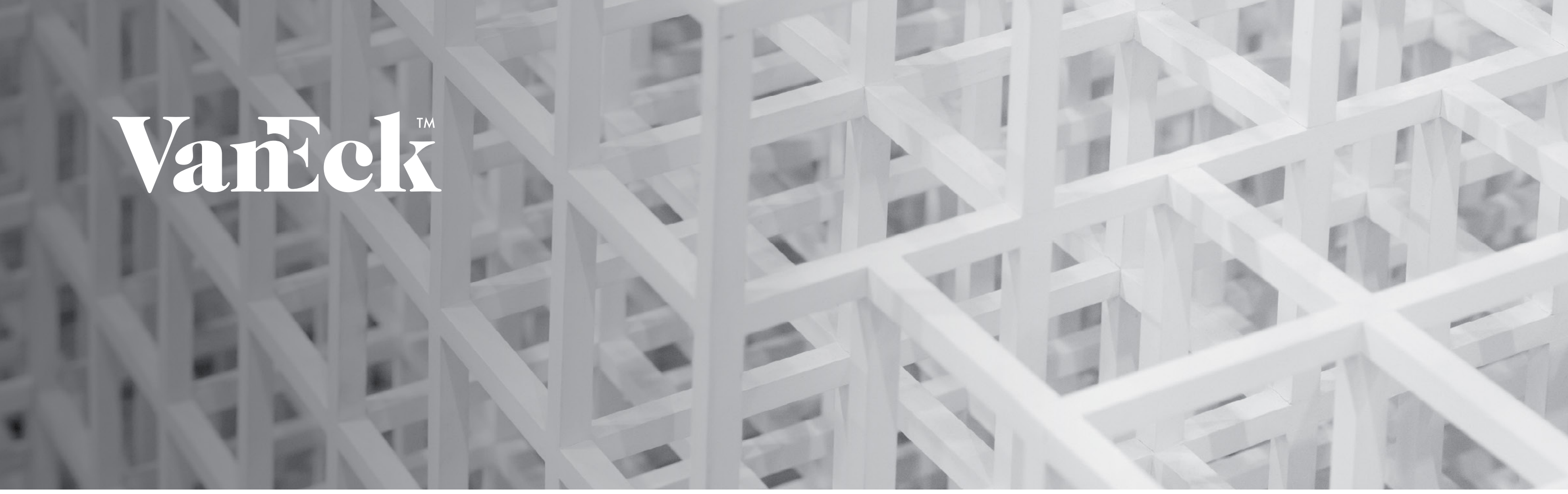


A guide to ETF investment strategies

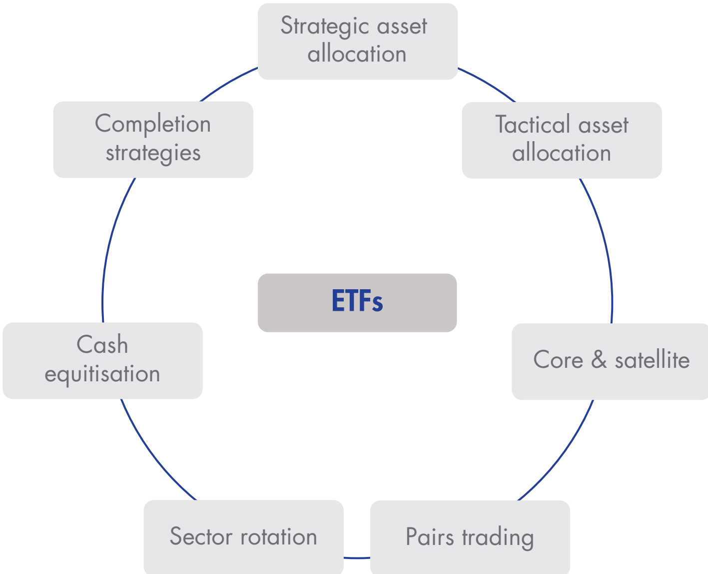
Exchange Traded Funds or ETFs are passively managed 'index funds'.

They hold a diversified portfolio of securities that tracks an index.

They buy the securities that are in the index and generally only change their portfolio when the index changes.

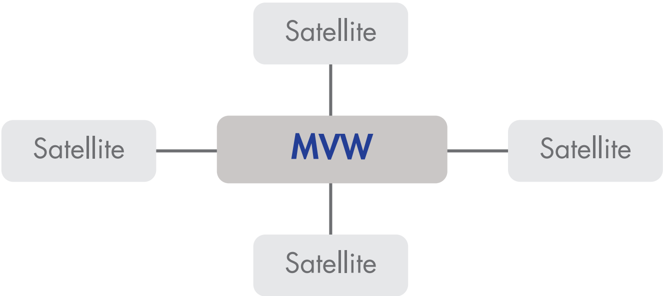
The contrast to this is 'actively managed funds' where the fund manager picks the shares that they think are going to perform the best.

