Transcript

The Ideas Exchange - Episode 66

25 Years of ETFs:

How they changed investing in Australia

August 2026

Aaron Viscayno (00:00):
Hello and welcome to the Ideas Exchange, ASX's regular podcast where we cover investment trends, market updates and ideas for your portfolio. My name is Aaron Viscayno, Business Development Manager from the Investment Products team here at ASX. And it is our mission to deliver to you the latest in market updates and ideas through the conversations we have with investment experts.

Speaker 2 (00:22):
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Aaron Viscayno (00:50):
Hey everyone, welcome back to the Ideas Exchange Podcast. My name is Aaron Viscayno, Business Development Manager with the Investment Products team at ASX. Thank you so much for joining us for a very special episode this month as ASX celebrates 25 years of one of Australia's greatest investing success stories, exchange traded funds, AKA ETFs.

(01:10):
It was back in August 2001 when the first ETF listed on our shores, the State Street SPDR S&P/ASX 200 ETF under ticket code STW. When ETFs first arrived in Australia, they were still a relatively new concept for many local investors. Today, ETFs have become a core part of the investment landscape.

(01:30):
As of the end of the financial year for 2026, more than 450 ETFs are now listed on the ASX, representing a market cap of over $360 billion. But it's important to remember the story is not just about growth. ETFs have fundamentally changed the way Australians invest, allowing retail investors, advisors, SMSFs, and institutions to access markets, build portfolios and diversify in a simple, transparent way.

(01:56):
Joining me today is Tim Bradbury, Managing Director and Head of Intermediary Client Coverage at State Street Investment Management. Tim has had a front-row seat to the

ETF industry's evolution here in Australia with experience across iShares MSCI, founding the Australian ETF network, and now State Street.

(02:13):
Together, we'll take a trip down memory lane and look back at where ETFs began, reflect on where the market stands today, and speculate on where the industry is heading over the next few years. Thanks for joining us today, Tim.

Tim Bradbury (02:25):
Thanks, Aaron.

Aaron Viscayno (02:26):
Tim, I must say that's a very impressive resume I've just covered there spanning more than 25 years. Now you've been pretty much in the industry since ground zero for ETFs here in Australia. I want you to take us back to the early days. What did the investment market look like prior to ETFs launching and how were retail investors and advisors investing?

T**im Bradbury (02:44):**
Yeah. Well, it was a very, very different time 25 years ago for the investor. So if you think about what was happening in 2001, the U.S. had gone through the dot-com boom and crash, and that had flowed down to Australia. But the local behaviors were really around either buying shares or buying unlisted managed funds. And there wasn't a lot of choice around, to be honest.

(03:06):
And if you think about that process of buying an unlisted managed fund, it seems very paper-based. You're buying, and given a price that you don't know about until the day after you submit your application. All of that seems archaic now. And so there was a lot of asset managers who were predominantly active managers, and generally active management attracts a higher fee.

(03:26):
And so the advent of the ETF in 2001-02 by State Street really started to change the way that investors thought about investing, but it was a lot more difficult than we thought it would be looking back. There was a lot of behaviors that were baked into the way that, particularly individual investors were serviced. And so that's changed a huge amount now.

Aaron Viscayno (03:48):
Well, I'm actually curious to hear a little bit more about State Street and the history that State Street have within ETFs beyond Australia.

Tim Bradbury (03:55):
If I go back a little further in the time machine, so State Street has a very long pedigree in ETFs globally and locally, but we launched the first ETF in the U.S. in 1993 and then bought that technology and idea to Australia in 2001.

(04:10):
So we've been doing ETFs for a long time, locally and globally. We're the largest asset manager in Australia across a whole range of asset classes and investment approaches.

Aaron Viscayno (04:20):
Great. And that's a real good segue to my next question here. So ETFs being introduced back in 2001 as a relatively new concept. I can think of a few hurdles that, I think would've popped up during that time. So you're thinking investor education, "How are we going to get advisors to adopt this new product?" liquidity, et cetera. What do you think were the biggest obstacles that the industry had to overcome to establish ETFs as the products they are now?

