



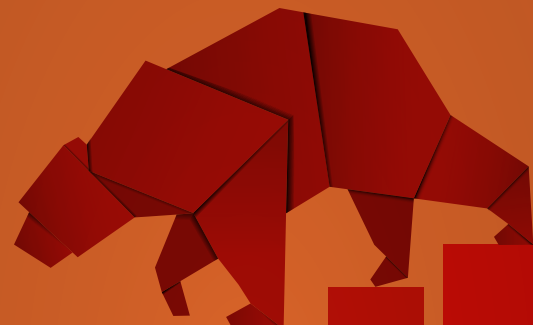
**BetaShares**  
Exchange Traded Funds

INVESTOR INSIGHT



# EXCHANGE TRADED FUNDS

The Basics



# **OFFERING ACCESS TO ALMOST EVERY CORNER OF THE MARKET & EVERY MAJOR ASSET CLASS, EXCHANGE TRADED FUNDS NOW OFFER AUSTRALIAN INVESTORS A BROAD RANGE OF INVESTMENT OPTIONS.**



*This Investor Insight has been written to help you learn more about exchange traded funds, and find out how they can be used as flexible, cost effective tools in your investment portfolios.*

## **What is an Exchange Traded Fund (ETF)?**

An ETF is an investment fund, similar to a managed fund that is traded on a stock exchange – just like any other share.

ETF's are one of the fastest growing categories of investment products in the world. The reason for this is clear – ETFs offer simple, liquid, transparent, low cost and flexible investment options for investors.

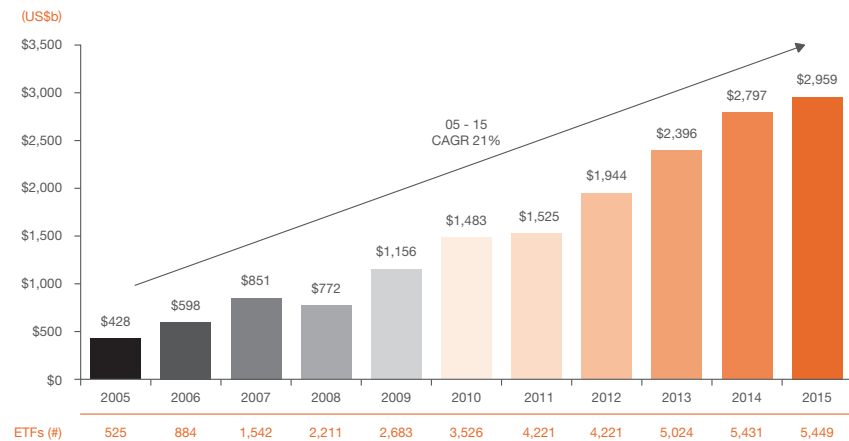
The aim of the majority of ETFs is to closely track the performance of a given index or asset class, and provide the returns of that index/asset class - less any fees. ETFs provide access to a range of bonds, shares (both domestic and global), or other asset types (such as commodities or listed property).

## The global growth of ETFs

The global growth of ETFs are one of the fastest growing categories of investment products in the world. As of October 2016 the global ETF industry had just over US\$3 trillion of assets under management. Some experts predict this to double by 2020, the expectation being that, as more people realise the benefits of investing in ETFs, more money is likely to be allocated to these products, away from managed funds and direct equities. (Source: PWC ETF 2020 report).

Globally, the market for ETFs has grown exponentially since the first ETF was launched on the New York Stock Exchange in 1993. The graph below shows the growth of the ETF industry globally, including the number of exchange traded products available to investors.

