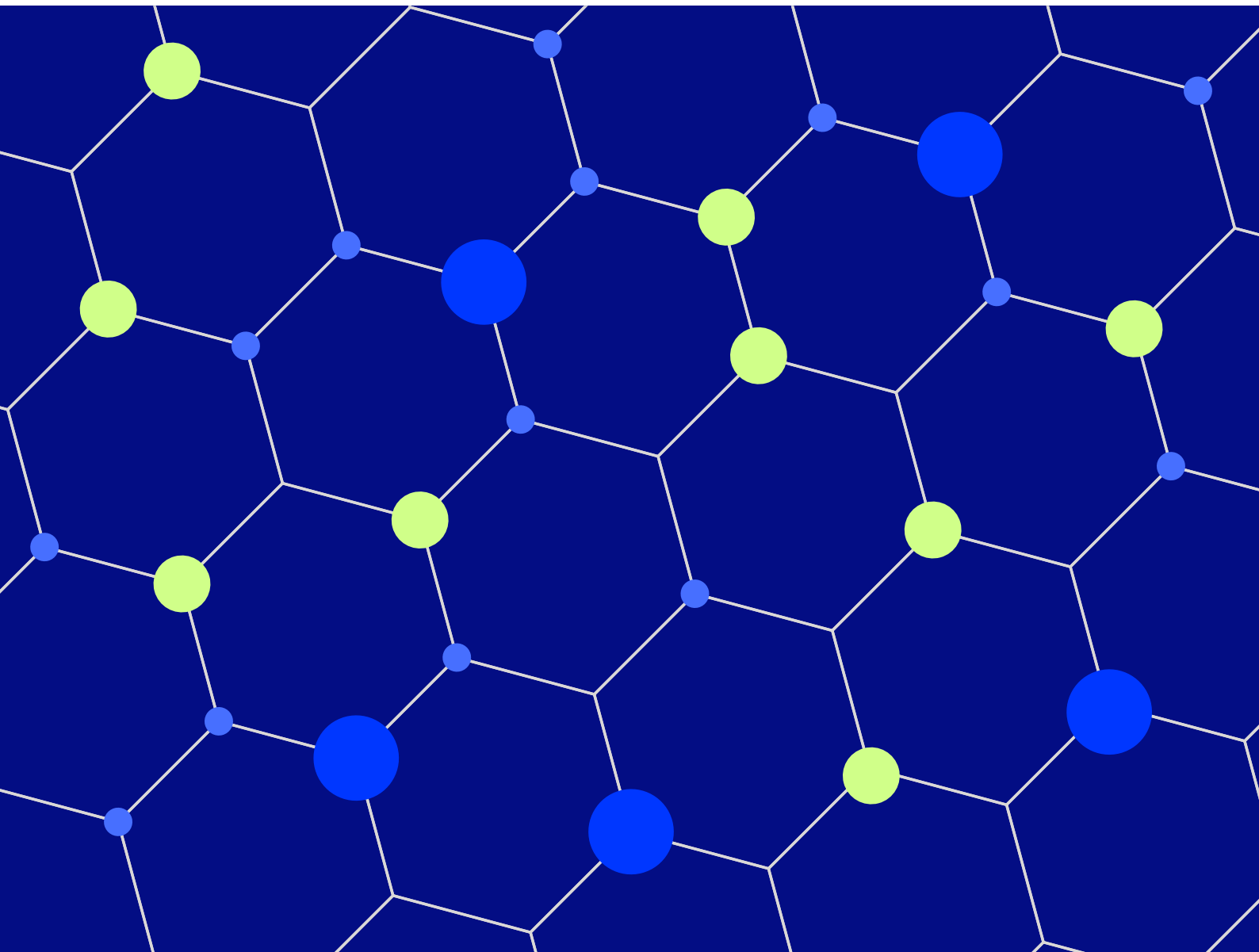
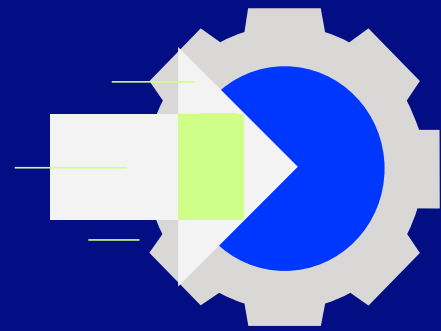


ANALYSIS

**Bond ETF fees can erode
returns over time, **while direct
bonds outperform.****



Analysis shows returns on bond ETFs are overwhelmingly either at, or below, their nominated benchmark and the benchmarks themselves often return below a 1-year term deposit. Alternatively, higher returns may be achieved through direct bond portfolios, which outperform bond indexes and bond ETFs over time. In this article, we share analysis and findings and demonstrate the improved returns direct bond portfolios offer.



This article has been prepared by FIIG Securities Limited ABN 68 085 661 632, AFSL 224659 (FIIG) and distributed by Australian Investment Exchange Limited ABN 71 076 515 930 AFSL 241400 (AUSIEX). FIIG is a wholly owned subsidiary of AUSIEX. The general financial product advice, investment analysis and performance data in this article has been prepared by FIIG.

Key Takeouts

- Passive ETFs largely succeed in matching the benchmark they target. However, the fees are applied after the benchmark match, resulting in a consistent and cumulative underperformance against what are relatively low benchmark returns.
- Active ETFs aim to outperform their benchmarks and do sometimes achieve outperformance for a period, but these periods are usually matched with periods of underperformance. Across longer timeframes, no broad-based ETFs that materially outperformed were found.
- Material outperformance was found in ETFs which focused on specific subsections of the bond market. This was almost exclusively tied to periods when the macroeconomic fundamentals were working in favour of the subset of bonds in the ETF.
- In contrast, the sample direct bond portfolio showed sustained outperformance across the period under review.

Background

We analysed a large number of ETFs across three major categories: 1. Active/Passive 2. Credit/Investment Grade and 3. Broad Spectrum/Subsets and compared the performance against a direct bond portfolio.

Table 1: Returns of Direct Bonds vs Indices and ETFs.

Investment Option	Category	Universe	Active/ Passive	Compound Returns over last years				
				1yr	2yrs	3yrs	5yrs	7yrs
FIIG Median Investor	Direct Bonds	All Fixed Income	n.a.	4.3	6.7	7.2	5.8	5.0
Ausbond Composite	Index	Fixed IG Bonds	n.a.	1.5	4.1	4.0	0.4	0.7
Ausbond Credit	Index	Fixed IG Credit Bonds	n.a.	2.7	5.2	5.5	2.0	2.4
Ausbond Credit FRN	Index	FRN IG Credit Bonds	n.a.	4.9	5.1	5.3	3.9	3.2
Iboxx FRN Sub Debt	Index	FRN Sub Debt	n.a.	6.4	6.2	6.7	4.9	4.4
VAF	ETF	Fixed IG Bonds	Passive	1.3	4.1	3.9	0.3	0.6
VACF	ETF	Fixed IG Credit Bonds	Passive	2.4	5.1	5.4	1.9	2.1
HBRD	ETF	Hybrids	Active	5.3	5.8	6.5	5.0	4.7
CRED	ETF	Fixed IG Credit Bonds	Active	2.5	6.1	6.8	1.4	2.1
PAUS	ETF	Fixed IG Bonds	Active	1.9	–	–	–	–
FIXD	ETF	Fixed IG Credit Bonds	Active	2.6	5.5	6.3	–	–
SUBD	ETF	Subordinated Bonds	Active	6.1	5.8	6.4	4.6	–
IAF	ETF	Fixed IG Bonds	Passive	1.4	4.1	3.9	0.3	0.6

Source: FIIG Securities, Bloomberg. Results through 30 June 2026.

