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Fee discounts harder for active ETFs

Kanika Sood

High net worth financial advisers may be reluctant to allocate to active ETFs because of the cost benefits on offer with unlisted trusts.

Active ETFs account for just $3 billion of Australia's total $47 billion invested through exchange-traded products. They have grown steadily with many new managers tossing their hats in the ring and 24 products on offer at April end.

Their fees are largely on par with their unlisted counterparts.

But they may face a hurdle in swelling their assets under management as advisers with big books of client money choose to go the traditional way – through unlisted trusts.

Hamilton Wealth Management, which advises on almost $500 million of client assets, says if an actively-managed fund that it currently uses were to make an active ETF version available, it wouldn't make a switch unless there was a clear advantage to its clients.

"I think I will stick to what I've got because of the costs. I haven't been successful in negotiating fees with active ETF managers. In unlisted trust funds, we can negotiate between 10bps and 20bps lower fees," chief executive Will Hamilton said.

Unlisted trusts offer fee discounts in two primary ways: the issuer sets up a separate share class of the fund which has a different fee structure and a higher minimum investment size, or the issuer rebates the discount to the clients at say, the end of each month, through a platform after reconciling the platform's reporting with the unit registry.

Active ETFs don't allow for different share classes within a single product, making fee discounts harder to process.

"ASX would be unlikely to admit two different unit classes of the same active ETF," ASX investment products manager Andrew Weaver says.

"There is an admission rule that requires each ETF to be sufficiently distinguishable from other ETFs. It would also be problematic to restrict access to wholesale investors in the ETF, if there was a retail and wholesale class."

The second option - fee rebates – may also be harder for ETFs, according to Fidante Partners investment specialist Sam Morris.

"It is much easier to administer fee rebates via unlisted trusts through wrap platforms with audit trails and reconciliation issued back to the end clients. With ETFs you can't really have established processes for rebates," Morris says.

However, one issuer thinks the rebate and share class mechanism may work for active ETFs.

VanEck, which is looking to launch active ETFs, says $100 million is the starting point for fee negotiations for ETFs.

"Initially we will sit down and think if the investment warrants a rebate. The cost of manufacturing ETFs hasn't gone down significantly and it depends on how much FUM they can allocate and how long they will stay," VanEck Australia managing director and head of Asia Pacific Arian Neiron says.

"I don't see why an active ETF would not be able to do it. It may require changes at constitution, policy and responsible entity level."

Fidante's Morris says any investor that has that much money to invest would most likely go through a mandate which is managed as a separate pool of capital or as an unlisted trust.

"The channel is directed more at self-directed investors," he says. FS

Arian Neiron
managing director and head of Asia Pacific VanEck

Millennial s overhyped

Millennials control $130 billion
money but most products pitc
them have been slow to take o
research shows.

Australia had 19 superannua
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In reality, a third of these are
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"Despite the fanfare millenn
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market," Rainmaker research
Russell wrote in the note.

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Harrison Worley

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According to Latham, the fi
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