

## Exchange Traded Funds (ETFs)

An ETF is a type of investment product that can be bought and sold on a listed exchange in the same way as you would buy shares. In Australia, most ETFs are generally 'passive' investments that track an asset or market index (for example, the ASX200 Australian share index). Note: An index measures the movement in value of the market or various sectors of the market. It is computed from the prices of selected stocks (typically a weighted average). Passive ETFs generally do not try to outperform the market index and will go up or down in value in line with the index they are tracking.

However, 'active' ETFs are also available where the investment manager is picking and choosing actual underlying investments rather than just tracking an index.

ETFs offer an alternative to more traditional investments known as managed funds, which are unlisted products where you buy and sell units from a fund manager.

There are some important differences to understand between ETFs and Managed funds:

	<b>ETF (Passive)</b>	<b>ETF (Active)</b>	<b>Managed Fund</b>
<b>Investment Approach</b>	Passively invested investment market indexes.	Actively invested in specific underlying investments which may or may be in the market index).	Actively invested in specific underlying investments which may or may be in the market index).
<b>Diversification</b>	Limited to the investments of the particular index it is investing in.	High – although limited by the range of products offered	High
<b>Transparency</b>	You can see the composition of the index that the ETF is investing in at any time.	Can be more difficult to determine where the ETF is actually investing.	Can be more difficult to determine where the managed fund is actually investing.
<b>Liquidity</b>	High	Generally high but not always.	Can vary.
<b>Cost</b>	Low cost	Higher cost	Generally highest cost
<b>Choice</b>	Reasonable	Relatively low but improving	High

Date: 1 April 2018