In consultation with a financial adviser or stock broker, investors may adopt various investment strategies using ETFs in their portfolios.



Investment Strategy	Description
Core & Satellite	Use a broad based strategy as a core investment with satellite strategies such as sector ETFs to potentially enhance overall portfolio performance, provide diversification or control risk
Strategic asset allocation	Maximise diversification benefits with strategic allocations to a variety of asset classes
Tactical asset allocation	Establish tactical short term overweight or underweight positions in an effort to outperform the market and/or reduce risk
Sector tilts	Similar to tactical asset allocation by using a sector ETF to tilt a strategy towards a given sector
Cash equitisation	Gain instant short-term market exposure while refining a longer-term investment view
Completion strategies	Gain exposure to specific sectors or asset classes easily by 'filling the holes' in the portfolio
Sector rotations	Use key macroeconomic trading signals to take advantage of cyclical market movements
Pairs trading	Take long position in an ETF and a short position in one of the constituents in the ETF
Diversification / Risk Management	Adding an ETF to a direct equities portfolio can enable increased diversification by reducing stock specific risk

Core & Satellite Approach



As the name suggests this involves building a portfolio by investing in a fund that comprises of a core strategy and adding individual positions or satellites around that core.

A core strategy can be achieved by investing in a broad based index fund, for example VanEck Vectors Australian Equal Weight ETF (ASX code: MVW). MVW is passively managed to track an underlying index of highly liquid ASX listed securities.

It does this by investing in the same companies in equal proportions, as contained in the MVIS Australia Equal Weight Index. MVW provides a sound core around which 'active' satellite positions could be added.

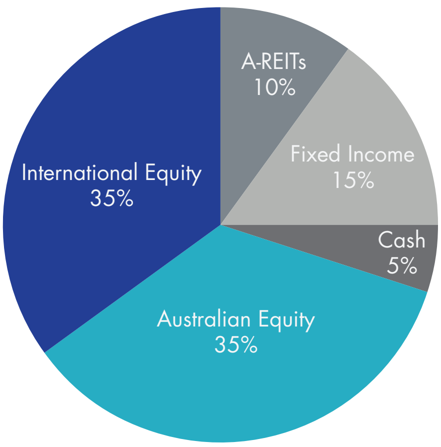
For satellites you could take positions in sector specific index funds and/or individual stocks that reflect your current views on markets. For example, if you think that the resources sector was going to perform you could put a percentage of the portfolio allocated to satellites into a resources sector ETF such as VanEck Vectors Australian Resources ETF (ASX code: MVR).

If you also think a security in your core fund is undervalued and you want to have a larger exposure to it, you can then also buy that security directly.

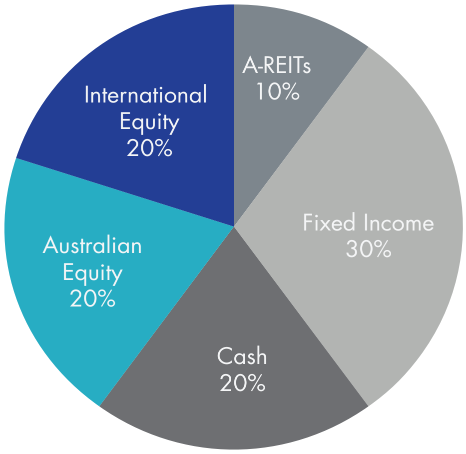
ETFs can be used as both core and satellite investments within that portfolio. Your adviser can help you build a portfolio that contains core and satellite positions to suit your individual circumstances.

Strategic Asset Allocation (SAA)

Growth Portfolio



Balanced Portfolio

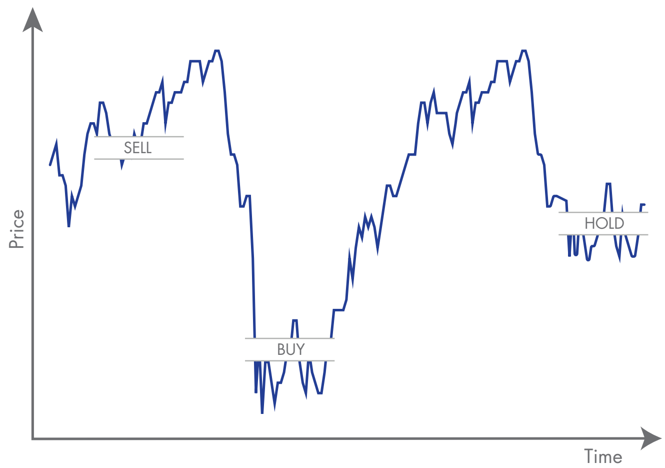


SAA is generally a long term portfolio strategy that involves setting target allocations for various asset classes for the long term and rebalancing the portfolio back to the target allocations periodically when the allocations change due to market movements. Your financial adviser may recommend a SAA strategy across a number of asset classes. You can achieve the recommended exposure to each asset class via investing in different ETFs.