The analysis in table 1 above shows most ETFs underperform their indices or, at best, break even over time. Moreover, the benchmarks for most ETFs may be considered conservative and don't provide the income that most investors are seeking or perhaps expecting when choosing bonds in their fixed income allocation (in fact it is likely many advisers and investors would be unaware by the exposures included in the benchmarks). In comparison, direct bond portfolios were found to regularly outperform the indexes while also providing higher annual income as a general rule.

Breaking this down, active ETFs show greater variability and periods of outperformance on occasion, but these are usually balanced by periods of underperformance, leaving the long-term performance near benchmark over longer periods. Passive ETFs faithfully match the risk exposures of the underlying index, however their returns are then slowly dragged down by ongoing fees over time (and this is even where there are only small management fees).

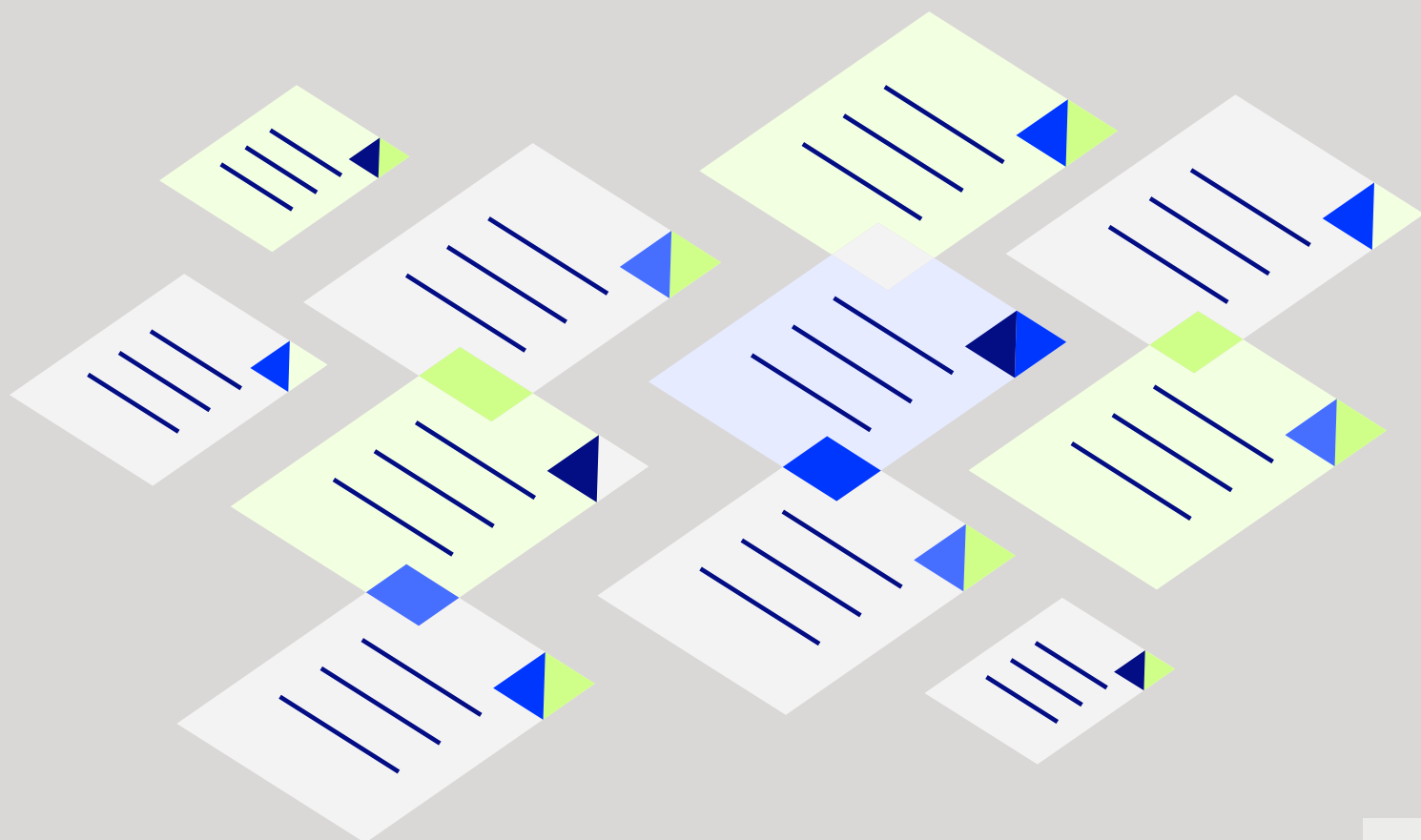
These results hold for both credit-focused ETFs and the broader whole-of-market ETFs. The only area in which material outperformance was found in ETFs was those which focus on a specific product during periods where that product has performed very well thanks to the broader macroeconomic or financial conditions. For example, the indexes with a higher credit risk exposure and lower duration exposure have (with hindsight) been well suited to the last five years

because the last five years has seen rising rates but benign credit. However, focusing on ETFs with such specific features then begs the question: will the next five years see the same macroeconomic conditions as previously?

ETFs cannot be modified or tailored like direct bond portfolios can, and as such they need to be exited completely with a new ETF selected should the macroeconomic backdrop change. A direct bond portfolio can be tweaked and re-weighted ahead of changes to the rate outlook, providing an opportunity for investors to further improve returns should those conditions eventuate. This is one way that direct bond portfolio investors have achieved higher returns above the quoted bond yield and have also outperformed the returns on offer by ETFs. Overall, constant monitoring of ETF allocations undoes the key selling point of ETFs to begin with: their simplicity.

Our work showed that, over longer time frames, the direct bond model was outperforming all the major indices and all the largest ETFs.

In the remainder of this article we analyse the drivers of the performance of the passive and active bond ETFs using relevant examples and show how better returns may be achieved through a direct bond portfolio.



Analysis: Bond ETFs and Direct Bonds

Finding 1: Passive ETFs replicate the index, but with an ongoing fee dragging on performance

Table 1 above shows the results for FIIG's median direct bonds client, as well as some important bond indices and the major ETFs we examined. The first thing to be aware of is that the returns for the indices themselves (that the ETFs are designed to replicate), are much lower than might be assumed. Even though the cash rate was between 3.60%-4.35% for 2025-26 the Composite index returned only 1.5% and the Credit index returned only 2.7%. Our view is this is partly, but not fully, a result of duration risk and rising interest rates. There is also a more subtle driver which we suspect many investors and advisers may not be fully aware of. These indices are market-weighted (by total outstanding) and therefore conservative because of the preponderance of Government and quasi-Government issuers in the Australian bond market.

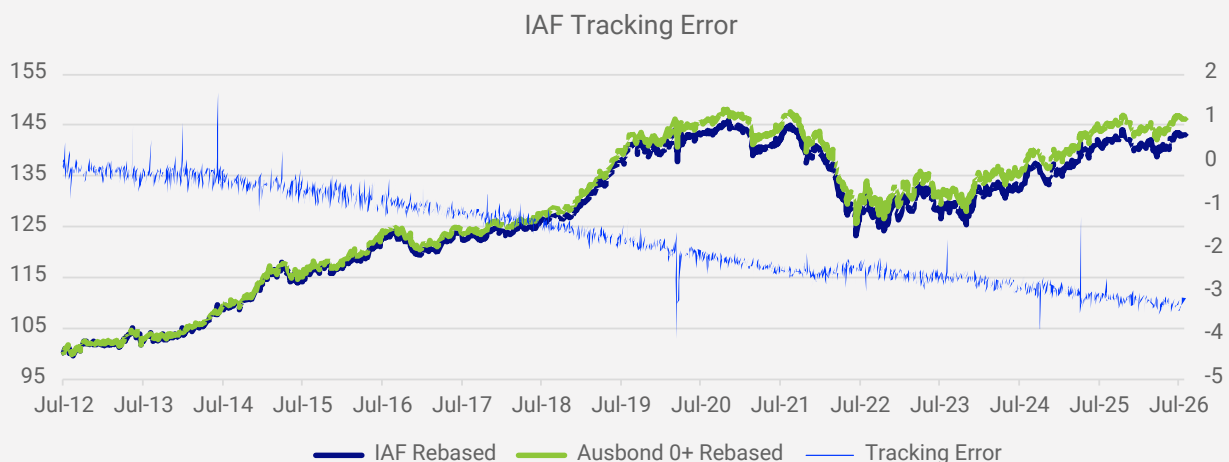
The major bank balance sheets and other investors use these highly liquid bonds primarily as a source of liquidity, rather than with the true profit-maximising motive which is generally the case with equities. These bonds focused on providing liquidity are mostly issued by Governments. That makes them lower risk but can also make them too conservative and low-yielding for some income-focused investors.