Tim Bradbury (04:44):
Yeah. I mean, the biggest one was education. And this concept of an ETF being like a share, like a fund was kind of confusing early on. So the education was around not only what they were, but also how you actually bought and sold them.

(04:58):
The beauty of the ETF is the dual layer of liquidity. That was a hurdle in terms of investor comfort. Well and truly over that hurdle now, I think. But in those days it was the confusion around not seeing depth in the order book, as we would say, on the buy and sell side that was certainly confusing.

(05:16):
The other one was the infrastructure wasn't particularly helpful. That was a bit of a headwind. There wasn't a lot of direct broking around for those who didn't want to go through a full-service broker. And then the other obstacle was full-service brokers generally wanted to buy and sell shares. And so the ETF didn't really fit into the way they wanted to give advice to clients.

Aaron Viscayno (05:35):
Great. And just from your memories, can you personally think of a moment where ETFs kind of transcended from being that niche new product to a mainstream investment solution here in Australia?

Tim Bradbury (05:45):
I don't think there was any one amazing, dawning moment. I think there was just a growing series of tipping points. I mean, anecdotally, one was in the early days, everybody called them EFTs, which drove me a little insane.

(05:59):
The other one was too, advisors tended to say, "What's the commission in the product?" But there were tipping points, particularly around the ecosystem. And by ecosystem, I mean the ability to actually have more choice of product, the ability to have more choice by broker, the fee compression around transacting by brokers online.

(06:19):
Definitely, there was a high correlation to the growth in SMSFs, most definitely. And so we look at the numbers around usage of SMFs today and ETFs, and it's somewhere around 50% of SMFs use at least one ETF.

Aaron Viscayno (06:33):
Great, thank you. And look, just shifting the discussion to where ETFs currently stand today, it's a common phrase here in finance that ETFs have been credited as a product that has democratized investing.

(06:45):
So, investors these days are now able to easily create a diversified portfolio that spans across many different asset classes, equities, fixed income, commodities, et cetera. How have ETFs changed the way people invest?

Tim Bradbury (06:58):
Massively is the short answer. So if you think about in 2001, there were two equity ETFs giving you A or B around Australian shares. And now to your point, there is probably more than 400 growing at a good rate, and you can choose any part of the asset class and sub-asset classes that you would like.

(07:17):
You mentioned the phrase democratizing. There's a phrase I hear out of the U.S. that I quite like, and it's taking the opportunity from Wall Street to Main Street. And by that, I mean if you think about generally investing, the more you have to invest, generally the lower price point you pay.

(07:33):
The beauty of the ETF is that the same MER is available to anyone, whether they're putting 500, 5,000, five million or more. And so it really does bring to the individual investor, the ability to transact and build a portfolio that looks like what the biggest end of town, what the biggest super funds in town are often doing.

(07:54):
And so what we have seen, the trend is moving from being a transactional trading vehicle, and it still works fine for that. It is now more a discussion around, "How do I build a portfolio that gives me a breadth of multi-asset class exposure using a range of ETFs, all on exchange, all with liquidity, all easy to administer and keep an eye on?" And that's been the big turning point, I think.

(08:21):
People have gone from buying one or two ETFs, particularly in the SMF space and the DIY space, but also in the advisor space. So we're seeing advisors and SMSF trustees using ETFs to build really strong, low-cost, robust multi-asset class portfolios.

Aaron Viscayno (08:39):

Great. And I actually want to get into a little bit more of a discussion regarding advisors and intermediaries. So just based on what we've talked about currently, Tim, let's apply that to how State Street operates in the Australian market.

(08:52):
State Street currently works across ETF and fund solutions. You've got systematic, active, passive, and managed account strategies, et cetera. How are intermediaries and advisors thinking about ETFs within broader portfolio construction today?

Tim Bradbury (09:04):
They're more advanced than a lot of the direct investor in terms of how to build a portfolio. And of course, they're doing that in a compliant manner, in a regulatory framework that meets the needs of the individual. But they are using ETFs in great volume and they are generally doing it a number of ways.

