



# The Australian Finance Podcast Episode Transcript

**Episode:** ETF Review: VanEck CLNE ETF (ASX:CLNE)

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**Speakers:** Kate Campbell & Owen Rask

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## Episode transcript:

**Owen:** Good day, Kate Campbell. Welcome to this episode of the Australian Finance Podcast.

**Kate:** Good to be back, Owen, and we're trying something a little bit new today.

**Owen:** Yeah. What are we trying?

**Kate:** The plan is that each month we're going to do a semi deep dive whatever you can get out of 15-20 minutes.

**Owen:** Interesting. Yeah.

**Kate:** On a share or an ETF that's suggested by our community or recent news or something that's typical. We'll do the research and we'll share something that potentially you haven't heard much about before with you.

**Owen:** Yeah. This month, to give some context to that, we're going to do a semi deep dive into an ETF which goes by ticket code, CLNE, which is very popular right now because, you know, you can probably imagine that basically equals clean. And the full name of the ETF is the VanEck Clean Energy ETF. One of ideas that we have which we're hoping to pull off would be we present our community, our Facebook community, the Instagram community, everyone that's on our social media with a list of ETFs or shares and you vote which one we would do a deep dive into that month.

We're going to start by picking our own one which is the VanEck Clean Energy ETF, and we're going to talk about it. We're going to talk about all the basics that you would consider before investing in something like this. This is not going to be a full deep dive to Kate's point so we'll provide some links in the resources which you can then go and investigate yourself.

**Kate:** Yeah. And CLNE is a fairly new thematic ETF. But I just want to say before we start that it's definitely not an ETF recommendation from Owen, myself, or the rest of the team. We don't have any past or current recommendations on CLNE within our services, and neither of us actually own CLNE either.

**Owen:** Yes. That's a really good point. We're going to try and be 100%, 110% transparent with you. So, yeah, when we talk about this, please don't get confused about us talking about this and a recommendation from our Risk ETF service which is for our members. There may be a chance and it's likely that we will come up with an ETF that we recommend at which time we'll let you know if we recommend it. This is kind of like a look at what's going on whereas our members get obviously the full meal they get served all about top ETFs. We're trying to be as transparent as we can. We don't receive anything from any of the ETFs by the way for talking about these either. So, yeah, I guess that's that. One final disclaimer is go and read the PDS, that's the Product Disclosure Statement. I'll be reading some of it today while we talk about it. But go and read it before you invest. I think that's smart.

**Kate:** Yeah.

**Owen:** Okay, Kate, you said something which scared a bit of Jesus out of me just a minute ago. You said thematic ETF. What on earth is a thematic ETF?

**Kate:** Oh my gosh! Thematic ETF, and we had an episode a few months back. It's a little bit different to your typical A200 ETF where you're getting the Top 200 Australian listed company.

**Owen:** I own A200 by the way. Yeah, go on.

**Kate:** Sure. But a thematic ETF, you're investing in a specific theme or a niche maybe robotics, or biotechnology, or in this instance clean energy. And in that ETF, it's only going to be investing in companies that fold within that little niche. In this case, the CLNE ETF gives you access, it's a portfolio of 30 companies. The largest and most liquid companies involved in clean energy production so thinking - solar energy, wind power, hydroelectricity, biofuel and geothermal energy. These are companies you won't find in your typical Top A200 ETF. And so they're very, it's quite a niche ETF. But if you have a specific view about a particular thing that you want to invest in companies but you don't want to pick which clean energy company but you think this is the sector that I want to invest in, you can use ETFs like these to build a position. This ETF is quite new. It only listed in March this year on the Australian Exchange so it hasn't got a huge track record which is one of the things we often talk about. As we record today, it has just over \$68 million of funds on the management.

**Owen:** Let's call it 70.

**Kate:** Okay. We'll round up.

**Owen:** \$70 million and we're recording this on the 4<sup>th</sup> of August just for transparency there. And that is relevant for a few reasons which we'll get to in a few moments. Kate, can you just answer the question then, I guess, like what is the CLNE ETF? What does it say that it does? Can you explain what they say on the tin?

