VanEck®
Access the opportunities.

YOUR GUIDE TO

Exchange Traded Funds

ISSUE ONE

WHAT ARE ETFs?

Learn about one of the most revolutionary investment innovations in the last 50 years

Dear Investor

VanEck is pleased to provide you with its inaugural guide to Exchange Traded Funds.

Since the firm was founded in 1955, VanEck has prided itself on providing investors with access to new and exciting opportunities to grow and defend their wealth.

The firm was a pioneer in international investing, giving US investors an opportunity to access stock markets in Asia and Europe that were on the cusp of a post-war economic recovery. In the late 1960s VanEck launched the world's first gold equity fund, allowing investors to participate in the greatest gold bull market of all time.

Today, VanEck is one of the largest issuers of Exchange Traded Funds, or ETFs. ETFs have undoubtedly democratised and lowered the costs for investors to access key investment markets.

VanEck has operated in Australia since 2013 with a focus on providing all investors, from individuals with small accounts to multi-billion dollar superannuation funds, with best-of-breed investment products that give them better opportunities to meet their investment objectives.

Those objectives are invariably different. But we are proud of the fact that our focus on durable funds allows investors to access opportunities that are often under-represented in their portfolios or that offer a new approach to investing in an established investment category.

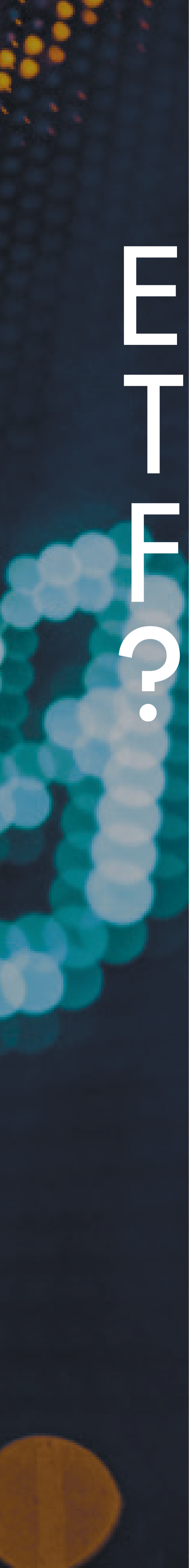
VanEck's Australian suite of ETFs allows investors of all sizes to affordably own high quality international stocks, invest in companies with the highest environmental, social and governance standards, take advantage of China's economic transformation, or own the broader Australian market without being heavily exposed to banks and miners.

These are just some of the possibilities available to investors that embrace ETFs.

We hope this guide will increase your awareness or remind you of these exciting and easy-to-implement strategies to grow and defend your wealth for many years to come.

Sincerely,

Arian Neiron
Managing Director & Head of Asia Pacific, VanEck



WHAT ARE EXCHANGE TRADED FUNDS?

To describe Exchange Traded Funds (ETFs) as one of the most revolutionary investment innovations in almost fifty years is no exaggeration. ETFs have made it cheaper and easier for investors of all sizes to access more markets, and more asset classes, and in more ways.

ETFs are managed funds that can be traded on a stock exchange such as ASX

ETFs are managed funds that can be traded on a stock exchange such as ASX. That means investors can buy and sell these securities in the same way listed shares are bought and sold. All that is required is an active brokerage account.

ETFs pool investors' money, which is then professionally invested and managed by a specialist portfolio manager based on a specific index strategy.

Most ETFs track an index. There are a wide array of indices beyond the S&P/ASX 200, the Dow Jones and the S&P 500. These indices measure the return of a certain market or sector or can be specially constructed to produce a more targeted outcome such as investing in companies with stable profits that are more likely to hold their value as economic conditions change.

Put simply, ETFs seek to provide investors the returns of the index less costs of managing and operating the ETF.

How ETFs are being used

ETFs are proving useful to investors of all sizes.

- Large institutional investors are using ETFs to build exposures to certain markets and asset classes, cheaply and efficiently.
- Institutions have also begun using ETFs as a way to gain exposure to shares with certain characteristics or 'factors' such as 'quality' or 'value'.
- ETFs have allowed individual investors to gain cheap and easy access to the broader Australian share market, or to a specific sub-sector of the share market such as banks or real estate investment trusts (REITs).
- ETFs have also given individual investors simple low cost access to international share markets with funds tied to global indices.
- ETFs have allowed individuals to gain exposure to asset classes that were previously more difficult to access, such as corporate bonds, at a low cost.
- ETFs have been equally beneficial for long-term investors to gain cheap exposure to the market or investors seeking to take advantage of shorter term trading opportunities.

The Australian experience

ETFs have been slower to catch on in Australia than in other markets, such as the United States. But they are now gaining rapidly in popularity.

