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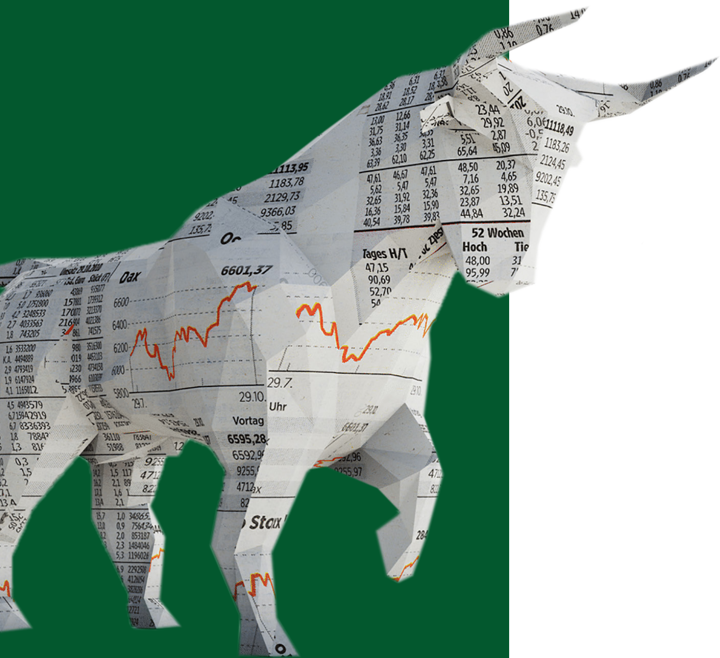
Access the opportunities.

INTRODUCTION TO ETF INVESTING

ETFs are an efficient, low-cost way of investing in stocks and other assets.



What is an ETF?

An ETF trades on the stock exchange just like a stock. However, while a share represents an investment in one company, ETFs enable you to invest in a range of companies or assets in one trade, saving you time and money. This is because an ETF is like a "basket" that consists of a range of stocks or other assets.

Since being launched in 1993, there is now more than $8 trillion invested in ETFs globally and more than $55 billion invested in ETFs in Australia.

ETFs are the fastest growing sector in asset management in Australia.

ETFs combine the benefits of managed funds and listed shares

Like managed funds, ETFs pool money from investors into a 'fund' which is professionally managed. Like listed shares, ETFs trade on ASX so investors benefit from simple trading and pricing throughout the trading day. An ETF's value is determined by the selection of stocks or assets it holds, which means when you buy or sell an ETF, you know you're getting a fair price. This is different from unlisted managed funds where investors can only invest and withdraw directly with the fund manager based on a single daily price which investors do not know until the next day.

ETFs = Exchange Traded Funds

"Exchange Traded" means you can trade this product in the same way you would trade a share: you buy and sell it on the stock exchange.

"Fund" means money that is pooled together for a particular purpose.

Features of ETFs compared with other common financial products

Investment vehicle	Listed on ASX?	100% holding transparency	Live pricing	Live trading	Diversified exposure via one trade
ETFs	Yes	Daily	Yes	Yes	Yes
Direct shares	Yes	-	Yes	Yes	No
Unlisted managed funds	No	No	No	No	Yes
Listed Investment Company (LIC)	Yes	Monthly	Yes	Yes	Yes

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Why ETFs are so popular

Diversification with a single trade

ETFs allow investors to easily diversify their portfolio across asset classes and sectors both locally and internationally. For example, you may want to invest in the banking sector. If you were to buy a stock, you'd have to decide which bank you think would deliver the best returns/growth. Alternatively, you could invest in an ETF that focuses on the whole banking sector, giving you exposure to all the big banks in one trade.

Liquidity

With an ETF, you can buy and sell your investment simply and quickly on ASX. ETFs have an extra layer of liquidity because ETF providers use an external third party called a 'Market Maker' to create the "baskets" of stocks that make up the ETF on ASX. The Market Maker's role is to match buy and sell orders for ETF units on ASX which means you can buy when you want and sell when you need.

Transparency

ETFs provide investors with a high level of transparency. Typically, an ETF's list of securities (ie the stocks or assets that make up the ETF) are listed on the ETF provider's website, along with the market price of the ETF. For example, the portfolios of securities held in VanEck's ETFs are published on our website and updated on a daily basis. Market prices are continuously quoted during each ASX trading day. In addition, the "rules" or strategy used to determine what stocks/assets are included in a particular ETF are also easily accessible. You can find these descriptions on the product pages on our website.

Lower fees

As ETFs follow a set of rules or theme (which is referred to as an "index"), they are typically able to achieve lower operating costs. As a result, they charge management costs which are generally lower compared to "actively managed" funds, which have a manager or management team that makes decisions about how to invest the fund's money.

Increased accessibility

Diversity is one of the golden rules of investing. However, most Australians don't have direct access to invest in international markets and some asset classes. ETFs have removed that barrier. Through ETFs, Australian investors are able to gain exposure to American tech stocks, emerging markets and many other options that would otherwise be very difficult to gain access.

Flexibility

As they are quoted on ASX, ETFs give you the flexibility to trade throughout the day, just like trading shares. Like a share, 'bid' and 'ask' prices (aka 'market prices') for ETFs are published on ASX and online broker websites. ETFs that hold ASX listed companies are also required to publish an indicative unit price called an 'iNAV'. The iNAV allows investors to track the fair value of the ETF unit prices against market prices throughout the day to help decide when to buy and sell. iNAVs are available from brokers or financial advisers.

Tax advantages

ETFs typically have low turnover and therefore generate low levels of capital gains tax liability, compared to actively managed funds.

Additionally, ETFs shield investors from higher capital gains tax liability resulting from withdrawal by other investors. In unlisted managed funds, when an investor withdraws from the fund they leave behind the capital gains created through selling shares to pay their withdrawal. If there are a lot of investors withdrawing this can be a significant tax burden for the remaining investors. This does not happen with ETFs as the withdrawal mechanism is totally different.

There are more potential tax benefits when you invest in ETFs, see our website for more details.

Key Risks

All investments carry some level of risk.

Risks associated with ETFs include the same risks as investments in financial markets generally, such as: individual company risks; financial markets generally, including investor sentiment and ASX trading; liquidity; concentration of holdings; foreign currency; regulatory and tax changes; political and economic events and natural disasters. Different industry sectors, countries and asset classes have different risks.

Because an ETF is a fund, it also has risks associated with fund operations and investment management including tracking error; the risk that the index may change or the fund may close.

You should always read the relevant PDS for details of the key product features including the key risks and speak to a financial adviser to help you understand investment risk, and design an investment strategy that is right for your individual risk tolerance, financial situation, needs and objectives.

FOR MORE INFORMATION

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