For example, at present (that is July 14), over 80% of the Ausbond Composite index yields less than a 1-year term deposit. This is because the Ausbond Composite Index is currently 45% Commonwealth Government bonds and a further 33% State-Government bonds.

Even the Ausbond Credit index is populated mostly by surprisingly high-quality and low-credit-risk issuers. The definition of "Credit" in the Ausbond Credit index is essentially "not Australian Government or State Government". But the Australian bond market is a global market and many of the AUD-denominated bonds are from foreign Governments or quasi-Government organisations. The largest issuer in the Ausbond Credit index is the AAA-rated, Canadian-Government controlled, Canadian Pension Plan Investment Board. The Dutch-owned bank BNG is fifth largest, while NBN Australia (with its soft Government Guarantee) is seventh. In the next bracket are still more sovereign, supranational and agency bonds with a second Canadian Pension group (PSP) another AAA-rated Dutch bank (Nederlandse Waterschapsbank), the Norwegian SSA Kommunalbanken and the European Investment Bank. Just shy of 60% of the Ausbond Credit index yields less than 1 year term deposit (59.42%).

For this first finding, the IAF index is a good example. This ETF is attempting to mimic the Ausbond Composite index and so is very strongly weighted towards government bonds. The ETF does indeed match the underlying index very closely, but the consistent bleed towards the fees does take a material toll over time. Over the 14 years we analysed the IAF ETF underperformed - very slowly and consistently - by 3.30% cumulatively, which is largely the effect of fees.

Fig 1: Passive ETFs like IAF have low but negative Tracking Error against the Ausbond Composite



Source: FIIG Securities, Bloomberg, Vanguard

Since the broad-based indices are very conservative, the benchmarks used by most ETFs are very conservative too.

Finding 2: Active ETFs aim to outperform their benchmarks and do sometimes achieve outperformance for a period, but these periods are usually matched with periods of underperformance

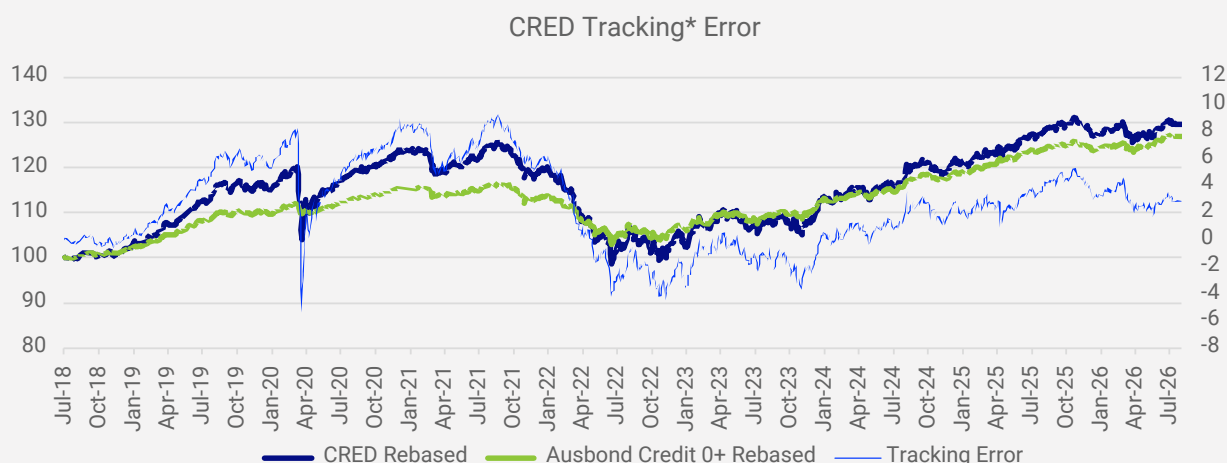
For the second result, that active ETFs do achieve outperformance for a period, but largely fail to return higher than benchmark consistently, the best example is the CRED ETF. This index does manage significant outperformance in the lead-up to COVID-19, but then gives it all back across the sell-off in 2022. There has been a very marginal outperformance of around 3% in the eight years of data we analysed.

Finding 3: Material outperformance in ETFs which are focused on specific subsections of the bond market

Our final general finding was that there was significant outperformance to be found in sector-specific ETFs when those sectors were performing well for macro-economic reasons.

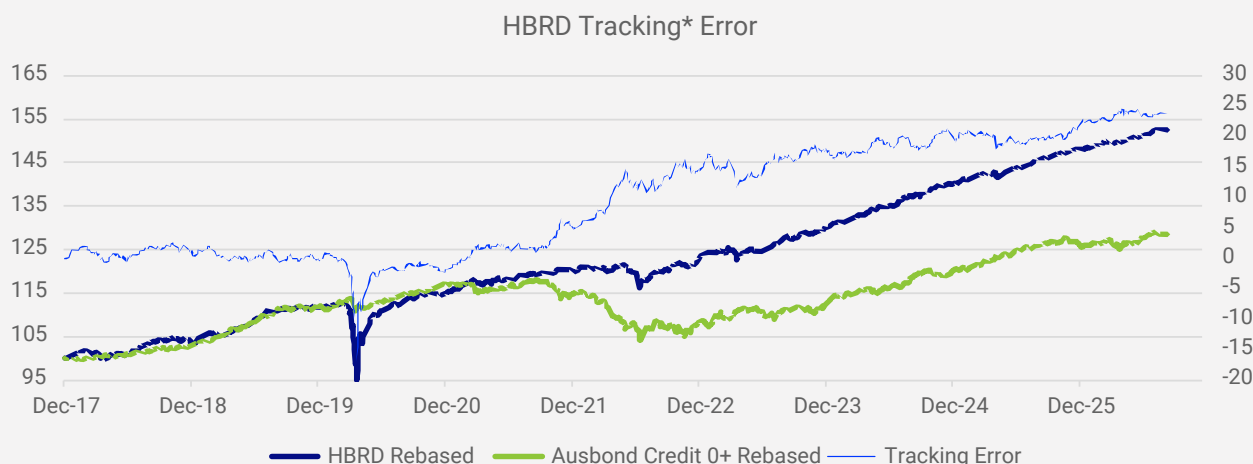
For example, the HBRD index, which focuses on hybrids and other subordinated debt (which tends to be floating rate) outperformed materially across 2021-22 when the overall rise in yields harmed fixed rate investments. Notice that for large periods (like 2017-2021 and 2023-2025) the HBRD ETF did not outperform. We understand this outperformance to be driven by the overweight exposure to some sectors of the bond market.

Fig 2: CRED ETF Tracking Error shows periods of outperformance and underperformance



Source: FIIG Securities, Bloomberg, Betashares

Fig 3: HBRD ETF Tracking Error shows strong outperformance when macro-economic conditions assist.



