Cache Micro-Investing Report 2021

Annual review of micro-investing apps in Australia



Cache

CEO's Welcome



Caleb Gibbins
Founder and CEO

Welcome to the 2021 Micro-Investing Report by Cache.

This year has been ground-breaking for the micro-investing industry in Australia. Firing out of the first Australian recession in almost 30 years, the industry has rebounded with vigour.

Over the last 12 months, the Australian micro-investing industry more than doubled in size to almost 1.3m accounts. By comparison, recent survey data estimates just 1.25m Australians actively invested on the ASX in 2020.[1]

This is the fastest annual rate of growth since Acorns (now Raiz) first brought micro-investing to Australia 5 years ago.

We have seen 3 major entrants into the micro-investing space, increasing the total market participants being considered in this year's report to 8.

As we enter FY22 with record low interest rates, increasing GDP growth and increasing inflationary pressures, the economic tailwinds driving the adoption of micro-investing products appear set to continue.

In this report, we set out the state of the market as it stands today (30 June 2021) and provide insights into one of the fastest growing segments in the Australian investment landscape.

At Cache, we're on a mission to help more people invest. We believe investing is a good decision for most people and that it's the best way to build wealth and financial security over time.

When 38% of Australians have less than $10,000 in savings[2], and just 35% hold listed investments of any kind,[3] micro-investing products provide an important avenue for many Australians to enter the market and gradually build their wealth.

We support this burgeoning industry and its important role in democratising access to investments.

We hope this report increases the profile of the micro-investing industry in Australia and provides value to its readers.

Caleb Gibbins
Founder & CEO

[1] Investment Trends 2020 2H Online Investing Report (Investment Trends, 2020)
[2] Household Financial Comfort Report, 19th Edition, p.29 (ME, 2021)
[3] ASX Australian Investor Study 2020, p.15 (ASX, 2020)

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Notes on this report:

All data is presented as at 30 June 2021 unless otherwise stated.

We define a 'micro-investing product' as a product or service that enables customers to invest $500 or less across 10 or more transactions at a total cost of $50 or less per year.

Crypto-assets, derivative platforms and micro-investing products with 2,000 customers or less have not been considered in this report. Other providers may exist that we have not considered or are unaware of.

Cache provides services to micro-investing providers as part of its 'Investing-as-a-Service' offering. For more information, see 'About Cache'.

Industry Insights

Market Size: Micro-investing more than doubles in 12 months

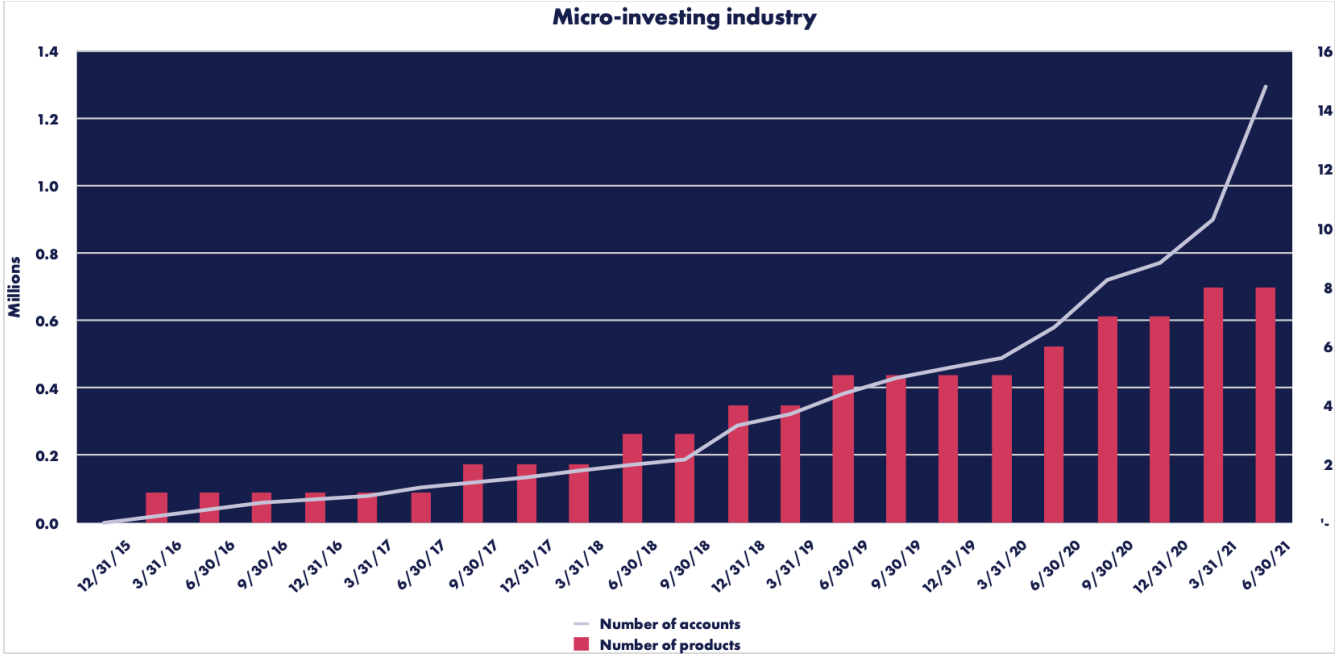
Micro-investing accounts grew by 123% from 580,755 to over 1.29m during the last year – the fastest rate of growth on record.[4]

