

Exchange Traded Funds (ETFs) & Exchange Traded Commodities (ETCs)

Fact Sheet



AUSTRALIAN SECURITIES EXCHANGE

Exchange Traded Funds (ETFs) and Exchange Traded Commodities (ETCs) have emerged as one of the fastest growing investment products in the world. Since first launching in North America in 1989, ETFs have grown in popularity throughout North America, Europe, Asia and now, Australia.

What are ETFs and ETCs?

Exchange Traded Funds / Exchange Traded Commodities are investment funds, traded on an exchange, that invest in a basket of securities or other assets and that generally seek to track the performance of a specified index or benchmark, such as the S&P/ASX 200 index.

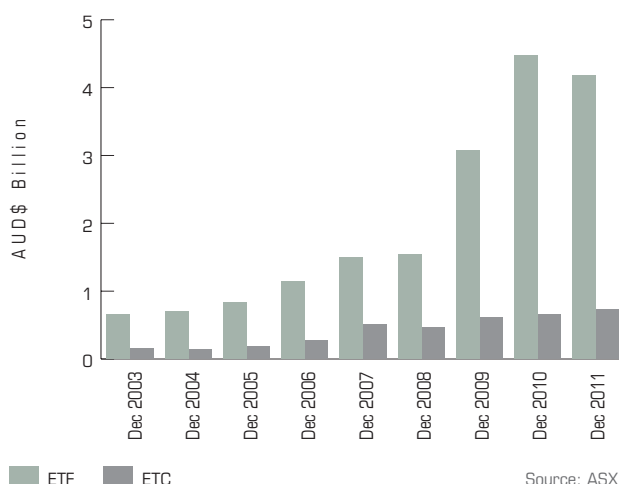
The underlying investments may include a variety of shares (Australian or international shares), currencies or a combination of asset classes.

What are ETCs?

ETCs track the price performance of an underlying physical commodity such as silver and gold or a commodity index allowing investors to gain direct exposure to the underlying assets without the need to trade futures or take physical delivery of the commodity.

Both ETFs and ETCs are designed to be a simple, flexible, cost-effective investment vehicle with comparatively low charges to investors because administration costs are reduced through the listed environment.

Growth in ETFs and ETCs



Updated statistics can be viewed at www.asx.com.au/etf under the 'Market Update' icon

What are the benefits of ETFs and ETCs?

Simple, easy diversification

ETFs and ETCs provide investors with the ability to simply and cost-effectively diversify their portfolio through a single security with minimal time and effort.

Low cost

As ETFs and ETCs are typically able to achieve lower operating costs, the management fees are significantly lower than other unlisted alternatives such as managed funds.

Returns from capital appreciation and income

An ETF and ETC will change in value as the underlying portfolio changes in value and may provide income for investors through distributions. Investors may also enhance after tax returns from franking credits.

Fair value

ETFs and ETCs are designed to ensure that they trade close to their underlying value. This provides the investor with certainty that the on-market price will reflect the value of the assets held in the fund.

Taxation advantages

Particularly with indexed-based ETFs, the turnover of the underlying portfolio is low, reducing the level of capital gains incurred by investors and tax paid in the fund. An investor will determine their own tax consequences if and when they chose to sell their ETF or ETC.

Liquidity

Unlike unlisted managed funds and other forms of holding physical commodities, investors are able to enter and exit a fund during ASX trading hours at a price quoted on ASX.

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Types of ASX ETFs/ETCs

There are different types of ETFs and ETCs traded on ASX covering a range of asset classes. Investors can choose from:

- Domestic exposure over broad based and sector indices
- International exposure over broad based and sector indices
- Sector Index ETFs (tracking both key domestic and international sector indices)
- Commodities such as gold, silver and oil
- Fixed Income
- Currencies such as the US dollar, Euro and British Pound
- Synthetic ETFs. Synthetic ETFs do not necessarily invest in the securities included in an index or benchmark (unlike conventional ETFs), but rather they aim to replicate the performance of the index or benchmark synthetically. They do this by holding financial instruments like swap agreements or futures contracts
- Strategy ETFs designed to achieve specific outcomes eg high dividend yield

For a complete list of ETFs and ETCs visit www.asx.com.au/etf

How can ASX ETFs and ETCs be used in your investment portfolio?

Investors can use ETFs/ETCs in a variety of ways. For example, an investment strategy for core holdings of your portfolio or by taking particular tilts towards specific market sectors, commodities or currencies.

Under a core and satellite approach, investors hold a chosen core exposure to an asset class to capture market return (known as 'beta') and then add to this with satellite holdings to generate 'alpha', which are the returns higher than the market.

This approach can assist investors to reduce volatility while still providing an opportunity to generate above market returns.

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Risks

As with any investment there are risks.

ETFs and ETCs are inextricably linked to the trend of the underlying asset tracked, should that asset trend down, then the value of the ETF or ETC will also move down. In some instances, where ETFs have exposure to a non AUD denominated underlying which is not hedged, the direction of either currency can influence the overall outcome in both a positive or negative way. Further synthetic ETFs also may have specific counterparty risks.

Investors should be aware that as an ETF or ETC does not have an 'active management' component, there will be no out performance of the underlying asset being tracked. The balancing feature here is that ETF and ETC managers do not receive performance fees for out performance which assists in keeping their expense fees low.

You should obtain independent advice from a professional adviser prior to making any financial decision. ASX offers a broker referral service via www.asx.com.au/findabroker

Additional Information

- For more information consult your adviser or visit www.asx.com.au/etf for investor education, product details, research, performance figures, news and prices
- Contact ASX customer service on 131 279 or email info@asx.com.au



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