The benefit of ETFs is that they provide investors with a simple and cost effective way to obtain diversified exposure to an asset class via a single trade on the ASX. Using ETFs also means that a SAA portfolio can easily be rebalanced by selling or buying the required percentage of each ETF via simple ASX trades to return the portfolio to the target allocations.

ETFs provide investors with an efficient, cost-effective solution for executing a SAA strategy.

Tactical Asset Allocation (TAA)



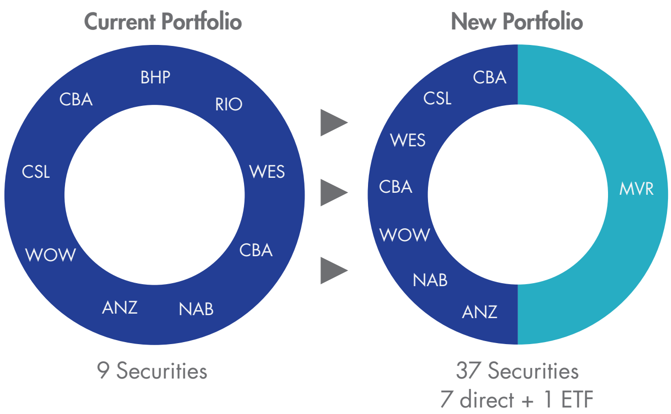
TAA is an active portfolio strategy that takes advantage of short term opportunities in the market with a view to actively generating trading profits. TAA may be implemented at the portfolio level or could be used within the asset allocation of a strategic asset allocation (SAA) strategy.

For example, a SAA that allocates 70% to growth assets comprising Australian equities. If you think that banks are undervalued today, you may decide to tactically allocate some of that 70% to banks.

You can use ETFs to do this type of trading. In this example you could buy VanEck Vectors Australian Banks ETF (ASX code: MVB) for the additional exposure to banks.

If you later decide that banks are overvalued and think property is undervalued, you could switch your TAA from banks to property by selling out of MVB and buying VanEck Vectors Australian Property ETF (ASX code: MVA).

Diversification through risk management



This involves diversifying your portfolio to reduce stock concentration. For example, if an investor likes resources but is only holding BHP and Rio Tinto they can invest in a resources ETF such as the VanEck Vectors Australian Resources ETF (ASX: MVR) which will diversify their portfolio across the largest and most liquid energy and mining shares on the ASX in one trade.

ETFs provide investors with a simple cost-effective way of gaining a diversified portfolio via a single trade on the ASX, thereby reducing stock concentration risk.

The intention of all of these portfolio strategies is to diversify your portfolio. Diversification has been shown to reduce volatility (risk) and improve performance (return). ETFs may be used in each portfolio construction technique above to take active or passive positions and mitigate risk.

Each portfolio construction technique may be used individually or with others. In each case, ETFs can provide a liquid, diversified and cost effective tool to build an investment portfolio that gives you exposure to many different assets classes and markets to assist you to achieve your investment goals.

Summary

The intention of all of these portfolio strategies is to diversify your portfolio. Diversification has been shown to reduce volatility (risk) and improve performance (return). ETFs may be used in each portfolio construction technique above to take active or passive positions and mitigate risk.

Each portfolio construction technique may be used individually or with others. In each case, ETFs can provide a liquid, diversified, cost effective tool to build an investment portfolio that gives you exposure to many different asset classes and markets to asset you to achieve your investment goals.

Benefits of ETFs

ETFs provide investors with simple, cost effective access to a diversified portfolio via a single trade on the ASX.
Other benefits include:

- **Liquidity -** Liquidity is facilitated by a Market Maker. The Market Maker's role is to match buy and sell orders for units on the ASX.
- **Transparency -** ETFs provide investors with transparency of portfolio holdings and market prices. The list of securities held in ETFs are published on a daily basis. Market prices are continuously quoted through each ASX trading day.
- **Low cost compared to actively managed funds -** Since ETFs track an index, they are typically able to achieve lower operating costs. As a result they charge management costs which are generally lower than those of equivalent unlisted actively managed funds.
- **Flexibility -** As they are quoted on the ASX, ETFs give investors the flexibility to trade throughout the day, like trading shares.
- **Taxation advantages –** ETFs deliver better capital gain tax outcomes than managed funds because they are traded on ASX.

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