(09:21):
One is they are building very low-cost vanilla portfolios using ETFs, potentially for younger clients or smaller balances. And then they're using ETFs in conjunction with more active strategies either on exchange or off exchange to build a portfolio that combines both active and passive.

(09:40):
So we're certainly seeing them using ETFs in conjunction with the way they have always tried to build portfolios, but with greater precision and lower cost in terms of implementation and management. And it's important to note too, in terms of putting them together. I mean, for those academics in the audience, there was a very famous study in 1986 by Brinson, Hood, and Beebower, and the official title was Determinants of a Portfolio's Performance. But the takeaway from that is that the bulk of a portfolio's return comes from the asset allocation.

(10:15):
So rather than stock selection, rather than security selection, rather than picking one asset class, the benefit is getting a broad asset class is going to drive your portfolio return much more than trying to identify single stocks. And that's been supportive, definitely not only of the institutional view on approaching portfolio construction, but definitely in terms of how we see advisors and intermediaries and also, direct investors using ETFs.

Aaron Viscayno (10:42):
Thank you. And look, that's a good point that you've made there. And kind of going back to what you'd mentioned a little bit earlier in the conversation regarding education within ETFs being a real challenge here. A lot of people actually think that ETFs are only passive. They're only low-risk or they're only really for experienced investors. Which misconceptions do you think are the most important to correct?

Tim Bradbury (11:01):
The major misconception that I spoke of when we first launched many years ago was around this liquidity. I don't feel that there is depth of liquidity if I as an investor want to buy or sell, and that's taken a long time to get investors comfortable.

(11:16):
The other misconception is the ETF is simply the vehicle, or vehicles to implement an investor's ideas in a portfolio. They're not a magical vehicle. They're just a tool to implement ideas, but they have all the same rigor and regulatory framework that investors should feel comfortable with.

(11:33):
So you have a manager, you have a trustee, you have an RE, you have the regulatory framework from ASIC, and you can trade them through the ASX, which again is the main transaction point for shares and ETFs in Australia.

Aaron Viscayno (11:46):
Great. And look, onto the future of ETFs, so personally, I've been in the industry for about three and a half years, so I wanted to actually put into context what the industry looked like back when I started with the audience. So at the end of December 2022, ETFs listed on ASX had a market cap of 130 billion and is now at 360 billion. 276 products were listed. There are now more than 450.

(12:10):
For financial year 2026, a record 72 new ETFs were listed with ASX. Tim, the growth has been staggering. Do you foresee this growth continuing within the next few years?

Tim Bradbury (12:22):
I do. Definitely, I do. I don't see any major reasons why it shouldn't continue. We're certainly seeing greater adoption by intermediaries and we're certainly seeing greater adoption by direct investors in DIY. If you ask me what's going to happen on the product front, I think it's going to see, probably those products that have traditionally been difficult to get into an exchange traded format so that clients and investors and advisors can build portfolios that look like the institutional end of town. And by that, I mean areas that generally have been a little more illiquid, like private markets, some of those areas that the ETF could well solve that need.

(13:01):
I think the other key theme is around the adoption's going to be accelerated as the investor gets more comfortable about how to put them all together. So again, 400 plus ETFs is a great suite. I think there'll be more choice coming, particularly in those areas also, that are traditionally not exchange traded like fixed income. So you're going to see, I believe, some of those areas come to market.

(13:24):
But again, the ability to understand how to put them all together into a meaningful way to suit risk and return outcomes and objectives is where the real acceleration will occur.

Aaron Viscayno (13:35):
Great. And one final takeaway before we finish up today. If there was one thing you would like Australian investors to remember about ETFs, what would it be?

Tim Bradbury (13:43):
Well, I think it's that they're highly liquid and able to be used to implement your ideas in a portfolio. And you should always think that it's about putting your best ideas into your portfolio and trying to get diversification through a liquid investment.

Aaron Viscayno (14:00):
Fantastic. Tim, thank you so much for joining us today.

Tim Bradbury (14:02):
Thanks, Aaron.

Aaron Viscayno (14:03):
For listeners wanting to learn more about State Street Investment Management and their ETF range, head on over to their website, ssga.com. Talk to you in the next one.

Speaker 2 (14:12):
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