Media Contacts

Erin Walker
Communications Manager
ewalker@vaneck.com
+61 8038 3319
+61 401 358 682

Brad Livingstone-Foggo
Head of Marketing
bfoggo@vaneck.com
+61 2 8038 3321
+61 422 794 035

VanEck welcomes ASIC's report on ETP industry, but highlights other issues for investors

Sydney, 10 August 2018 – VanEck, one of the world's leading exchange traded product (ETP) providers, has welcomed ASIC's recent report into Australia's ETP industry[1] but emphasises the importance for investors to understand how bid-offer spreads and liquidity can be impacted by different ETPs.

Arian Neiron, VanEck's Managing Director and Head of Asia Pacific, said, "We commend the thorough analysis that ASIC undertook of Australia's ETP industry. ASIC's report is positive for the industry, confirming that it is functioning well and importantly, delivering on its promises to investors. However, ASIC also highlights the need for investors to understand how bid-offer spreads and liquidity can vary between ETP products.

"When an ETP is bought or sold on market there is a spread between the bid price and the offer price. These bid-offer spreads along with the broker's cost are the ETP investor's transaction costs. Differences in spreads may significantly affect investor returns, therefore it is important that investors are aware of the size of the spread and understand the potential impact on their return when buying and selling ETPs," Mr Neiron said.

According to ASIC's report, "ETP trading is generally liquid, bid-offer spreads are narrow and secondary market prices are generally close to the NAV of ETP units. However, this does not necessarily apply to all products, at all times. In particular, we observed that spreads do temporarily widen in some circumstances, meaning individual transactions may involve a higher spread than an investor may consider desirable," ASIC said.

According to Mr Neiron, "Active ETFs are more likely to give investors higher spreads than ETFs which track an index. Active ETFs do not to track an index and they are not required to publish their full holdings at any time, so investors never know, at any time, what stocks or how much cash is being held in the fund. This can lead to higher bid-offer spreads than ETFs which track an index. If the price makers are having to guess what is in the fund they have to set a higher spread to cover their higher risk."

"By contrast, an ETF that tracks an underlying index provides full transparency to all of its underlying holdings on a daily basis and aims to be fully invested in the underlying holdings which is why spreads are generally narrower than Active ETFs," Mr Neiron said.

According to Neiron, "The ETP issuer is also important to consider as larger global ETP providers have better relationships with market makers providing better liquidity. This is a challenge for Active ETFs where the fund is the market maker. ASIC's report rightly highlights that in addition to liquidity constraints, internal market making also leads to additional fees that investors need to be aware of.

[1] Report 583: Review of exchange traded products and retail
https://download.asic.gov.au/media/4835387/rep583-published-02-august-2018.pdf

“There is no doubt that Australia’s ETP industry has been on a strong growth trajectory and will continue to grow rapidly as investor usage continues. However, as the ETP pool expands and new innovations come to market, it is imperative that investors understand what they are investing in and how different ETP mechanisms operate,” Mr Neiron said.

VanEck offers a range of 16 index tracking ETFs on ASX. For more information go to www.vaneck.com.au

ENDS

About VanEck

Founded in 1955, VanEck was among the first asset managers helping investors achieve greater diversification through global investing. Today we are recognised for being a pioneer in global markets and for drawing on our experience to offer innovative solutions. We offer these solutions to individual investors and institutions, including endowments, foundations, pension plans and private banks.
VanEck is one of the world's largest exchange traded product issuers. In Australia our range of ETFs (exchange traded funds) offer investors intelligently designed investment strategies that take advantage of targeted market opportunities. With offices in key financial centres and regions including New York, Sydney, Shanghai, Frankfurt, Madrid and Zurich, VanEck offers investors broad investment reach with deep experience.

Further information about VanEck is available at vaneck.com.au

###