Fundamentals of Exchange Traded Funds

Exchange Traded Funds (ETFs) offer an approach to investing that combines instant diversification with trading flexibility and reduced expenses.

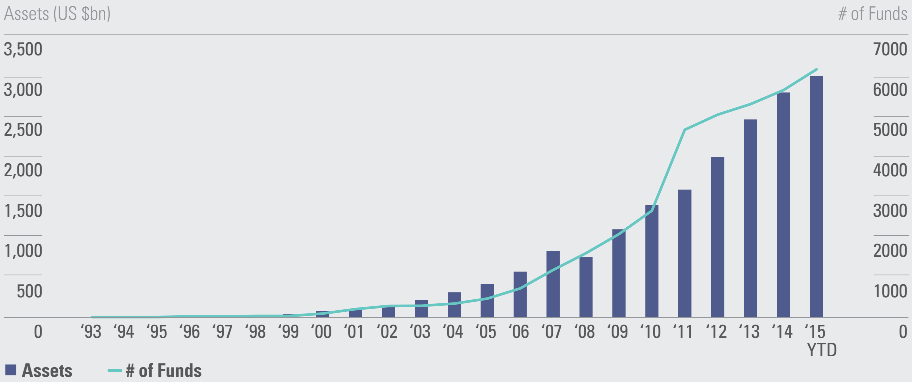
What Are ETFs?

An ETF is a basket of companies or securities that you can buy and sell on the ASX just like any other share. ETFs aim to track the performance of a specific market or strategy in an efficient, low-cost way.

An ETF is similar to a managed fund, or unit trust, but trades like a share throughout the day. ETFs combine the features of index funds with individual securities:

- Like managed funds, ETFs allow investors to track hundreds of domestic and international indicies, including the S&P 500® and the S&P®/ASX 200 indices, as well as specific sectors or industries (e.g. financials, resources or listed property).
- Like individual stocks, ETFs give investors the flexibility to buy and sell on the major stock exchanges throughout the day, at the market price. Like stocks, investors can place stop loss and limit orders on ETFs. They can even be bought on margin, subject to your broker's terms and conditions.

Global ETF Growth Over The Last 23 Years



Source: State Street Global Advisors (SSGA) Global ETF Strategy and Research, as of 31 December 2015.

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Comparing ETFs to Individual Stocks and Managed Funds

	Trade Throughout the Day	Flexible Trading Options	Track an Index	Pricing	Minimum Investment
ETFs	■	■	■	Market Price	No minimum required
Managed Funds	—	—	■	Value (NAV)	May require minimums
Individual Stocks	■	■	—	Market Price	No minimum required

Unlike a stock, ETFs and managed funds follow a passive investment strategy, attempting to track the performance of an unmanaged index of securities. As a result, ETFs and Managed Funds may hold constituent securities of the Index regardless of the current or projected performance of a specific security. ETFs trade like a stock and will fluctuate in market value over the course of the trading day. Unlike managed funds, ETFs may trade at prices below or above the ETF net asset value. Buying shares of an ETF, similar to buying a stock, will typically involve brokerage commissions to which managed funds may not be subject. Frequent trading of ETFs could significantly increase commissions and other costs.

The Potential Benefits of Exchange Traded Funds

Diversification ETFs offer one of the easiest ways to diversify a portfolio, especially for investors who want to focus on a specific sector or industry. By virtue of being index investments, ETFs offer exposure to a particular market segment, helping to protect against the risk of a select number of individual stocks hurting an investor's overall portfolio performance. It's important to remember that diversification does not ensure a profit or guarantee against loss.

Lower Fees And Expenses Because ETFs are passively managed, they typically have low management fees and operating expenses.

Trading Flexibility ETFs trade all day long, so investors can lock in the market value of the ETF anytime during the trading day. Because ETFs trade like stocks on an Exchange, a wider range of techniques (stop loss and limit orders) can be used to take advantage of anticipated market movements. It's important to keep in mind that frequent ETF trading, which typically occurs through a broker, can significantly increase brokerage commissions potentially washing away any savings from low fees or costs.

Transparency Investors have all the information they need to make informed investments—no strategy drift or black boxes to decipher. With ETFs, you know precisely which securities the ETF holds and what you're invested in—there is no need to wait for the end of the quarter to review the fund's holdings.

Definitions

Flexible Trading Options

Ease and efficiency with which one can purchase a security. ETFs, like stocks, trade on an exchange and can be bought and sold at any point during trading hours at their current market value. Buy and sell orders for units in managed funds are placed and transacted after the market close at the managed fund's closing market value, where the closing value is calculated at the end of the trading day.

Index Definitions

S&P 500 Index

The S&P 500 Index is an unmanaged index of 500 common stocks that is generally considered representative of the US stock market. The index is heavily weighted towards stocks with large market capitalisations and represents approximately two thirds of the total market value of all domestic common stocks. The S&P 500 Index figures do not reflect any fees, expenses or taxes.

Source: standardandpoors.com

S&P/ASX 200 Index

The S&P/ASX 200 Index is a market-capitalisation weighted and float-adjusted stock market index of Australian stocks listed on the Australian Securities Exchange from Standard & Poor's. Its composition is highly dynamic and the number of shares in the index is constantly fluctuating, however the number always reverts back to the "average" of 200.

Source: standardandpoors.com

Talk To Your Financial Adviser

If exchange traded funds interest you, speak to your adviser to determine if you could benefit from incorporating ETFs in your investment plans.

Your adviser can help you analyse your current investments, risk tolerance, tax situation and time horizon, and then recommend strategies to help you achieve your goals.

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ETFs trade like stocks, are subject to investment risk, fluctuate in market value and may trade at prices above or below the ETF's net asset value. ETFs typically invest by sampling an index, holding a range of securities that, in the aggregate, approximates the full Index in terms of key risk factors and other characteristics. This may cause the fund to experience tracking errors relative to performance of the index.

Diversification does not ensure a profit or guarantee against loss. Sector ETFs products are also subject to sector risk and non-diversification risk, which generally results in greater price fluctuations than the overall market. Brokerage commissions and ETF expenses will reduce returns and transaction costs will also be incurred when buying or selling units of an ETF on ASX markets. ETF units may only be redeemed directly by persons called "Authorised Participants".

SSGA ASL is the issuer of units in the SPDR funds and the Responsible Entity for the managed investment scheme Australian SPDR funds quoted on the ASX or AQUA Product Issuer for those Australian SPDR funds quoted on the AQUA market of the ASX .

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ID5893-AUSMKT-2270 0116 Exp. Date: 30/01/2017