Source: FIIG Securities, Bloomberg, Betashares

Finding 4: Direct bond outperformance over time

We now turn our attention to the returns achieved through direct bonds. Unlike ETFs, which mostly have daily price histories, direct bonds are an over-the-counter (OTC) product which generally doesn't have daily results available to the public. However, some providers such as FIIG do publish the results of the Median FIIG client each year and use these yearly results to produce what a pseudo-index of the returns of the Median FIIG client would have been over the last seven years.¹

The analysis shows a Median FIIG client's portfolio has materially outperformed the bond indices, passive ETFs and active ETFs. Furthermore, the returns over time improved, and were not dragged down by fees. In fact, the FIIG median client has outperformed the main Ausbond Composite Index by 36%, cumulatively, over the last 7 years.

Included in this data set are FIIG clients that have a holding of at least five bonds, a minimum portfolio size of AUD250k and have an Internal Rate of Return calculated for the portfolio each year.

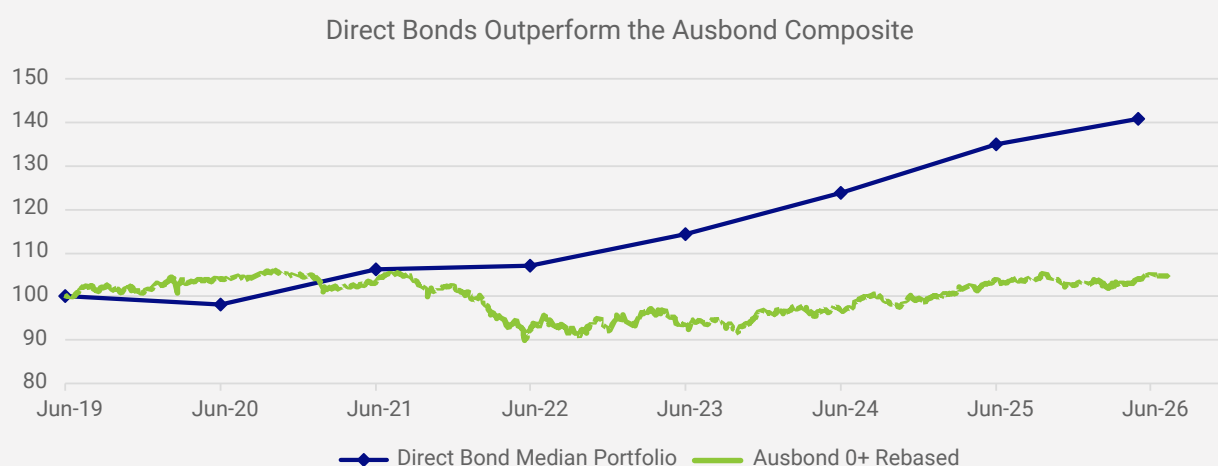
The fees FIIG charges include a custody fee, which is 0.2% annually for up to a AUD500k portfolio size (and decreases for larger accounts i.e. 0.14% annually for

over a AUD500k portfolio size and so on). There is also a small fee that is taken every time a bond is bought and sold. Notice, however, that our returns approach uses the cash value of a client's portfolio, so these fees are already reflected in the results quoted. i.e. we are quoting FIIG client returns on an after-fee basis, the same way the ETF returns are quoted.

It should also be noted that FIIG does not aim to outperform an index, but rather achieve the best return for investors overall. As such, the following analysis is for illustrative purposes only.

For this analysis we selected the Ausbond Composite 0+ Index as the most appropriate to benchmark a FIIG client's portfolio against, as it best reflects the underlying assets held in a client's portfolio which includes a wide variety of debt (see Figure 4 – though we also compare it to other indices in Figure 5 below). These exposures include, fixed rate, floating rate, long and short duration exposures, high quality investment grade and sub-investment grade also. There are sub-investment grade credit bonds in the FIIG portfolio as well as extremely high-quality short-term Government debt, and everything in between.

Fig 4: FIIG Median Client has outperformed the index by healthy margins many years in a row.



Source: FIIG Securities & Bloomberg

¹ Note: Each year is recorded independently, so it is seven sets of yearly medians, rather than the median over seven years. Our analysis however suggests the difference is immaterial.

As per Figure 4, the analysis shows that FIIG Returns outperform the Ausbond Composite Index, with a significant outperformance since 2021 (navy-blue line) and has done so fairly consistently since 2022. There is a smaller period of underperformance to the index prior to this in 2019 and 2020.

Furthermore, FIIG clients have achieved excess returns, with a tracking error of around +36%. This is significantly higher than the returns achieved from even the HBRD ETF, which was the best performing ETF we analysed. These higher returns can be attributed to the better diversified underlying portfolios (which perform better in more varied macroenvironments), lower fees, and the strategies that can be executed due to the way the direct bond model works.

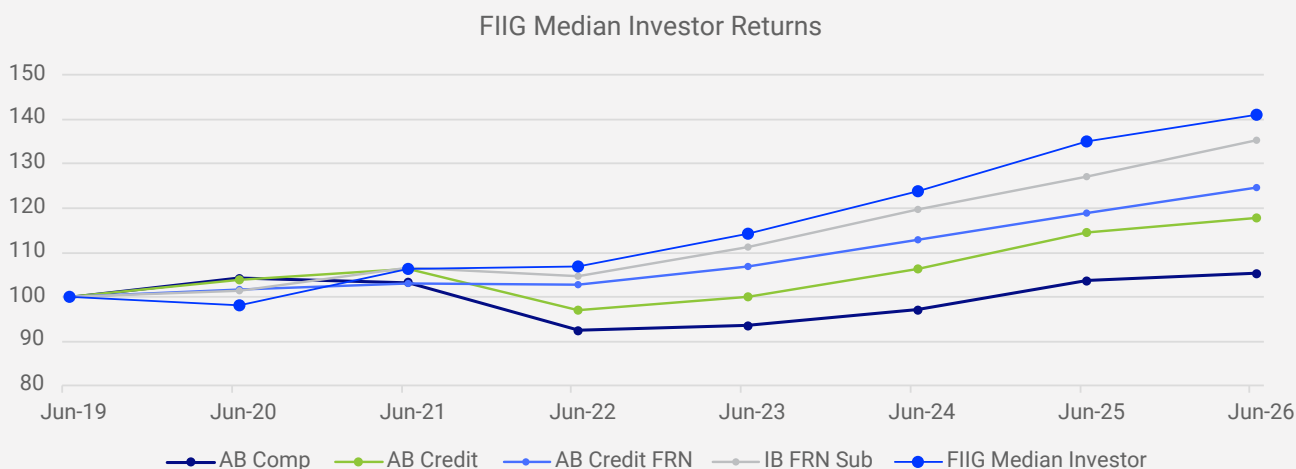
The benefits that the FIIG direct bond clients achieve include taking advantage of new issue premiums,

trading from lower yielding bonds into higher yielding bonds, rolling down the curve and more.

We have also benchmarked the Median FIIG investor returns against all the indices used to benchmark the passive and active indices ETFs to give more depth to the analysis. We can see in Figure 5, that over time the Median FIIG investor has outperformed all the indices that are used by the pool of ETFs in this analysis. In comparison, over time the returns from ETFs further deteriorated when the ETFs we reviewed were benchmarked against the respective indices below (albeit HBRD was the exception).

It's also worth noting that the Median FIIG investor has even outperformed the iBoxx AUD Investment Grade Subordinated Debt Mid Price Index, which has had a strong performance these past few years given the exposure to floating rate notes and subordinated debt.

Fig 5: Median Investor Returns vs multiple different benchmarks



Source: FIIG Securities & Bloomberg

Figure 5 shows the better returns the FIIG Median investor has achieved, outperforming all the indices the various ETFs used for the period of the last 7 years.

