

## Fixed interest and cash ETP update

Assets of fixed interest and cash exchanged traded products (ETP) grew 30% in the 12 months to end September 2020, according to findings from the latest [Rainmaker ETP Report](#).

“Fixed interest is in the spotlight as it is an asset class that has been growing for the past few years at the same rate as the overall ETP market,” said John Dyll, head of investment research at Rainmaker Information.

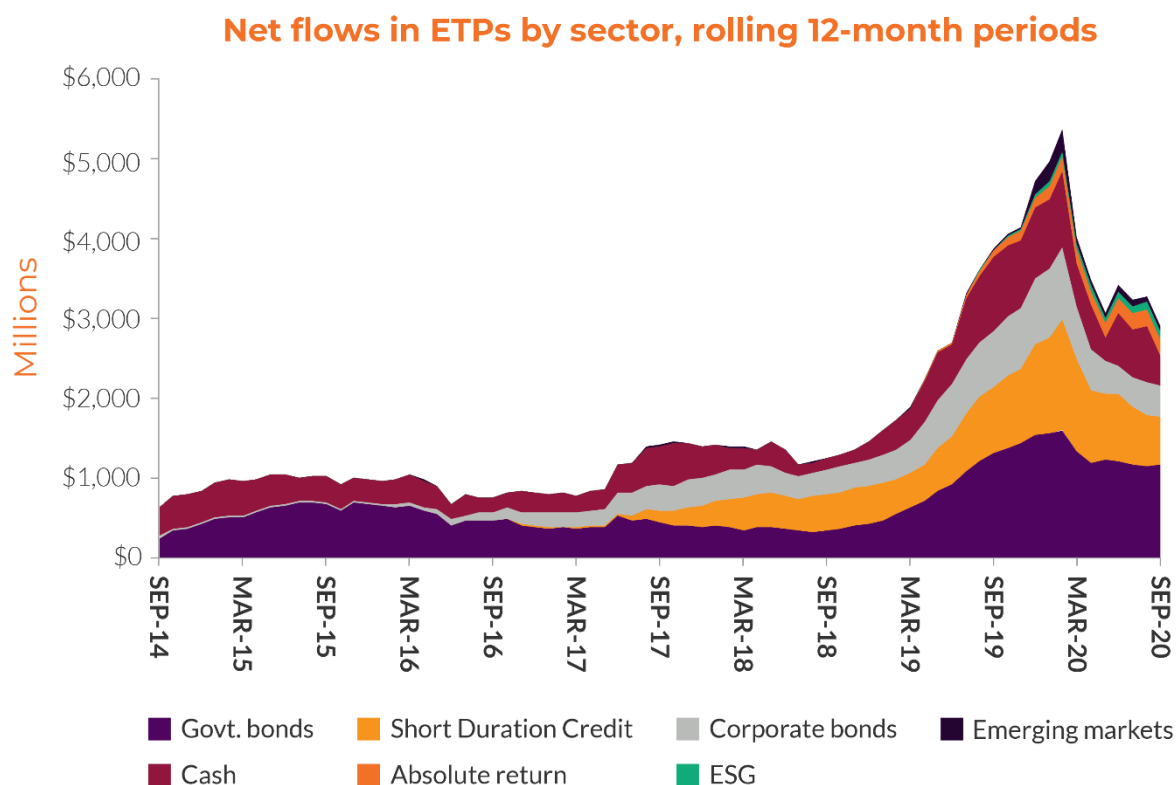
“Part of the reason is that term deposits interest rates are so low now that investors, retirees and their financial planners are desperately looking for alternatives that will satisfy their income and investment objectives.”

Fixed interest and cash products generated \$2.9 billion in net flows, in the 12 months to 30 September 2020.

“While this was down 25% on the \$3.9 billion of the previous 12 months, it is 130% higher than the year ending September 2018.”

Fixed interest and cash products grew in funds under management (FUM) size by 38% and 15% respectively. In comparison, Australian equities grew by 25% while international equities grew by 25%.

“The peak net flow was at \$5 billion a year in February 2020 before COVID-19 changed investors’ priorities.”



Source: Rainmaker Information

The number of fixed interest and cash ETPs increased by nine to 41, where four of the 41 products are cash or cash enhanced. These products make up 17% of the ETP market.

“Of the 41 fixed interest ETPs, only two are labelled specifically as ESG, although it’s arguable that most government bonds and cash are ESG by default.”

Fixed interest and cash products can generally be defined by their duration and the credit ratings of their underlying securities.

“Looking at the top four by FUM, they invest differently to one another, having different objectives and management fees.”

The largest cohort among fixed interest products is government bonds with 40% of total fixed interest ETP net flows.

### Fixed interest products September 2020

	FUM			Products			Revenue			
	FUM \$M	% TOTAL	12M % CHNG	NO. PRODUCTS	% PRODUCTS	12M CHNG	12M FLOWS M	12M NF % CHNG	12M REVENUE \$M	REVENUE CHNG
GOVT. BONDS	\$4,777	39%	33%	13	32%	1	1,182	-10%	\$8.1	44%
CASH	\$2,883	24%	15%	4	10%	-1	375	-60%	\$4.1	33%
SHORT DURATION CREDIT	\$2,044	17%	39%	6	15%	2	604	-28%	\$6.8	110%
CORPORATE BONDS	\$1,979	16%	24%	8	20%	1	392	-45%	\$5.1	52%
ABSOLUTE RETURN	\$325	3%	264%	6	15%	4	213	141%	\$1.1	977%
ESG	\$109	1%	1161%	2	5%	1	98	1217%	\$0.3	3589%
EMERGING MARKETS	\$54	0%	80%	2	5%	1	66	313%	\$0.5	497%
GRAND TOTAL	\$12,171	100%	31%	41	100%		\$2,931		\$26.1	68%

Source: Rainmaker Information, ASX, Chi-X

“They have duration risk due to their interest rate variability, noting that the longer the duration the more interest rate risk they have, which is the sensitivity of the portfolio’s capital value to changes in interest rates.”

The second largest cohort by FUM is short duration credit, which attracted around 20% of net flows.

“These generally invest in investment grade corporate securities with little to no interest rate risk.”

The second largest cohort by number and third by size are corporate bonds. These are similar to government bonds, in that they are investment grade and have duration risk.

“The Absolute Return sector appears to be the most dynamic as their products are actively managed and 83% of those products have investment objectives aligned with the RBA cash rate,” said Dyal.

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Release published at - <https://www.rainmaker.com.au/media-release/fixed-interest-and-cash-etp-update>

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