This now exceeds the number of investors that hold ASX-listed ETFs, which grew to 720,000 during the year,[5] and represents 11% of the 6.6m Australians that hold listed investments generally.[6]

We have seen 3 major entrants into the micro-investing space in FY21, increasing the total market participants being considered in this year's report to 8.

Account growth in micro-investing products coincides with a sharp increase in retail trading activity generally. It has been estimated that 435,000 new retail brokerage accounts were opened in 2020.[7]

Growth in investment appetite has been supported by strong economic tailwinds including record low interest rates, strong returns in equity markets and speculation around increasing inflation into FY22.



[4] Note: This number may include multiple accounts held by an individual investor on separate micro-investment platforms.
[5] Millennials on top: BetaShares Investment Trends ETF Report 2020 (BetaShares, 2021)
[6] ASX Australian Investor Study 2020, p.13 (ASX, 2020)
[7] Investment Trends 2020 2H Online Investing Report (Investment Trends, 2020)

Industry Insights

Market share: Demand is driving innovative products

The year began with 5 micro-investing products in the market: Raiz, Stake, Spaceship, Goodments and Commsec Pocket.

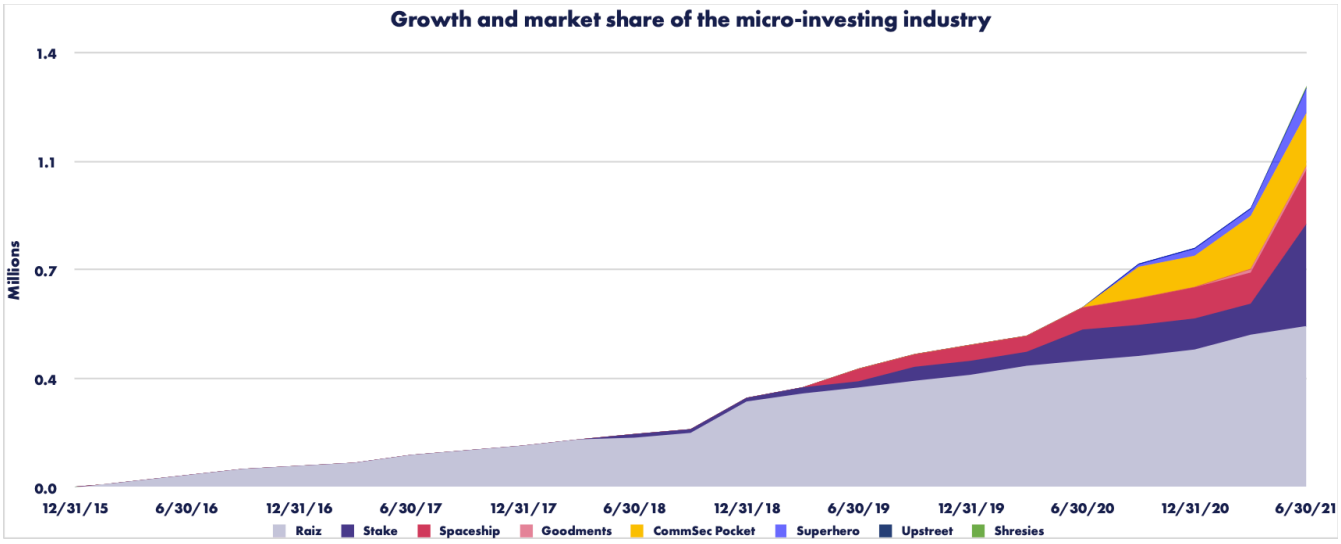
Although all 5 products experienced exceptional growth during the year, both Stake and Commsec Pocket saw their market share increase substantially during FY21.