**Kate:** Yes. On the tin, the CLNE ETF, 30 companies. It's tracking the Standard and Poor's (S&P) Global Clean Energy Select Index, so they probably got this created just for them, which is what a lot of ETF providers do if they've got a really niche thing and no one else is doing it. This index measures the performance of 30 of the largest and most liquid companies with businesses related to global clean energy production, technology, and equipment from both developed and emerging markets. According to VanEck, which is the ETF provider that runs this ETF, the transition to clean energy and focus on climate change is one of the world's most important global mega trends and presents a long term growth opportunity which is something that an ETF provider would say if they are advertising an ETF in that niche.

**Owen:** Yeah, that's a good point. Good points all round. Basically, in simple terms, if you think of CLNE, just think of investing in something that is focused on solar energy, wind power, hydroelectricity, biofuel, and geothermal energy. It

all kind of just sounds good. But, when we also talk about thematic ETFs, one thing I want everyone to remember is that sometimes what they say and what actually happens is two different things. Yes, you can have an ETF investing in great companies, you can go to the issuer's website, and you can look at the holdings page and see what's actually in there. But between all of that great marketing and what you actually get in the portfolio and the returns you get from that portfolio can be totally different thing because it depends on how many companies were in there, how long are they earning in the company, what is the tax structure, what's their policy for selecting different shares and removing shares from the ETF, all these different types of things. How about the management fee, Kate? What can people expect to pay over a year?

**Kate:** Yes, so 4- of August their management fee is currently 0.65% per year and I believe looking at their website they are going to be paying 1 distribution each year so that's dividend. But I don't think there has been one yet just because I have not been around for that long. There might be one later this year. But I think most of the companies especially looking for the Top 10, weren't Australian companies so they might not be a huge focus on distribution. This probably wouldn't be an income focus ETF.

**Owen:** Just to address one thing at you, it does look like there was one on June 30- which would make sense.

**Kate:** Oh, okay. There we go.

**Owen:** But it's very, very small. And I think it would have been just the absolute minimum amount they had to do to make sure that the tax losses and gains in that period would pay. There's a big hoo-ha on Reddit, and Facebook communities about my ETF is falling so much on June 30- to July 1-, and that's because ETFs if you know a managed fund structure are required to distribute earnings so whether that's capital gains or income that it was generated throughout the year to the beneficial owners.

**Kate:** Yeah. They don't have discretion like some other investment entities.

**Owen:** Yes. Because you don't actually, with the share, you only incur tax when you get a dividend or when you sell. ETFs are different because all the gains and losses that have been created throughout the year have to be sent to someone because VanEck isn't going to pick up the bill for that. Let me tell you that. So, that's sent to the end investors, and basically what happens is, just so you know, you get a dividend and that dividend or distribution typically reflects the value of the fall that period. That's typically what happens. But it tends to happen in 1 or 2 days which gives people their kind of heebie-jeebies - "I don't know what's going on."

Thematic ETF, Kate, let's say for the CLNE ETF, let's just say you had a 100% of your portfolio and you did want to invest in this, we'll get to at the end whether we do or we don't, but at the end you say, "Okay, I do want to invest in this. It's a thematic ETF. Am I thinking that this should be a big part of the portfolio like 1%, 5%, like it should be smaller or larger?" What can you say to that?