There are several theories why ETFs were slow to catch on in Australia, even though about $700 billion of superannuation assets are controlled by self-directed investors.

One explanation is that intermediaries did not have the same financial incentives to place their clients into ETFs compared to managed funds and listed investment companies.

ETFs are becoming a more compelling option to many advisers and investors alike. More advisers are reconsidering what investments are in the best interest of their clients. More investors are also questioning their adviser's ability to select a portfolio of stocks that can deliver a better outcome than the broader market or select an active fund manager that can do so consistently after fees.

The alternatives

There are several alternatives to investing in ETFs. One is to select securities individually. This gives investors greater control over their investments but comes with additional risks, such as increased concentration and additional costs – multiple ASX transaction charges and potentially increased adviser or stockbroker fees.

Another alternative is to invest in managed funds that are not traded on exchange.

Most unlisted managed funds employ an active manager that charges higher management costs and often performance fees compared to an equivalent ETF strategy.

While the fund may deliver outperformance net of fees, the probability that it will not is higher than you think.

More recently some active managers have enabled investors to access their strategy on ASX. The corporate regulator, ASIC requires that these funds must not be labelled ETFs without also including the word “Active” and should also include the phrase Managed Fund e.g. ‘ABC Active ETF (Managed Fund)’. This is required to distinguish such funds from true ETFs as they lack important characteristics of pure index tracking ETFs; in particular they do not have to disclose their holdings daily and are typically significantly more expensive.

Another alternative to true index ETFs are listed investment companies (LICs) or listed investment trusts (LITs). These are similar to ETFs in that they are securities that trade on exchange. However unlike ETFs, which are open-ended funds allowing investors to buy or sell their securities at a price that is close to the underlying value of the assets of the fund, LICs and LITs are closed-ended and trade at a price set by the market. This means LICs and LITs can often trade at discounts or premiums, adding to the cost of entering or exiting the position and thereby eroding the value of the underlying investment. Further, at times it can be difficult to buy and sell quantities of these securities at a ‘fair’ price. Many are also more expensive than equivalent strategy ETFs. So liquidity and cost of LICs and LITs are issues for investors compared to ETFs.

What are the risks?

Exchange Traded Funds seek to deliver a return that tracks an underlying index before fees and costs. The investment risk is therefore directly related to the underlying exposure.

ETFs do not set out to outperform their prescribed indices but to replicate them as closely as possible.

However not all ETF indices are selected and designed well. You need to assess the index as well as the ETF’s investment strategy and the issuer.

Things to look for include:

- The rationale for the index construction methodology and whether it is easy to understand.
- Whether the ETF invests directly in the underlying securities or uses complex strategies and derivatives.
- The reputation of the index issuer and fund manager behind the ETF.

As the popularity of ETFs continues to grow and the range of offerings increases it will become more important to ensure the ETF issuer is of sufficient quality and skill to not only select a sensible strategy, but to then design, construct and implement it so that it performs exactly as intended.

You need to assess the index as well as the ETF’s investment strategy and the issuer.

A world of QUALity is within your reach

VanEck Vectors MSCI World ex Australia Quality ETF

Now you can gain exposure to 300 quality international stocks in a single trade on ASX.
Holdings are selected for their quality fundamentals and include Apple, Johnson & Johnson and Google.

Performance of QUAL to 31 October 2019

	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since inception* (% p.a.)
VanEck Vectors MSCI World ex Australia Quality ETF (QUAL)	20.60	19.02	15.70	16.34
MSCI World ex Australia Index	15.83	15.71	13.09	13.67
Difference	**+4.77**	**+3.31**	**+2.61**	**+2.67**

Learn more at vaneck.com.au or speak to your financial adviser or stock broker today.

Indexed to MSCI

ASX CODE:
QUAL

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The table above shows past performance of QUAL and the MSCI World ex Australia Index. *'Since inception' date is 29 October 2014. Source: VanEck, Morningstar Direct. Results are calculated daily to the last business day of the stated period and assume immediate reinvestment of distributions. QUAL results are net of fees and other costs incurred in the fund but before brokerage fees or bid/ask spreads incurred when investors buy/sell on the ASX. Past performance is not a reliable indicator of future performance. VanEck Investments Limited ABN 22 146 596 116 AFSL 416755 is the responsible entity and issuer of QUAL. This is general advice only about financial products and is not personal financial advice. You need to consider your own fi nancial circumstances, needs and objectives before making an investment decision. All investments carry some level of risk. A PDS is available at vaneck.com.au or by calling 1300 683 837. QUAL is not sponsored, endorsed or promoted by MSCI. The PDS contains more details about the risks and the limited relationship between MSCI and VanEck.

INTERNATIONAL OPPORTUNITIES

Australian investors have been rewarded by the stellar long-term performance of the local share market.

The favourable dividend imputation regime has also added to the attractiveness of Australian equities.