Conclusion

ETFs are a simple way for advisers to take exposure to the bond market, but the simplicity doesn't always deliver strong returns. Advisers and investors who purchase a bond ETF may find that they are, unintentionally, taking exposures to indices which are very conservative in nature. A direct bond portfolio, in contrast, can prioritise income and returns rather than the extremely high liquidity bank regulators require.

Amongst the passive ETFs, most achieve what they say they will – namely, mimic the nominated index with an annual fee which causes slight underperformance each year. However, that small annual underperformance adds up over time. Active ETFs have periods of underperformance and overperformance, but none of the broad-spectrum active ETFs we analysed managed to consistently outperform their nominated benchmark.

The only area where we did find material outperformance by active ETFs was those which focused on a specific asset class. However, this outperformance was achieved only when that class was outperforming for macroeconomic reasons. For example, an index of FRNs outperforming during a general rise in yields.

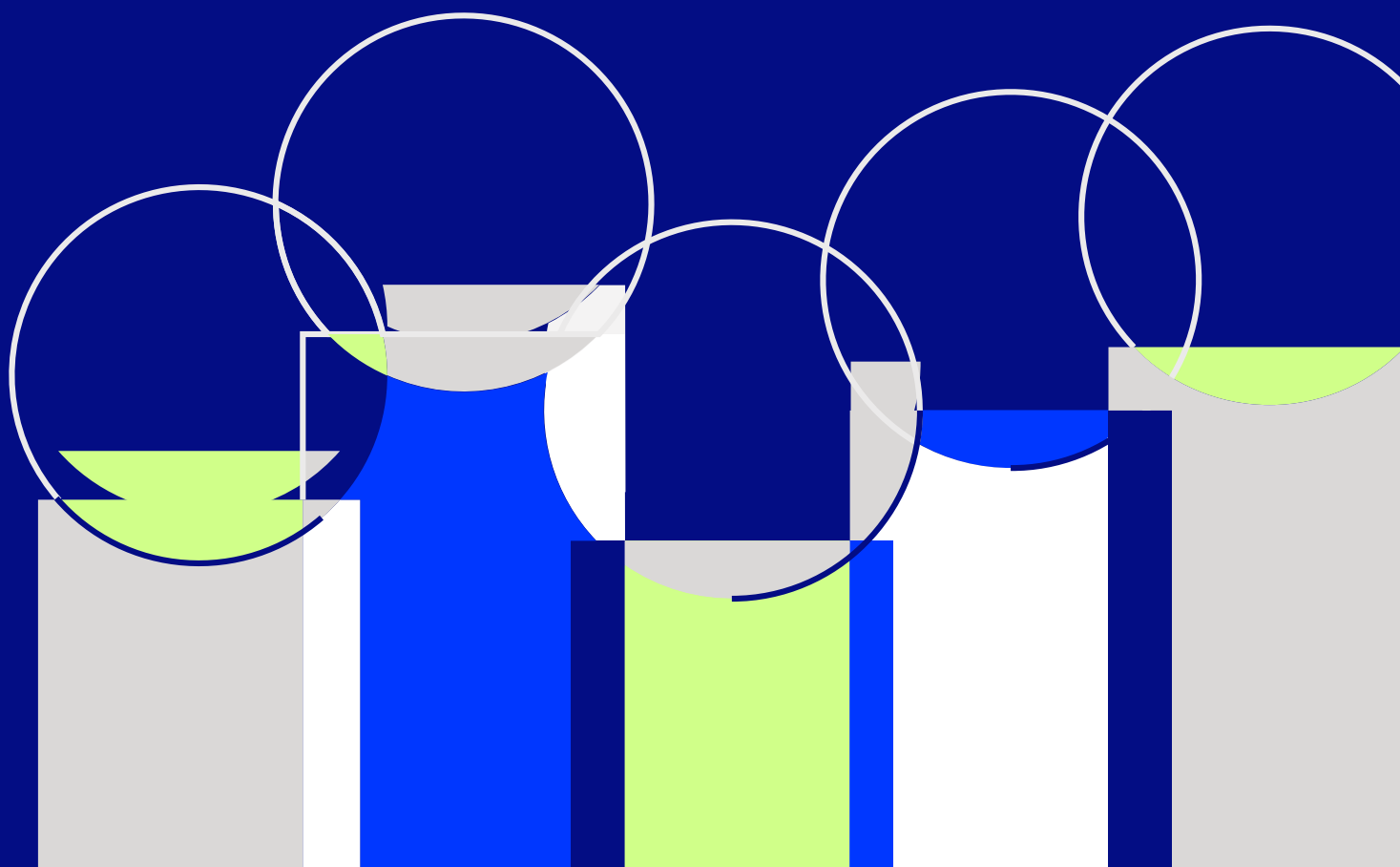
For direct bond investing, on the other hand, we found that the median FIIG client outperformed most benchmarks most years and by significant amounts

over the medium-term. This is both despite, and because of, FIIG clients holding diversified portfolios of debt, with fixed rate, floating rate and credit bonds all included. Across the last seven years the FIIG client has outperformed the Ausbond Composite Index by a cumulative 35.7% and the Ausbond Credit Index by a cumulative 23.2%.

Direct bond portfolios do require relatively more effort and attention compared to ETF counterparts but the results of this analysis are clear. Bond indices are market-weighted and therefore quite conservative. The ETFs which seek to match these conservative benchmarks are therefore seeking to replicate very conservative positions, which they don't always manage to do. In contrast, a direct bond portfolio allows investors to prioritise the bonds with a healthier return, rather than the bonds which are primarily designed to be liquidity management tools.

To learn more about how AUSIEX Fixed Income can support your advice practice and client portfolios, contact:

Martin Smith
Institutional Sales Trader
0421 503 586
Martin.Smith@ausiex.com.au



Appendix 1: Full analysis of all ETFs

The discussion of ETF performance given in the main body of this piece was drawn from a detailed analysis of a large number of ETFs. That larger analysis is shown here, for completeness.

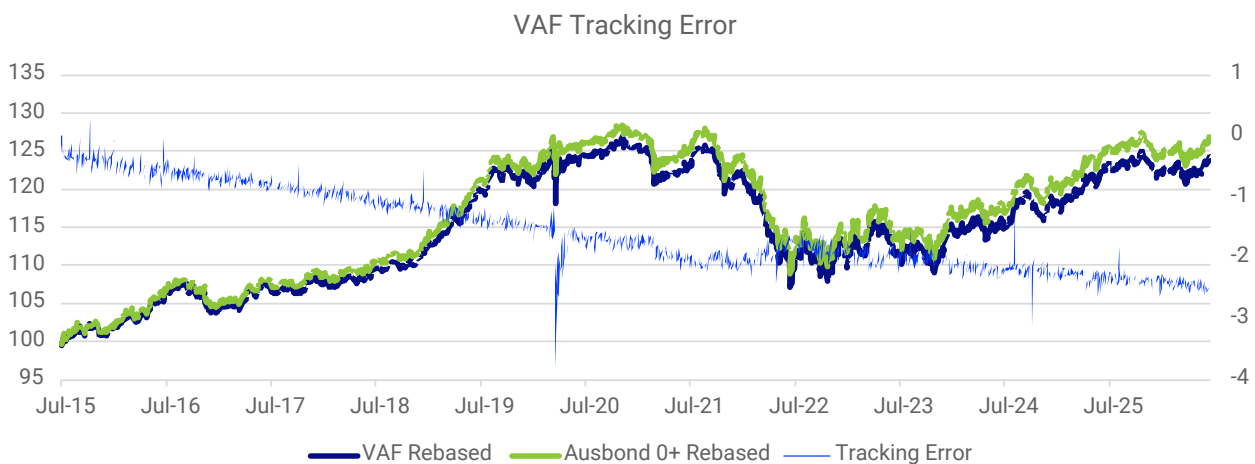
Passive ETFs replicate the index, however returns dragged down with an ongoing fee

Three ETFs which track a passive index were reviewed: 1) the Vanguard Australian Fixed Interest Index (VAF), 2) Vanguard Australian Corporate Fixed Interest Index (VACF), and 3) iShares Core Composite Bond ETF (IAF). We plotted the rebased performance of each

ETF and its respective rebased indices performance on the same axis while the difference in returns between the ETF and its index (which is referred to as the tracking error) is plotted on the secondary axis.

