Introduction to Investment Products

ASX

ASX Investment Products

ASX's product range extends far beyond shares. Every product enables you to express an investment view in line with your objectives while helping you to create a diversified portfolio.

Helping investors achieve diversification

Most investment products are pooled investment vehicles. Your money is pooled together with other investors and a professional investment manager then buys and sells securities in underlying assets, such as shares or bonds.

Generally, when you buy an investment product, you don't own the underlying investments – you own 'units' or 'shares' in the pooled vehicle. The value of the units or shares will rise and fall with the value of the underlying assets. Income may also be paid out on a periodic basis in the form of dividends or distributions.

Investors typically use investment products to help them achieve diversification and meet their investment goals. Diversification is usually achieved by using a blend of investment products across the following asset classes:

Investment product approach

Cash

Invests in very low-risk, short-term investments. These can include short-term money market deposits, short-term government bonds and bank bills.

Fixed interest and bonds

Generally invest in low-risk investments. These can include government bonds, bank bills, or mortgage-backed securities. Some funds invest in corporate bonds and can be higher risk.

Property

Invests in residential property, commercial property or property developments. Some property funds are high risk. You're not guaranteed a fixed rate of interest or return.

Shares

Invests in listed companies in Australia, overseas or both. These funds offer the potential for higher returns but also have higher risk.

Alternatives

These include hedge funds and funds that invest in private equity, private debt, derivatives and commodities. They can be high risk.

Key considerations for choosing between different products

Investment Objective

Does the fund's objectives align with the outcome you are seeking to achieve?

Disclosure

What information does the fund manager provide about the number of holdings, concentration in particular sectors, companies or geographies, how does this compare to the benchmark?

Risk

Does the fund match your risk tolerance – investment strategy, liquidity, pricing risk, currency risk, regulatory changes?

Access

Flexibility entering and exiting, any minimum investments.

Cost

Cost to access, management costs and performance fees.

Track Record

What has been the fund's performance track record over the short, medium and long term?

Investment Style

Does the fund take a 'passive' index-tracking approach to investing, or is it a more active, stock-picking fund?

Exchange Traded Products

Exchange Traded Products (ETPs) offer access to a sizeable market, providing variety and choice across more than 300 funds.

Exchange Traded Products (ETPs), which include Exchange Traded Funds (ETFs), offer investors a convenient and cost-effective way to get exposure to a range of asset classes and investment strategies. In a single trade, an investor can buy an ETF that holds the top 200 companies listed on ASX, access key asset classes such as international equities and fixed income, add specific sectors to their portfolio such as property and technology stocks, or gain exposure to commodities such as gold and oil.

Features of an ETP

- Portfolio of assets in one trade
- Exposure to markets that are difficult to access
- Can be cost-effective
- Range of different investment styles

Why choose ETPs?

Diversification

ETPs can help you diversify your portfolio across asset classes, sectors and geographies that otherwise could be difficult to access.

By diversifying your portfolio, it can help decrease your overall level of risk per dollar invested.

ETPs can give you access to a range of domestic and international markets and assets in one transaction.

Income and growth

ETPs may offer returns as:

- Income, paid quarterly or half yearly, and
- Capital growth.

An ETP's pricing is typically in line with its net asset value (NAV), which means investors are generally able to buy and sell around this underlying value of the ETP's assets. Investors should be wary that although ETPs have formal market making arrangements, the price that they trade may still be impacted by the ordinary forces of supply and demand.

Lower cost

Traditional ETPs, such as Exchange Traded Funds (ETFs), usually track an index, which means they aren't trying to outperform the market.

This means ETFs are typically able to achieve lower operating costs and offer lower management fees (as measured by Management Expense Ratios or MERs) than other forms of professionally managed investments.

In addition, you pay one brokerage fee for a transaction.

What are the risks?

Market and liquidity risk

If the value of the underlying index falls or rises, so too will the value of your ETP.

At times the return of an ETP may deviate from the return of the index or benchmark attempting to be tracked.

Market conditions (for example, a lack of liquidity in volatile markets) may make it difficult to buy or sell ETPs in certain circumstances.

Foreign investment risk

Certain countries or regions may be subject to additional degrees of market volatility, economic and political instability. This may reduce or preclude the ability to trade securities or negatively impact a security's value.

Currency risk is a consideration when investing globally. A weak Australian dollar will increase the value of investments held in non-Australian dollars. On the other hand, if the Australian dollar rises, the value of investments held in non-Australian dollars will fall (all other factors being equal).