### Global ETF industry: AUM (US\$B) 2005-2016



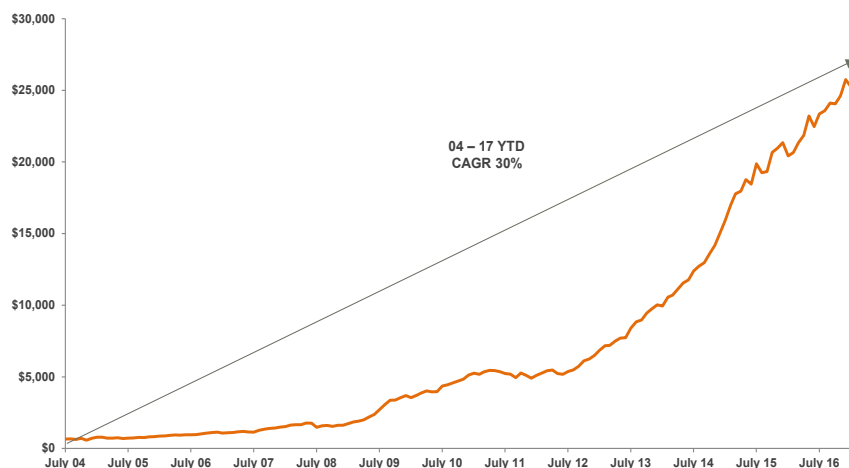
CAGR: Compound Annual Growth Rate. Source: Blackrock 1). Includes all exchange traded products (e.g. exchange-traded funds, exchange-traded commodities and exchange-traded notes)

## The Australian market for ETFs

Australian investors' appetite for ETFs has grown dramatically in the last decade, and this is expected to rise as more investors learn about the benefits that ETFs can provide. In particular, self-managed super fund (SMSF) investors have been early adopters of the products, and currently represent 38% of all investors in ETFs.

(Source: BetaShares/Investment Trends ETF Report 2016)

### Australian ETP Market Cap: July 2004 – February 2017 (A\$m)



CAGR: Compound Annual Growth Rate. Source: ASX, BetaShares. Includes all exchange traded products (e.g. exchange-traded funds, exchange-traded managed funds and exchange)



#### BENEFITS

ETFs offer investors the best of both worlds: the diversification of an investment fund, and the convenience of a direct share investment.





#### LEARN MORE

For more answers and information about ETFs, visit [betashares.com.au](http://betashares.com.au)

## How do ETFs compare?

ETFs provide an alternative investment option, and one that is typically more accessible and cost effective than other products – such as traditional managed funds (i.e. funds that are not exchange-traded) or listed investment companies (LICs).

	Traditional Managed Funds	ETFs	LICs
<b>Expenses &amp; Fees</b>	Buy/sell spreads, typically higher active management fees, possible performance fees	<b>Low</b> – typically lower management fees and no performance fees, brokerage costs, bid/offer spreads	<b>Variable</b> – management fees, brokerage costs, bid/offer spreads
<b>Diversification</b>	<b>Variable</b> – dependant on the fund	<b>Generally high</b> – exposure to performance of an entire index	<b>Variable</b> – dependent on the fund
<b>Minimum investment</b>	<b>Variable</b> – can be high	No minimum investment	No minimum investment
<b>Pricing</b>	Varies from end of day to weekly or even monthly	Real time continuous intra-day pricing	Real time continuous intra-day pricing
<b>Liquidity</b>	Varies significantly from high to limited liquidity depending on structure	<b>High</b> – liquidity of ETF at least as liquid as their underlying holdings	Limited by market depth
<b>Accessibility</b>	<b>Low</b> – entry via manager or intermediary (Platform or advisor) – generally high administrative burden	<b>High</b> – purchased like a share	<b>High</b> – purchased like a share
<b>Transparency of underlying portfolio</b>	<b>Low</b> – can be opaque	<b>High</b> – portfolio constituents available on a daily basis	Varies

## Buying and selling ETFs

Buying and selling an ETF is very straightforward. ETFs trade exactly like an ordinary share, so if you are able to buy and sell shares then you are able to buy and sell ETFs. Like shares, ETFs can be bought and sold at any time during the ASX trading day through a stockbroker. That means there is no need open a separate trading account beyond your existing share brokerage account.

## Advantages of ETFs



### Simplicity

ETFs help investors gain exposure to a range of investment strategies, geographic regions and asset classes.



### Liquidity

ETFs are traded on the Australian Securities Exchange (ASX) so can be bought and sold just like shares during the trading day.