The by-product of this success is that Australian investors have a high degree of 'home bias' – that is they own more domestic shares relative to international shares than investors in almost any other country.

An ASX Australian Investor Study conducted in 2018 revealed 75 per cent of shareholders held only Australian shares.

This 'home bias' has cost investors over the last ten years as the domestic market has lagged the performance of the US market, which has dominated global performance.

Home bias also presents significant risks for investors – something that more Australian investors of all sizes are recognising.

Superannuation funds are increasingly spreading their share market exposure across the world and allocating a greater proportion of their portfolios to international shares in both developed and emerging markets.

Growing wealth and diversification are two key considerations for owning more international shares relative to Australian shares. The fortunes of Australian listed companies are broadly exposed to the health of the Australian economy and the main share market index is dominated by banks and miners.

Furthermore the wealth of most individuals is invested or stored in assets, such as property, that are also dependent on the ongoing health of the economy and the banking sector.

For that reason, to achieve better diversification, more Australians are investing in the shares of international companies, whose profits and cash flows have no dependence on the health of the Australian economy.

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Another compelling reason for investors to own more international shares is the fact that today's global leaders and wealth creators are listed in other markets.

Among the international equities ETFs that VanEck offer in Australia are:

ETF Name	ASX code	Management costs* (% p.a.)
International		
China CSI 300 ETF	**CETF**	0.60%
China New Economy ETF	**CNEW**	0.95%
MSCI Multifactor Emerging Markets Equity ETF	**EMKT**	0.69%
Morningstar Wide Moat ETF	**MOAT**	0.49%
MSCI World ex Australia Quality ETF	**QUAL**	0.40%
MSCI World ex Australia Quality (Hedged) ETF	**QHAL**	0.43%
International Sustainable Investing		
MSCI International Sustainable Equity ETF	**ESGI**	0.55%
Global Sector		
FTSE Global Infrastructure (Hedged) ETF	**IFRA**	0.52%
Gold Miners ETF	**GDX**	0.53%
FTSE International Property (Hedged) ETF	**REIT**	0.43%

*Other costs may apply. Please refer to the PDS.

Technology companies such as Apple, Google, Amazon and Facebook are creating shareholder wealth on an unparalleled scale, and in some instances, disrupting the business models of Australian companies.

Beyond the technology giants, illustrious consumer companies such as Nestle, which invented the Nespresso coffee pods, and sporting goods giant Nike, are proving adept at growing profits in new markets to create shareholder wealth. Along with the US technology giants, these are companies that are relevant to the lives of everyday Australians.

Investors too are also aware that many companies that will capture the next phase of growth are in emerging markets, where 60 per cent of the world's population resides. It is in emerging markets that middles classes are growing and consumers are spending and demanding more.

International equities was the most popular sub-sector among Australian exchange traded products, attracting $13.2 billion of inflows in 2018.

Traditionally these opportunities have been costly and difficult to access for Australian investors. ETFs enable Australian investors to access diversified portfolios of international companies, including in developed and emerging markets, as easily and cost-effectively as buying a single local share.

Currency risk

One important consideration for investors that are choosing to own international shares is the risk associated with foreign currency. This is the risk that unfavourable fluctuations in the value of the Australian dollar relative to other currencies will adversely affect the value of the investment measured in Australian dollars, due to the underlying securities being based in foreign currencies. A rise (or appreciation) in the value of the Australian dollar relative to foreign currencies could decrease the value of an Australian's investment in international shares. A fall (or depreciation) in the value of the Australian dollar relative to foreign currencies could increase the value of the investment.

For those investors that seek diversification and growth benefits offshore without the currency risk, there are a range of 'hedged' ETFs available on ASX that aim to reduce the impact of currency fluctuations.

Smart beta

Smart beta is often described as combining the best of active investing in which there is a targeted outcome with passive investing, which is rules based, transparent and cost effective.

While ETF's have exploded in popularity in recent years, another revolution in index investing has also taken hold – the rise of 'smart beta.'

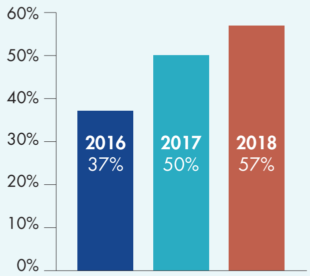
'Smart beta' has become the commonly used term to describe a financial market index that differs from the traditional market capitalisation weighted index.

The word 'beta' is the technical term for the market return, which is determined by indices like the S&P/ASX 200. The 'smart' description denotes that considerable thought has gone into constructing the index with an investment outcome in mind that differs from the market return. That outcome could be a focus on income, by owning an index of stocks that pay relatively high dividends or a focus on achieving positive returns by owning companies perceived to be undervalued based the ratio of their price relative to their earnings.

