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Australia ETF Market Sees Surge in Low-Cost Funds

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Australia's exchange-traded fund (ETF) market is seeing a clear shift in investor behaviour, with low-cost funds increasingly dominating capital flows. The trend reflects a growing preference for simple, affordable options in long-term investment strategies.

According to research by BetaShares, over 60% of ETF flows in the past 12 months were directed toward funds with fees under 0.25%. In contrast, higher-fee ETFs, particularly those charging above 0.3%, are losing ground. Analysts attribute this change to cost-conscious investors focusing on core, passive investments.

While higher-cost active ETFs once gained attention for their potential outperformance, they are now facing headwinds. Data shows that investors are leaning toward passive index funds, which offer broad market exposure with minimal fees. Funds like the Vanguard Australian Shares Index ETF (VAS) and iShares Core S&P/ASX 200 ETF continue to attract significant inflows due to their low expense ratios.

BetaShares noted that many active ETFs struggle to match the performance of their benchmarks once fees are factored in. This has led investors to reconsider whether the higher costs are justified. In today's competitive environment, every basis point matters.

Despite the popularity of low-cost ETFs, there remains room for specialised products. Some investors still allocate funds to niche or actively managed ETFs for tactical exposure or income strategies. However, these are often used as satellite holdings rather than core positions.

The Australian ETF industry has grown significantly, with assets under management surpassing \$180 billion. As the market matures, transparency, liquidity, and cost-efficiency remain top priorities for investors.

Industry experts suggest that while fees are a major driver of decision-making, they are not the only consideration. Investors are advised to evaluate fund structure, issuer credibility, and tracking accuracy before committing capital.

In a market where performance can be closely tied to cost, it's clear that low-fee ETFs are becoming the go-to choice for both retail and institutional investors in Australia.