During the year, niche platform Goodments was purchased by listed neobank Douugh in a transaction valued at just $1.5m.

The year also saw the launch of 3 new micro-investing products: Superhero, Upstreet and Sharesies.

Of these, Superhero has grown the most rapidly and reported 80,000 accounts by year-end.

As the micro-investing landscape matures and supports a greater number of providers, it is expected these (and future entrants) push further into the market share of incumbents.





Product Insights

Technical features are standardising across providers

As the number of products expands, the technical feature set present across the sector is becoming increasingly standardised.

Many providers now support user-friendly account funding experiences incorporating Direct Debit or PayID technologies (rather than Direct Deposit) and several providers offer 'recurring investment' instructions.

Most providers now allow account holders to hold fractionalised investments (rather than requiring an account holder to purchase whole shares or units).

Some providers require the customer to pre-fund a 'cash hub' or brokerage account that is used to fund transactions, whereas others fund investments via direct debit.

Novel features, such as 'Roundups' (offered by Raiz), 'Invest-back' (offered by Raiz and Upstreet) and 'Share Rewards' (offered by Upstreet) remain differentiators that have not been widely adopted by other providers.

The minimum investment amount varies between providers, with $0 being offered by 3 providers.

Feature Comparison Chart

	Common Features					Unique Features			
	Direct debit funding	PayID funding	Lump sum investments	Recurring investments	Fractional investments	Roundups	Invest-back	Share rewards	Minimum investment
Raiz	✓	X	✓	✓	✓	✓	✓	X	$5
Stake	X	X	✓	X	✓*	X	X	X	$50
Spaceship	✓	X	✓	✓	✓	X	X	X	Nil
Goodments	✓	X	✓	✓	✓*	X	X	X	$100
CommSec Pocket	X	X	✓	✓	X	X	X	X	$50
Superhero	X	✓	✓	X	✓*	X	X	X	$100
Sharesies	✓	X	✓	X	✓	X	X	X	Nil
Upstreet	X	X	X	X	✓	X	✓	✓	Nil

*Note: Available for US stocks only.

Features descriptions

Direct debit: The ability to pull money from an Australian bank account in the investor's name automatically once authority is given.

PayID: The ability to fund an investment account via PayID.

Lump sum investment: The ability to make an investment of a specified investment amount.

Recurring investments: The ability to automatically execute an investment on a regular basis (e.g. weekly, fortnightly or monthly).

Fractional investment: The ability to invest any dollar amount (subject to minimums and maximums), and not be restricted to investing in a whole number of shares or units.

Roundups: The ability to connect your investment account to a payment card and set variable investment amounts based on card spend, investing the difference (e.g. 'round up to $5').

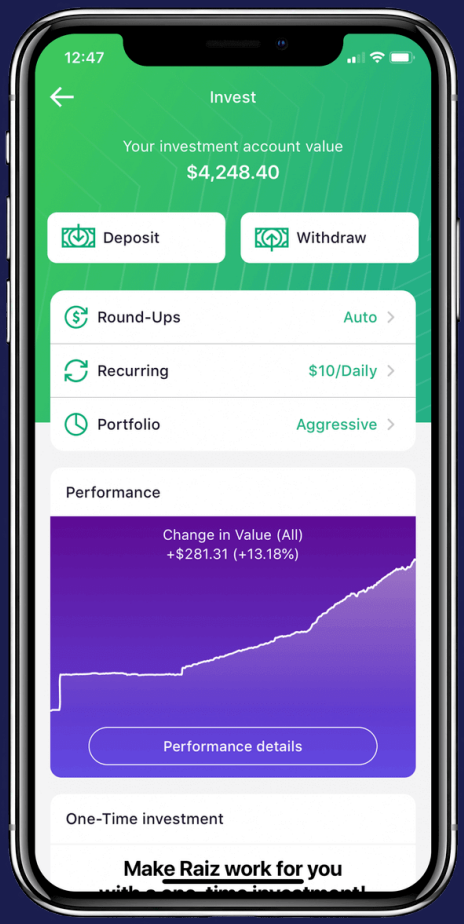
Invest-back: The ability to earn a rebate on purchases made with participating retailers, which is contributed into your investment account.

Share rewards: A subset of 'invest-back', where the rebate is provided by a listed company and is invested into shares of that listed company.

Minimum investment: The minimum amount a person may invest in the product.