**Kate:** Yeah. Generally, I think for thematic ETFs, and if you're sort of ascribing to that core and satellite portfolio philosophy, which is kind of what I do very loosely, where maybe 80-90% of my portfolio is very core stable positions that I'm not making a lot of changes to maybe a bit of Australian, US property, different ETFs there. And then so, this would probably be if I had a position anywhere between probably 1-5% of my overall portfolio or probably closer to 1% because it is very niched, this ETF, so I probably wouldn't put it in more than 5% of my portfolio. And it only has 30 companies in it so you can look through. That's probably one of the good things that it has only 30 companies because there's enough there that you can have a look through and actually go through each of the companies. Like that wouldn't take you too long compared to something with 5 to thousand companies in an ETF. And so, I would definitely, if that is something that interests me, I would go through and look for at least the Top 10 holdings that make up nearly half the portfolio and say, "Would these be companies I wanted to invest in anyway." I did have a look at a couple of them because I did recognize a couple of names and some were just completely new to me but that's probably how I would approach it being a thematic in a very particular industry.

**Owen:** Yeah. Inside the clean ETF, I'm just going to throw some names that come from their website. We got SolarEdge Technologies, Sunrun Inc., Brookfield Renewable, Enphase Energy which we'll get to in a minute. There

are few others like First Solar Inc., Plug Power Inc., Viridian Energy which is from New Zealand for those of you, and contact is also in the portfolio at the date of recording. But the idea is that you can look through the positions. There are some comparable ETFs like the EARTH ETF that's on ASX, which you probably want to consider. They have exactly the same fees by the way, but they have a totally different portfolio including the number of shares that are in there. Just circling back to how you would put it in a portfolio, because the ETF is quite small at 70 million, it's got a limited track record and it's kind of niche focused so you probably want to consider that. I would say, personally, this would be a tactical ETF. It goes in a small allocation in the portfolio. Even if you are a growth focused investor, for me, it would still be a tactical position simply because it's kind of unproven. It's probably going to be a bit volatile. I was trying to find the rebalancing frequency. I think it's every 6 months which could mean that they are kind of like a rebalancing kind of volatility as well. As in when it changes the portfolio, the price moves around a bit.

And only know they are comparable ETFs. I want to make some distinction here, Sally was just talking to us off air about comparing this ETF to an ethical ETF. You know, ethical investing cause, we drew the line there is a distinction. This is an ETF, CLNE is an ETF that focuses on sustainability. Whereas, an ethical ETF is something that maybe aligns with your personal values so think sustainability a thing good for the planet, think ethical a thing good for me. I mean those two often intertwine but that's a way that you can kind of make sure you're comparing apples to apples. In this regard, the clean energy ETF might be something that aligns with your personal values which is great. But if you're going to compare this to say ETHI, FAIR, E200, VESG, or any of those ethical ETFs, just be aware there's probably a different exposure. You might be comparing ASX shares to global shares in this case. There's a lot of differences.

**Kate:** But even like in a basic ethical Australian ETF, you've got some of the major banks in there.

**Owen:** Yeah. You want to have a look.

**Kate:** You've got all sorts of companies but this is very niched in a particular industry companies doing very specific things. Instead of having some banks and technologies, some whatever retail, all the different industries in the CLNE ETF it's very specific companies. One of the companies which is one of their second largest positions Enphase Energy which is listed on the NASDAQ. It's an American energy technology company based in California, and they actually design and manufacture software driven home energy solutions that go from solar generation, home energy storage, web-based monitoring control. And these companies have a market cap of over \$22 billion. It's been around for over 15 years. It's got 1500+ employees so it's a pretty large company. And so, if you want to get an idea of what this ETF does, even look at the Top 5 companies. Do a little bit of research so you can understand what this ETF is actually investing in.

**Owen:** Yeah. That's a really good point. Actually I don't know much about Enphase. I would just do another distinction. What you're looking at when you look at the portfolio, if you compare the CLNE portfolio holdings on the VanEck website versus say BetaShares' EARTH portfolio on the BetaShares website, you will notice that in the BetaShares fund, there are a lot of names that you'd be familiar with. Things like Zoom, you know internet communications, TESLA which does obviously the electric vehicles. There's another company called DocuSign which does this digital signature so you don't need to print paper. And so, what you can do to Kate's point is you can just look at the Top 10 in the CLNE ETF and then the Top 10 in another ETF. You can see, knowing pretty quickly, "Oh these companies..." Like I wouldn't think of Zoom as like a sustainability focused investment. But, in this case, it might be considered that because it reduces the need for international travel because you can do business meetings via Zoom rather than getting on a plane which we know reduces a ton, literally a ton of greenhouse gases.