We note these passive ETFs have a smaller management fee compared to the active ETFs, where both IAF and VAF have a management fee of 0.10% annually, and VACF takes a 0.20% annual management fee. While these are smaller fees, over time they have a compounding impact to the overall returns.

Fig A1: VAF ETF Tracking Error



Source: FIIG Securities, Bloomberg, Vanguard

The VAF ETF invests broadly in Australian government, state government and corporate bonds and is investment grade only, as well as fixed rate only. It aims to track the return of the Bloomberg AusBond Composite 0+ Yr Index (before fees, expenses and tax). It matches its index very well (shown by the navy-blue and thick blue lines in Figure A1), however once the small management fee is accounted for in the returns, its tracking error worsens over time. This equates to a cumulative tracking error of around 2.50% (shown by the thin blue line) over the 11 years of data we examined.

VAF has a 100% fixed rate benchmark, which typically performs well during rate easing cycles. This accounts for the periods in 2020 and more recently of better performance, as per the navy-blue line in Figure 1. However, the inverse is also true of rate tightening cycles where the underlying assets are less suited. In periods with rising rates neither the Ausbond Composite, nor the VAF, have performed well. In totality, the Bloomberg Ausbond index has only

a moderate return thanks to the long duration and relatively low yields on Government bonds. The VAF does match the Ausbond quite effectively, but the overall return is not strong because of the combination of VAF mimicking a fairly low-yielding index and the management fee.

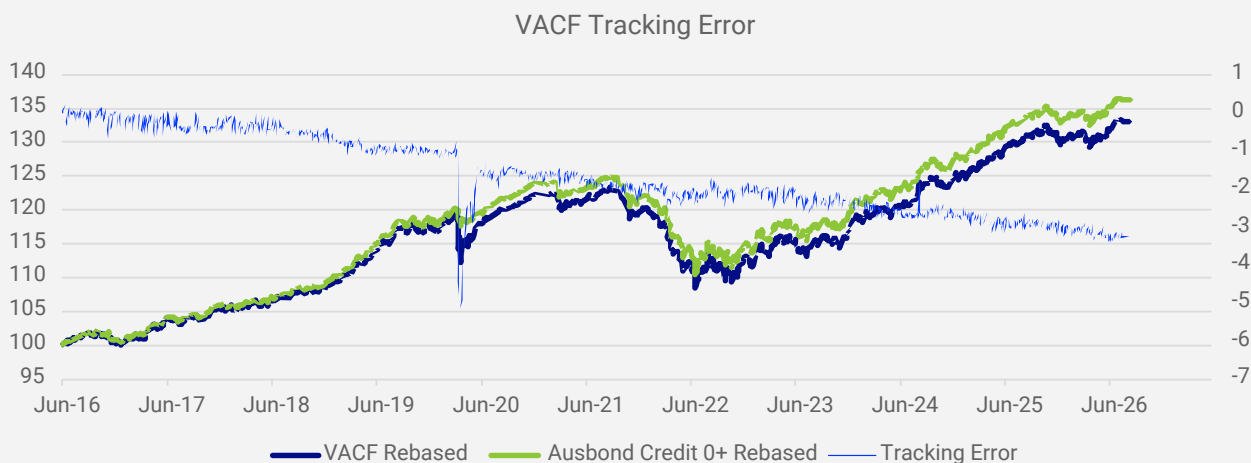
The VACF ETF presents a similar picture. This ETF is a credit-based portfolio and invests in investment grade bonds issued by corporations only. It aims to track the return of the Bloomberg AusBond Credit 0+ Yr Index (before fees, expenses and tax). This credit-only benchmark has a higher yield and shorter duration than the broader composite index and a lower overall credit quality. These characteristics have performed well in the current macroeconomic environment, as evident by its better performance compared to the VAF ETF (and also IAF, which we talk to below). However, similar to the VAF, the VACF has not outperformed its index, and with fees, the cumulative tracking error is around -3.00%.

The IAF ETF is another example of an ETF that matches its index but loses slowly on the fee. This ETF invests in investment grade fixed income securities issued by the Australian government and state government, along with supranational, sovereign entities and corporate entities. It also aims to track the Bloomberg AusBond Composite 0+ Yr Index (before fees, expenses and tax). As per observations already made, the IAF ETF relatively closely matches the index, however, overtime the fee weighs on its performance and the tracking error slowly declines to over -2.50%.

Similar to the VAF ETF, the performance of the IAF ETF, while matching the benchmark more broadly, has been limited by the impact of fees.

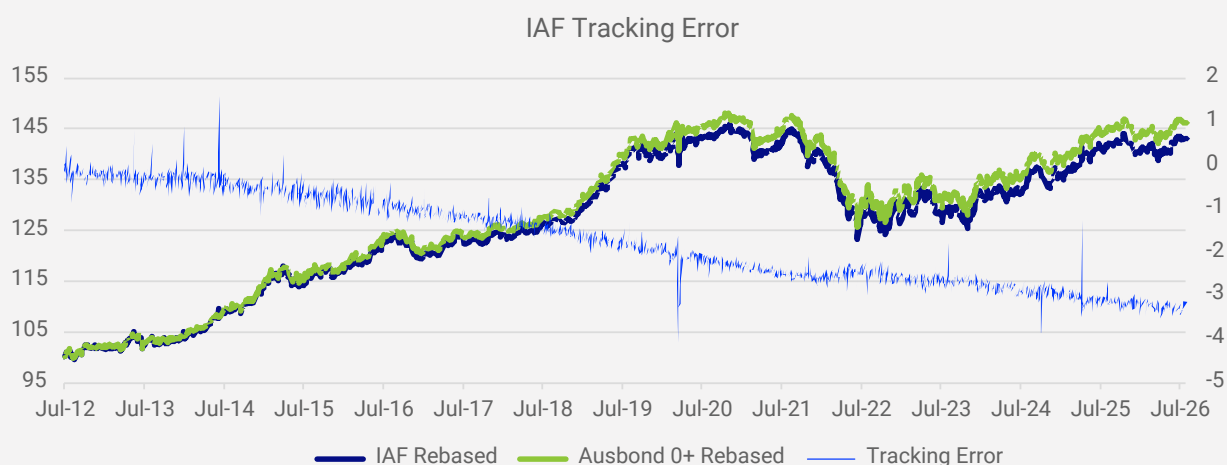
In summary, the passive ETFs analysed all underperformed their index. They closely matched the index at the headline level, as they are designed to, however the data shows that over time the fees have slowly eroded the returns, with negative returns after fees of around -2.00% to -4.00% over a decade. Overall performances of the benchmark indices have been muted also. This was to be expected given the fairly weak performance of the Government bond heavy overall Ausbond index and the better, though still moderate, performance of the Ausbond credit index. The main indices in Australia are very heavily weighted to high-quality bonds, which makes them very safe but tends to hamper returns over the longer term.