### Transparency

Information relating to ETFs, including underlying portfolio holdings and fees, can be accessed at any time via the fund manager's website.



### Cost-effective

Because ETFs either aim to simply track the performance of an index or asset class or follow a rules-based methodology, there are no in-built 'active management' fees to worry about.



### SMSF friendly

Just like shares, ETFs are eligible to be bought inside Self-Managed Super Funds, and the popularity of ETFs has been growing strongly with this client base.

## Considerations

ETFs are a simple and cost-effective way to gain exposure to different investment strategies. However, as with any type of investment, there are things to consider. Before investing BetaShares recommends you:

- ▶ Contact a financial adviser or broker
- ▶ Evaluate your investment goals
- ▶ Understand the ETF structure, objective of the fund and costs involved by reading the relevant Product Disclosure Statement (PDS).



### THE IMPORTANCE OF FEES

*Multiple studies have shown that management fees are one of the most influential factors that impact on portfolio performance. The lower your costs, the greater your share of potential investment returns.*



### LEARN MORE

*Learn more about our Funds, including fund attributes and performance, by going to the product page on our website.*



## Cost effectiveness

One of the key benefits of an ETF is cost-effectiveness.

Because ETFs typically aim to track an index or asset class, ETF managers do not need to make active decisions about which stocks to buy, hold or sell, so the costs of these products can be kept low.

ETFs charge a simple management fee and no performance fees. By contrast, managed funds typically charge higher management fees and, depending on the fund, may also charge performance fees.



### INVESTOR FLEXIBILITY

#### Example 1

*A 'Sector' ETF can be used by an investor in order to simply obtain exposure to a particular industry sector such as healthcare, energy or technology companies.*

#### Example 2

*Investors can use a broad market Australian shares ETF to 'buy the market' and instantly gain exposure to the Australian Sharemarket in a single trade as a core component of their portfolio.*

## Using ETFs

ETFs offer investors flexibility to implement a wide range of investment strategies. For example:

- ▶ Portfolio construction and asset allocation: ETFs can be used as core holdings in a portfolio and as building blocks for portfolio construction.
- ▶ Core / Satellite strategy: ETFs can be used to build a core portfolio of broadly diversified indices or asset classes. Single individual stocks can then be added as alpha generating 'satellites'.

## Self-Managed Super Funds and ETFs

If you are managing your own super-fund and considering adding ETFs to this fund, you are not alone. The BetaShares/Investment Trends ETF Report found that the number of SMSFs holding ETFs has grown from 76,000 in 2014 to 83,000 in 2015. The connection in the growth of SMSFs and ETFs is not a coincidence, as the forces driving the surge in popularity in each are essentially the same, that is, investors' desire to:

- ▶ Take control of their investments
- ▶ Reduce the costs of investing
- ▶ Improve transparency and simplicity in their investments
- ▶ Improve the tax outcome of investments.

## Why choose BetaShares ETFs?

BetaShares is a leading Australian manager of ETFs, proudly born in Australia and run by Australians. Our philosophy is to create intelligent investment solutions, which help broaden investment possibilities for Australian investors.



### Local focus

Our local focus allows us to bring products to market that are specifically designed for Australian investors.



### Innovation

BetaShares has one of the largest and most innovative ranges of ETF products on offer to Australian investors – enabling access to a wide range of market indices, strategies, global sectors and asset classes.



### A leading ETF manager

BetaShares has one of the largest dedicated ETF teams in Australia, currently managing over \$3 billion in assets.



### ATTENTION

*As with any investment, potential investors should consider whether the relevant ETF is right for their particular circumstances, including their tolerance for risk, and obtain financial advice.*

## BetaShares: an award winning ETF Manager

Since our inception, BetaShares has been recognised for its excellence by a number of trusted researchers and industry partners. Recent accolades include the Lonsec Money Management Fund Manager of the Year – ETF Provider award, and the Professional Planner/Zenith – ETF Manager of the Year 2016.



# CONTACT

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## IMPORTANT DISCLOSURE

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