Product Insights

Unique features

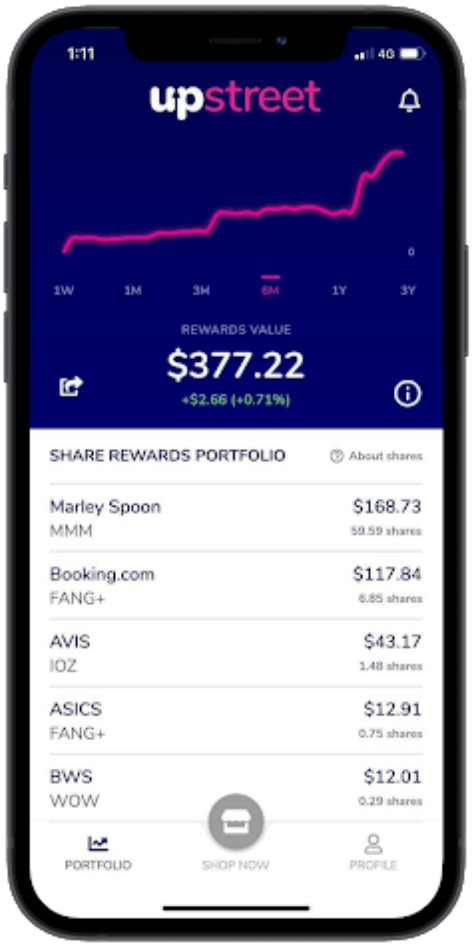


Roundups

Raiz (previously Acorns) was the first micro-investing app to enter Australia in 2016 and secured its place in the market with the unique feature of 'Roundups'.

Roundups have subsequently been adopted as a feature by several banks, including ING and Up, as a way to move small amounts from transactional accounts into savings accounts (rather than into investment accounts).

Although Raiz remains the market leader, no other micro-investing provider considered in this report has offered a roundup feature to their account holders.



Invest-back

Both Raiz, and now Upstreet have brought to market a feature known as 'invest-back', where customers that make purchases at participating retailers receive a 'reward' contribution funded by the retailer into their investment portfolios.

Reward amounts are typically calculated as a percentage of eligible spend and are funded in arrears.

The 'invest-back' category is often compared to the larger and more established 'cash-back' platforms such as cashback.com.au and cashrewards.com.au.

Share Rewards

Upstreet has taken the invest-back concept further – by allowing listed retailers to reward customers with fractional interests in their own listed shares, rather than simply a diversified portfolio.

According to Upstreet,[8,9] retailers that reward customers with their own shares through the platform enjoy the following loyalty benefits:

- increased frequency of purchase
- increased basket-size
- brand advocacy behaviours
- willingness-to-pay premium prices

[8] Share Reward Programs, A Rare Strategy for Achieving True Loyalty (Upstreet, 2020)
[9] Share Reward Programs, Additional Impacts on Customer Behaviour (Upstreet, 2020)

Product Insights

Investment strategies: Pass-through vehicles remain market dominant

To varying degrees, many providers have opted to provide 'pass-through' exposure to underlying ETFs, indexes or listed equities without positioning themselves as providing a unique exposure or investment approach.

The notable exception is Spaceship, who offer bespoke global equity portfolios that meet their internally managed investment criteria (alongside an indexed investment option).

	Investment Options
Raiz	Seven diversified ETF portfolios, including: • Five risk-weighted investment options: - Conservative - Moderately Conservative - Moderate - Moderately Aggressive - Aggressive • An ethical investment option: - Emerald • A diversified ETF portfolio, with a 5% allocation to Bitcoin: - Sapphire There is the additional option of creating a Custom Portfolio, which allows users to select the portfolio weights of up to 14 ETFs and Bitcoin to create their own asset allocation.
Stake	Provides access to over 4,500 US stocks and ETFs
Spaceship	Three global equities portfolios: • An indexed portfolio called the Spaceship Origin Portfolio • A managed portfolio called the Spaceship Universe Portfolio • An 'ethical' managed portfolio called the Spaceship Earth Portfolio Each portfolio invests directly in the companies that make up its strategy rather than investing via ETFs.
Goodments	Provides access to over 2,500 US stocks and ETFs
CommSec Pocket	Provides exposure to 7 Australian ETFs selected by the provider: • iShares Core S&P/ASX 200 ETF (IOZ) • SPDR MSCI Australia Select High Dividend Yield Fund (SYI) • iShares Global 100 ETF (IOO) • iShares MSCI Emerging Markets ETF (IEM) • iShares Global Healthcare ETF (IXJ) • BetaShares Global Sustainability Leaders ETF (ETHI) • BetaShares NASDAQ 100 ETF (NDQ)
Superhero	Provides access to over 7,000 US and Australian stocks and ETFs
Sharesies	Provides access to over 5,000 US, Australian and New Zealand stocks and ETFs
Upstreet	Provides exposure to particular underlying securities and ETFs available as part of their Share Reward program