Fig A2: VACF ETF Tracking Error



Source: FIIG Securities, Bloomberg, Vanguard

Fig A3: IAF ETF Tracking Error



Source: FIIG Securities, Bloomberg, iShares

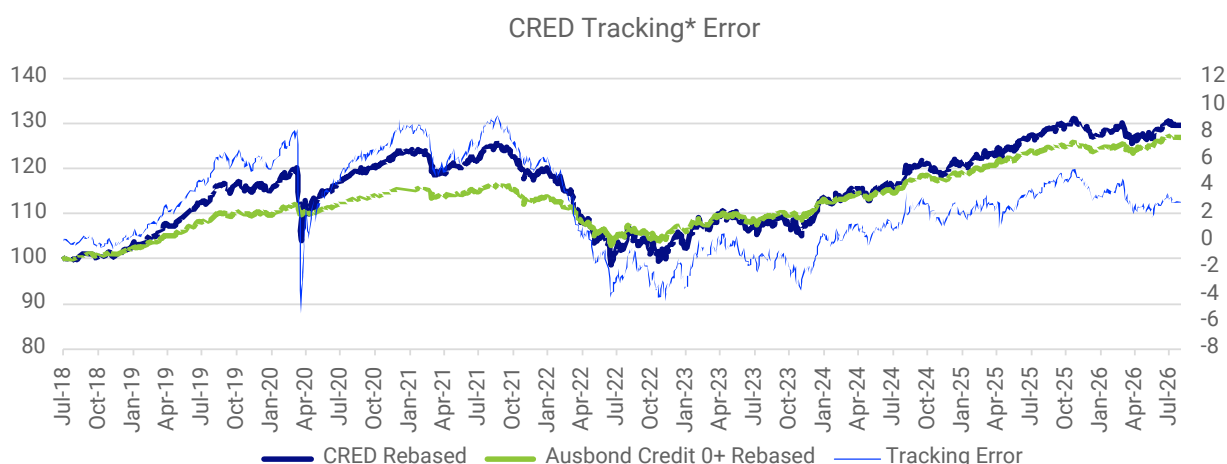
Active ETFs have mixed results – broad active ETFs have periods of under and over performance

Two types of active ETFs were analysed. Firstly, ones which attempt to replicate (and then outperform) a broad overall index such as the Ausbond Composite or Ausbond Credit index. The analysis showed these ETFs had periods of outperformance but normally matched these with periods of underperformance, because although you can outperform a broad index sometimes, it's difficult for an active manager to beat the market all the time while taking the same general sorts of risks.

The second type of active ETF takes a specific strategy or type of bond and then becomes materially overweight that style of investment. For example, the HBRD index was using bank hybrids as a building block.

Firstly, we examined active managers that are trying to beat an overall index. In this space we found the CRED ETF and the PAUS ETF to be the most significant players. Both ETFs are using the credit space overall as the investment pool and trying to outperform the Ausbond Credit index.

Fig A4: CRED ETF Tracking Error



Source: FIIG Securities, Bloomberg, Betashares

As Figure A4 above shows, while there are periods of strong performance for the CRED ETF, it is not sustained. After fees, its return more recently has been underperforming the index and the overall return has dropped back from positive to about break even. We note that CRED has exposure to fixed-rate corporate bonds only, which typically perform well during interest rate easing cycles. While the exact constituents of the CRED portfolio are not known, it appears that the issuer is using duration as a strategy to outperform. So when the base index is rising, they are outperforming, but when it is falling, the ETF underperforms.

The second active credit index is PAUS as per Figure A5. This ETF is also benchmarked against the Ausbond Credit 0+ Index. PAUS is a relatively new index and only has a short history. It has not outperformed this year, although there was a sustained period of somewhat outperformance over 2025.

However overall, its performance has been limited, and very much range bound. Similar for other active ETFs, once fees have been included, the return is dragged down, with a tracking error just above 0.50%.

The FIXD ETF is attempting to track the broader Ausbond Composite index, rather than the credit index. It invests in high-quality exposures only (nothing sub-investment grade) but has longer duration thanks to the government bonds involved. Its portfolio includes bank and term deposits, along with investment-grade bonds issued by banks and companies. This ETF tracks the Ausbond Composite 0+ Index and attempts to outperform that benchmark by 1% to 2% per annum. The analysis showed it has not really achieved that outperformance, though it has broadly tracked the Ausbond composite index as per Figure A6.

The final type of ETFs analysed are ETFs which focus on a particular subset of the market. These ETFs tend to focus on subordinated debt with both the HBRD ETF and the SUBD ETF using variations of this approach. These two ETFs are the only ones we found that did manage to provide material outperformance that was held onto over time.

The HBRD ETF invests in an active portfolio of cash investments, senior and subordinated bonds, hybrids and securitised credit, and we identified the Ausbond Credit 0+ Yr Index as the most appropriate index, as its nominated index cannot be accessed. However we noted that the Ausbond Credit index is much higher credit quality than a general portfolio of subordinated bonds.

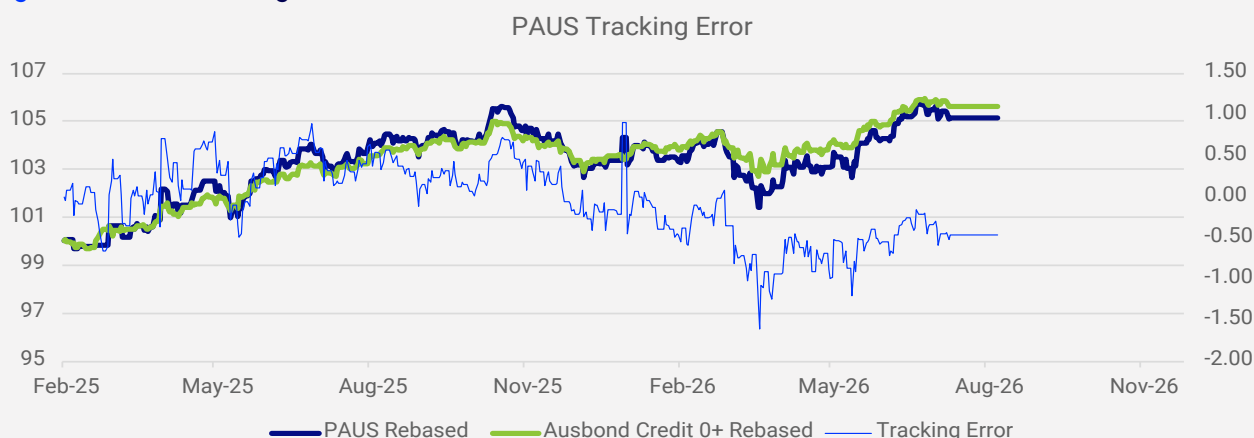
As per Figure A7 below (page 13), HBRD is the one exception that has managed to outperform its assigned index, with a period of sustained outperformance (the navy-blue line in Figure 8), after many years of

matching the index. Between 2017 and 2021 the HBRD ETF matched the index, then during COVID-19 it significantly outperformed and has been relatively flat since 2022, though it has managed to hold the previous outperformance rather than returning it. Once again, its underlying assets would likely have performed well since its mix of subordinated bonds and hybrids has likely paid a larger coupon rate and provided an attractive running yield to support the returns for this ETF.

Even once the fee is included, unlike its peers, it returns a positive tracking error of around 25%. This is the only exception across all of the ETFs we analysed, including both passive and active ETFs.