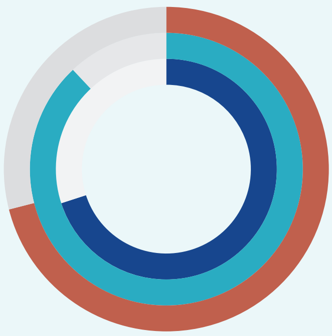
The 'smart beta' trend has grown into a multi-billion dollar industry globally as more sophisticated investors have realised that allocating capital to passive funds using alternative weightings to market capitalisation could give them better returns for the same amount of risk.

Many tried and tested smart beta strategies are available for investors to access via ETFs that track such indices. In fact, the popularity of smart beta strategies means this sub-sector is growing at a faster rate than the broader ETF market or the active asset management industry.

More financial advisers are using smart beta in portfolios



57% of financial professionals are using smart beta in client's portfolios in 2018



70% of financial professionals are using smart beta strategies to replace active funds

88% believe smart beta will outperform or perform in line with active strategies

71% of financial professionals currently using smart beta strategies plan to increase their allocation in the next 12 months

Source: VanEck, 2018 Adviser Smart Beta Survey

HOW SMART BETA CAN WORK FOR Y

VanEck has made a number of smart beta strategies available to Australian investors via ETFs. These have not only proved popular with investors but achieved the desired outcomes of diversification, performance and risk management.

The equal weight advantage

Among the most popular smart beta strategies is the VanEck Vectors Australian Equal Weight ETF (ASX: MVW). The fund simply seeks to track an index of the largest and most liquid Australian listed companies, which are weighted equally rather than based on their market capitalisation.

The S&P/ASX 200 index is one of the most concentrated in the world with the top 20 companies accounting for more than 60 per cent of the index while four of the top five holdings are banks. Financials make up over 30 per cent of the index.

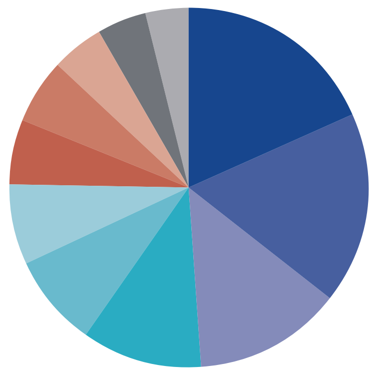
The equal weight index which MVW tracks, offers an alternative to the highly concentrated S&P/ASX 200 index by firstly selecting only the most liquid stocks, then weighting them equally, resulting in a portfolio of around 88 companies and reducing the exposure to highly concentrated sectors such as financials and resources.

The long term performance of the equal weight index demonstrates better risk characteristics than the market capitalisation weighted S&P/ASX 200.

That means the better performance is not the result of greater risk-taking, it is the result of better diversification in the smart beta approach compared to the market capitalisation equivalent.

Given the particularly high concentration of the Australian share market, this simple smart beta approach is an attractive alternative to the broader share market and actively managed funds that tend to be close to the benchmark rather than manage their inherent risks and therefore struggle to outperform.

MVW has been awarded the Winner of *Money* magazines Best of the Best Australian Share ETF for two years running in 2018 and 2019.



Financial-x-Property Trusts	18.41%
Materials	17.37%
Industrials	13.27%
Property Trusts	10.87%
Energy	8.27%
Consumer Discretionary	7.14%
Health Care	6.04%
Consumer Staples	5.71%
Communication Services	4.67%
Information Technology	4.62%
Utilities	3.64%

MVW sector weightings (%) as at 31 October 2019.
Source: FactSet

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A world of quality

As Australian investors consider investing more of their wealth in international shares, the choice of companies and markets to own can be an overwhelming one.

One option is to invest in a diversified range of high quality companies. Defining 'quality' can be subjective. But in the investing world, 'quality' companies can be identified as those that achieve high returns on equity, deliver stable and consistent growth in earnings that are not correlated with the business cycle, and maintain low levels of debt.

The VanEck Vectors MSCI World ex Australia Quality ETF (ASX: QUAL) tracks an index for which one of the world's leading index providers, MSCI, selects 300 stocks from developed international markets based on these characteristics of 'quality'. Companies include Microsoft, Johnson & Johnson and payments giants Visa and Mastercard.

Historical studies have shown that companies that have demonstrated their ability to achieve high returns on equity, steady earnings growth and financial discipline are more durable during economic downturns and recover quicker from market shocks.

Since its inception in 2014, QUAL has achieved stronger returns than the broader MSCI World ex Australia Index by systematically investing in companies that meet the index's 'quality' criteria.

QUAL has not only proved successful in bettering the returns of the broader index, in fact, the strategy's long term performance has bettered or kept up with the performance of many active fund managers, and at a substantially lower cost.

A hedged version of QUAL is available under ASX trading code QHAL.