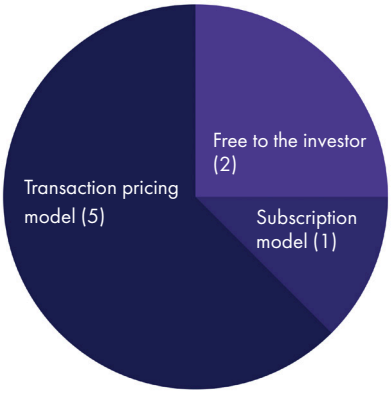



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Product Insights

Pricing: Models vary greatly between providers

Providers operate on very different pricing models and at different price points; no particular pricing strategy appears to have established dominance in the sector.



Some providers offer their product free to the user and monetise their account holders in other ways. For example, Spaceship offers micro-investing accounts for free on balances below $5,000 as the product operates as a 'loss-leader' for its revenue-generating superannuation accounts.

Similarly, Upstreet offers its 'share rewards' program free to all account holders as it charges retailers a fee to offer share rewards through the platform.

Raiz charges fixed monthly fees on standard portfolio balances below $15,000, and raised this fee during the year from $3 p.m. to $3.50 p.m. This fee was $1.50 p.m. when Raiz entered the market in 2016. For account balances of $15,000 and above, the fee is 0.275% per year.*

Finally, several providers rely on transaction fees (and/or FX fees) – including Commsec Pocket, Stake, Goodments, Superhero and Sharesies – however rates vary between providers.

Notably, both Superhero and Sharesies entered the market with a hybrid subscription plus transaction fee model before settling with a transaction fee only model.

It will be interesting to see how industry pricing strategies develop through the coming year.

*Note: The monthly fee is the same for the Sapphire portfolio, except all account holders are also charged 0.275% per year regardless of balance.

The Raiz monthly fee increases to $4.50 p.m. for Custom portfolio account holders on balances below $20,000. For account balances of $20,000 and over, the fee is 0.275% per year (charged monthly, computed daily).

Additional fees and charges may apply.

Product Insights

Structures: Product structures diversify

Micro-investing products are not all structured the same. As the number of products continues to grow, the diversity of product structures is also increasing.

Managed Fund Model

Several micro-investment products are structured as managed investment schemes and registered with ASIC. These structures pool investors' contributions together and manage them on a collective basis. The product issuer can make decisions on how to best manage portfolios on behalf of their investors (consistent with the selected strategy). Investors can invest any dollar amount (e.g. $100) and do not need to trade in full shares. Annual reports are provided to investors on the performance of their product over a year.

Examples: Raiz, Spaceship, Upstreet

CHESS-sponsored Brokerage Model

Commonwealth Bank has leveraged its established position as Australia's largest broker to offer full CHESS-sponsored brokerage in a micro-investing environment. Each investor must trade in full shares or units and will receive unitholder documentation for every asset they purchase.

Examples: CommSec Pocket

Custodial Brokerage Model

Several startups have launched custodial brokerage models, popularised in the USA, in which investor purchases are pooled together and a custodian buys the shares on behalf of the investors collectively. This model may or may not support fractionalised investing, depending on the provider. The platform does not retain any discretion in the management of the customer's portfolio.

Examples: Stake, Goodments, Superhero, Sharesies



About Cache

Australia's #1 Investing-as-a-Service provider

Cache builds, manages and operates white-label investment products so you don't have to do it all yourself.

We are powering a new wave of ground-breaking investment products in Australia, increasing choice and confidence for millions of Australians when it comes to investing for the first time.

If you have a vision for an innovative new FinTech investment product, we would love to discuss it with you!

Learn more:
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Disclosure

Cache acts as fund manager for Upstreet, which has been included in this report.



References

[1] Investment Trends 2020 2H Online Investing Report (Investment Trends, 2020)
[2] Household Financial Comfort Report, 19th Edition, p.29 (ME, 2021)
[3] ASX Australian Investor Study 2020, p.15 (ASX, 2020)
[5] Millennials on top: BetaShares Investment Trends ETF Report 2020 (BetaShares, 2021)
[6] ASX Australian Investor Study 2020, p.13 (ASX, 2020)
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[9] Share Reward Programs, Additional Impacts on Customer Behaviour (Upstreet, 2020)



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