**Kate:** I'm sure ETHI tracks quite a different index, not the global clean energy index.

**Owen:** And that's it, yeah. There's so many differences between just the way the portfolios are constructed. You want to compare apples to apples in terms of like are they international shares, is that what I'm doing before I add this to my portfolio, am I happy with all the other ETFs stuff like fees, tax, all that stuff that you find out in the PDS. But then also look in the portfolio and determine, "Oh, well, I'm comparing these two ETFs but they seem totally different."

**Kate:** Yeah.

**Owen:** Companies inside. So, which ones are you more comfortable with? That's the way I would look at it. Kate, so just a quick one, VanEck is a reputable ETF issuer in Australia. They've been going since for a very long time. I think I would say it's over 10 years. [unclear] I had Damon on the show recently for the Investor's Podcast and we talked about the MOAT ETF which is one that I own.

Just the bottom here, what we might leave people with are some resources to find out more. You can head to VanEck, come to their website and find out. You can get a snapshot and a fact sheet there. You can head to the best ETFs website, we'll have a free kind of review on this in the next month. But Kate, if I could just say a blunt question, based on what you know so far and we've only talked about a little bit, would you consider investing in something like the CLNE ETF?

**Kate:** Yeah. I think after spending a couple of hours having a look it definitely would be something that I'll add to my watch list and if it aligns with my portfolio down the track, it would be something I'd consider having a small, very small tactical position in just because it's quite specific and quite niched. But I'd want to have a greater look at some of these companies. Again, a lot of these companies especially the ones in the US, you can actually buy these companies individually if that takes your fancy.

**Owen:** If you prefer, yeah. That's a good point. One of the things you can do is you can actually just look at what's inside ETFs to determine if you want to go and buy those shares yourself. It's kind of a hacky way to get that watch list.

**Kate:** Yeah, I mean, their Top 10 make up half the ETFs portfolio so that's always one way to do it. I mean, it might be a bit harder. Some of these are in different industries in different countries which might be a bit harder to access those exchanges. But definitely the US ones there's a lot of ways you can easily do that from Australia now.

**Owen:** Yeah. One of the things that I do, just so you know, when they get the index of these companies, they actually give a score based on the clean energy exposure score so 1 being good, 0.5 being significant, and 0 being no exposure. The way they say that they select the 30 companies. If there are less than 30 companies with a score of 1, the largest company with an exposure score of 0.5 is selected until the count reaches 30. Basically what they're doing is they're creating a shortlist of companies that score 1, aka good for I guess clean energy ratings. If you wanted to find a list of companies that might have a good clean energy rating, like companies that are involved in that, you can use an ETF like this. Go to the holding page and find out what's inside it to determine those companies you want to own individually.

**Kate:** Yeah. And even looking through the holdings of ETHI just gives you an idea of where to start. If you want to invest in individual shares that suit your values, I think looking just through the ETF Top 10 holdings is a really great way to start your search and learn more about some of the big companies out there.

**Owen:** Yeah. I will give one final plug for our ETF service here. If you want to learn more about ETFs and you want to see which ETFs we recommend, you can use the AFP coupon code, literally AFP, when you join our ETF membership. I don't know exactly what it is but I think with a new price discount that we've dropped that membership service too. You can get lifetime access to our ETF recommendations for \$49, so that's pretty cheap considering now it's lifetime access. Yeah, go check out the show notes. There's more on CLNE. We'll be back next month with an ETF that maybe is of your choosing, so be sure to follow us on social media so you can then tip us in the right direction.

**Kate:** Awesome.

**Owen:** Cool. Kate, as always thanks for joining me.

**Kate:** Thanks for listening.