %	DISTRIBUTIONS
US 500	USF	\$5.57	VOO	\$90.6	0.30	Quarterly
US Large Value	USV	\$2.44	VTV	\$31.9	0.45	Quarterly
US Large Growth	USG	\$3.13	VUG	\$32.5	0.45	Quarterly
US Mid Cap	USM	\$3.59	VO	\$25.6	0.45	Quarterly
US Small Cap	USS	\$3.38	VB	\$24.4	0.45	Quarterly
Europe	EUF	\$1.33	VGK	\$83.9	0.45	Quarterly
Asia Pacific	APA	\$1.65	VPL	\$44.9	0.45	Quarterly
Emerging Markets	EMF	\$1.03	VWO	\$38.4	0.45	Quarterly
Total World	TWF	\$1.68	VT	\$26.4	0.45	Quarterly

As at 2 August 2016

Australasian Equity Funds

FUND NAME	TICKER	UNIT PRICE	# OF CONSTITUENTS	AUM (M)	MGMT FEE %	DISTRIBUTIONS
NZ Top 50	FNZ	\$2.29	50	\$204.6	0.75	Semi-Annual
NZ Top 10	TNZ	\$1.52	10	\$81.3	0.60	Semi-Annual
NZ Mid Cap	MDZ	\$4.14	37	\$72.1	0.75	Semi-Annual
NZ Dividend	DIV	\$1.15	25	\$27.0	0.54	Quarterly
NZ Property	NPF	\$1.15	7	\$49.1	0.54	Quarterly
Aus Top 20	OZY	\$3.35	20	\$87.3	0.60	Semi-Annual
Aus Mid Cap	MZY	\$5.98	51	\$84.9	0.75	Semi-Annual
Aus Dividend	ASD	\$1.59	50	\$62.9	0.54	Quarterly
Aus Property	ASP	\$1.43	17	\$48.0	0.54	Quarterly
Aus Resources	ASR	\$3.09	28	\$18.8	0.54	Semi-Annual
Aus Financials	ASF	\$7.20	28	\$20.3	0.54	Quarterly

As at 2 August 2016

Fixed Income Funds

FUND NAME	TICKER	UNIT PRICE	INVESTMENT MANAGER	AUM (M)	MGMT FEE %	DISTRIBUTIONS
NZ Bond	NZB	\$3.06	Nikko	\$204.5	0.54	Quarterly
NZ Cash	NZC	\$3.00	Nikko	\$125.4	0.33	Quarterly
Global Bond	GBF	\$3.14	Pimco	\$130.8	0.54	Quarterly

As at 2 August 2016

To consider when investing offshore

- What margin are you paying on FX conversions?
- Can you reinvest dividends?
- Can you file W8-BEN form - may not be possible if held in custody?
- Brokerage rate on global trading?
- Custody charges when holding offshore equities?

ETF Liquidity YTD

- \$172m + market trades
- NZ Top 50 - \$32m
- Aus/NZ Mid Cap - \$33m
- US 500 - \$20m
- Aus/NZ Prop \$13m
- Fixed Income - \$7.5m
- As at 31 July 2016

ETF information sources

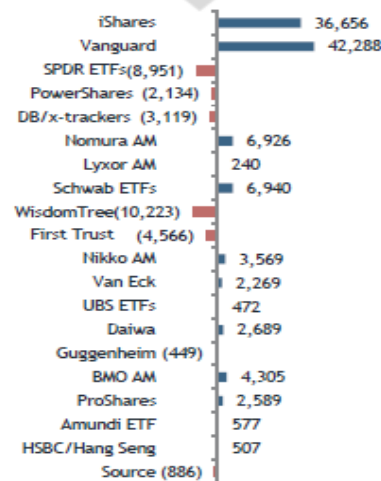
- smartshares.co.nz
- nzx.com
- us.spindices.com/
- investor.vanguard.com/home/

Main players June 16

iShares is the largest ETF provider in terms of assets with US\$1,153 Bn, reflecting 38.3% market share; Vanguard is second with US\$570 Bn and 18.9% market share, followed by SPDR ETFs with US\$426 Bn and 14.1% market share. The top three ETF providers, out of 250, account for 71.3% of Global ETF assets, while the remaining 247 providers each have less than 4% market share.

Provider	# ETFs	Assets (US\$ Mn) Jun-16	% market share	ADV (US\$ Mn) Jun-16	NNA (US\$ Mn) Jun-16	NNA (US\$ Mn) YTD 2016	NNA (US\$ Mn) YTD 2015	NNA (US\$ Mn) 2015
iShares	787	1,153,104	38.3%	27,287	12,507	36,656	51,724	139,388
Vanguard	138	569,570	18.9%	4,698	10,022	42,288	44,837	84,643
SPDR ETFs	282	425,695	14.1%	35,628	(6,349)	(8,951)	(41,259)	(17,136)
PowerShares	171	94,635	3.1%	3,372	(42)	(2,134)	210	2,941
DB/x-trackers	290	76,044	2.5%	1,330	(596)	(3,119)	18,711	28,179
Nomura AM	49	67,154	2.2%	2,136	2,121	6,926	6,692	16,233
Lyxor AM	220	50,743	1.7%	1,045	626	240	6,058	9,813
Schwab ETFs	21	48,111	1.6%	319	1,851	6,940	7,052	14,194
WisdomTree	116	38,079	1.3%	824	(2,386)	(10,223)	20,309	17,212
First Trust	130	37,736	1.3%	364	(262)	(4,566)	9,192	11,206
Nikko AM	24	29,328	1.0%	31	1,097	3,569	4,304	7,091
Van Eck	67	28,197	0.9%	3,372	1,564	2,269	2,302	1,946
UBS ETFs	142	27,783	0.9%	185	180	472	4,734	8,294
Daiwa	34	27,406	0.9%	49	1,086	2,689	1,809	5,331
Guggenheim	68	27,229	0.9%	199	197	(449)	2,448	854
BMO AM	82	23,590	0.8%	221	996	4,305	2,890	4,849
ProShares	130	22,369	0.7%	2,311	(651)	2,589	(462)	475
Amundi ETF	103	21,831	0.7%	269	235	577	1,719	4,182
HSBC/Hang Seng	34	17,182	0.6%	128	214	507	4,390	5,171
Source	81	16,620	0.6%	497	(263)	(886)	893	3,317

YTD ETF NNA (US\$ Mn)



Source: ETFGI data sourced from ETF/ETP sponsors, exchanges, regulatory filings, Thomson Reuters/Lipper, Bloomberg, publicly available sources, and data generated by our in-house team. Note: This report is based on the most recent data available at the time of publication. Asset and flow data may change slightly as additional month-end data becomes available.

Smartshares overview

- New Zealand's only issuer of Exchange Traded Funds (ETFs)
- 15,000+ unit holders
- NZD \$1.6b under management

Liquidity calculation

- Spread % - $\text{Spread} / \text{MPPPrice}$
- Spread – Best (lowest) ask price minus best (highest) bid price, time weighted over the interval
- MPPPrice – Bid/ask midpoint price, time-weighted over the interval