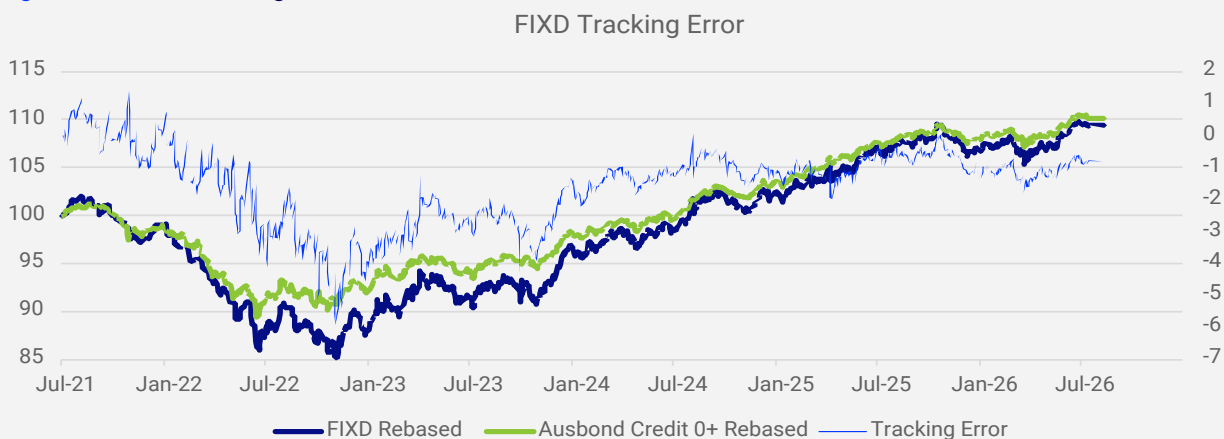
It's worth noting that since HBRD was invested in bank hybrids, it has recently (March 2026) been rebased with bank hybrids now discontinued. Those bonds are now going to be available only in Over-The-Counter (OTC) markets for direct bond investors and no longer in the listed markets.

Fig A5: PAUS ETF Tracking Error



Source: FIIG Securities, Bloomberg, Pimco

Fig A6: FIXD ETF Tracking Error



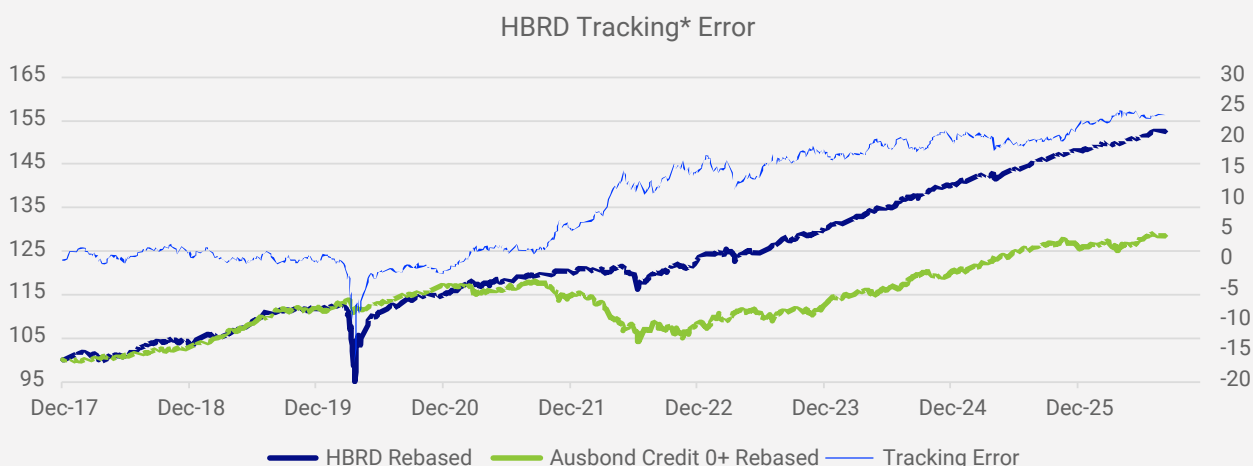
Source: FIIG Securities, Bloomberg

The second index ETF which specialised in subordinated assets that we analysed was the SUBD ETF (Figure A8). This index specialises in the subordinated bank lines. The Index return (red line), which has achieved significant outperformance in the last few years versus the Ausbond Composite 0+ Yr Index (light blue line). We also plotted it against other different indices for comparison. However, the analysis showed this ETF doesn't track the Ausbond Composite 0+ Yr Index, but rather the iBoxx AUD Investment Grade Subordinated Debt Mid Price Index (black line), which the SUBD ETF underperforms, marginally.

As we mentioned earlier, the performance of the ETF is impacted by the underlying assets and how they fare given the macroeconomic conditions. The SUBD ETF, as its full name suggests, invests in Tier 2 capital investment grade subordinated floating rate bonds, which given the rising interest rate environment over this year, has seen a strong performance.

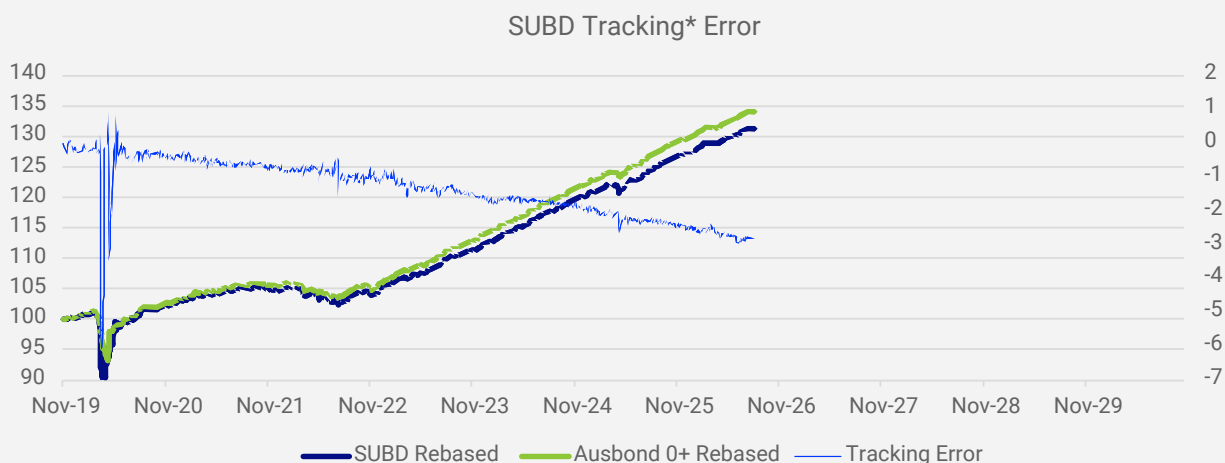
This investment style is deliberately taking greater risk and so the overall return is higher, but once again the overall return from the index is lower than the benchmark, thanks to the fees.

Fig A7: HBRD ETF Tracking Error



Source: FIIG Securities, Bloomberg, Betashares

Fig A8: SUBD ETF Comparison



Source: FIIG Securities, Bloomberg, VanEck

From this analysis, we can see that other than the HBRD ETF, no other active indices ETF had a sustained period of outperforming its benchmark. Most active ETFs have had short periods of outperformance over their respective indices, but across longer time frames all the ETFs we examined had returns that were either negative or broadly break-even. There were even instances where the ETF didn't closely track its index.

The management fees on the active ETFs were also much higher compared to the fees taken on the passive ETFs and each individual ETF quotes its fees differently. Some management fees ranged from 0.10% to 0.55%, others had an administration/expense fee on top of this and then others quoted a management performance fee if a watermark level above the index was achieved (one was quoted as 20.5%). Accounting for this multi-level fee structure, the fees can work out to be significantly higher than the passive indices ETFs.

For the ETFs that specialised in a certain type of debt there were periods of better performance, however this was once again a reflection of the underlying assets in the ETF performing well given the macroeconomic backdrop, rather than active management of the portfolio.

The key lesson for managing debt portfolios appears to be that there are excess returns available by selecting the right subclasses, but that is an active choice and can't really be replicated consistently in a set-and-forget style approach like an ETF.

AUSIEX

an **NRI** company

📞 1800 252 351
✉️ service@ausiex.com.au
💻 ausiex.com.au

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