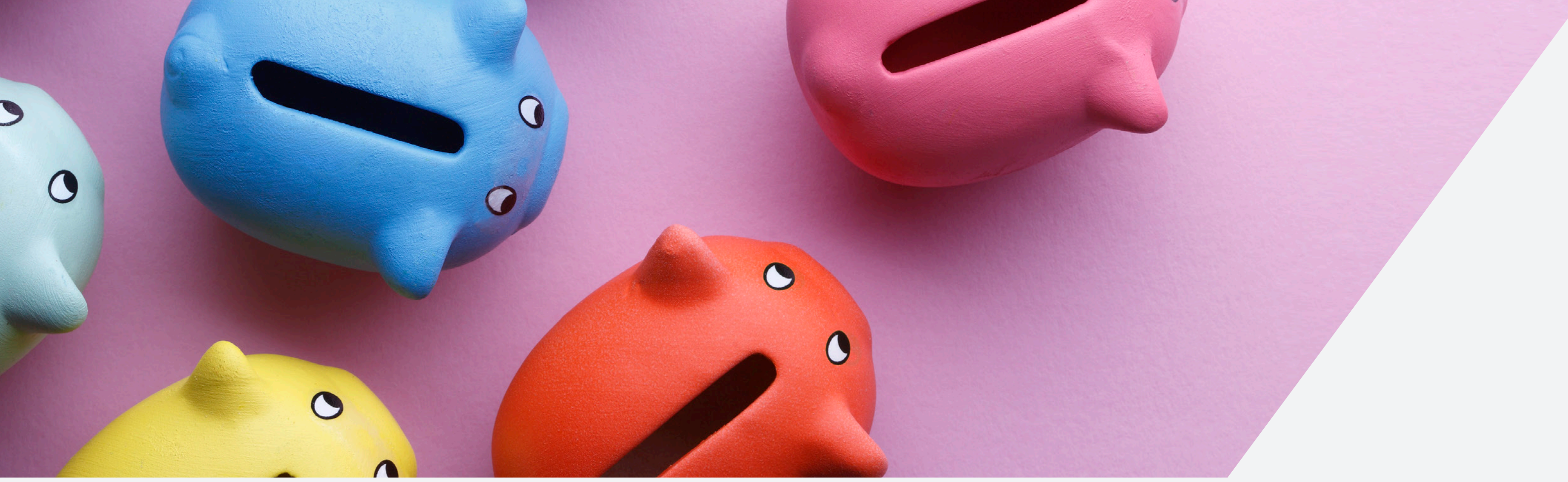
Fund specific risks

Some ETPs may also carry additional risks, depending on the strategy they use or the assets they invest in. For example, some ETPs may use borrowing, which may increase risk. To understand fund-specific risks, read the ETP's product disclosure statement and seek independent advice from a professional adviser before investing.

What is Net Asset Value (NAV)?

The NAV (net asset value) is the value of assets less liabilities, often expressed as the value per unit or per share. For example, the net asset value per unit of an ETF would be calculated by subtracting the fund's liabilities from its assets, then dividing the result by the number of units on offer.

Available from your broker's website, the NAV is an important reference point to consider before you buy or sell units in an ETF.



Types of ETPs

ETPs include a wide variety of product types, each with its own potential benefits and risks. The most common ETPs typically track the performance of domestic and international indices.

Exchange Traded Funds (ETF)

An ETF is an open-ended investment fund that pools investors' money together and invests in underlying assets, such as shares, bonds or commodities. When you invest in an ETF you own units in the ETF and the ETF owns the underlying shares or assets. The fund is traded on the exchange, like shares.

Structured Products

Investors in structured products typically don't receive an interest in a portfolio of assets held by the structured product, instead relying on rights against the issuer of the structured product under the terms of issue. These are often called synthetic products and have different risks to other ETPs that investors should be aware of before investing.

Investment strategies

ETFs and Structured Products will adopt an investment strategy to achieve the objective of the product.

Common investment strategies can include:

Index-tracking / passive

These products seek to track the performance of an index (such as the S&P/ASX 200 Index), a currency or a commodity (such as gold).

The product usually does this by investing directly in securities that comprise the index. The weightings of the securities will typically match the index - this is known as the "full replication" method.

Active

These products are actively managed by a fund manager that is typically trying to outperform an underlying index, such as the S&P/ASX 200 or the S&P 500. This is known as 'seeking alpha'. Instead of buying all the securities in the index like index-tracking ETFs, active ETFs typically have a portfolio manager that is making decisions about which securities to include in the fund.

To alert investors that the product is actively managed the manager is required to use "Active" in the name of the product.

Alternative and complex investment strategies

ETFs and Structured Products may have more "complex" investment strategies relative to traditional index-tracking or active products. Examples of investment strategies that may be considered complex is when the product;

- uses debt or leverage to make a financial investment
- uses short selling
- uses derivatives to a material extent
- is classified as a hedge fund

To alert investors that the ETF or Structured Product uses one of the above mentioned investment strategies there is a requirement for the manager to use "Complex" in the name of the product.

How to trade

Like shares, you buy and sell ETPs through a licensed intermediary, be it an online broker or platform, full service stockbroker or wealth adviser. Settlement of the trade takes place two business days after the date the order traded on the market – this is known as T + 2.

Listed Investment Companies and Trusts

Listed Investment Companies (LICs) and Trusts (LITs) provide exposure to a basket of underlying securities in a single transaction.

LICs and LITs invest across all key asset classes such as Australian and international shares, property, infrastructure and fixed income. Due to their nature, LICs and LITs can also provide access to alternative or hard-to-access investment strategies, such as private equity and private debt.

LICs and LITs have fixed periods in which they can raise new capital, such as through an initial public offering (IPO) or a subsequent capital raising, such as a placement or entitlement offer. They are 'closed' investments which means they don't issue or cancel new shares as investors come and go (like ETFs and unlisted managed funds) – instead, the number of securities in this type of investment structure are fixed.

Listed Investment Companies (LICs)

What are they?

LICs are investments that are incorporated as public companies. Any profit that comes from the investing activities of the LIC is taxed at the company rate before dividends are paid to investors. Directors choose the level of dividend and may pay out more than the underlying income levels. They can also pay franked dividends.

Listed Investment Trusts (LITs)

What are they?

LITs are investments that are incorporated as a trust. Any surplus income from the investing activity of the manager is paid to investors as trust distributions, according to the underlying investments. Franking levels may vary depending on the income distributed from the underlying assets.

Why choose LICs and LITs?

Diversification

They help you diversify your portfolio across asset classes, sectors and geographies that otherwise could be difficult or expensive to access.

For example, there are LICs and LITs that cover international shares, emerging markets, specific sectors, corporate bonds and alternatives.

Active management

LICs and LITs are actively managed by the portfolio manager, typically aiming to outperform a stated benchmark or index – such as the S&P/ASX 200 Index. This gives investors the chance to achieve returns in excess of the particular benchmark of the fund.

This may be beneficial where it is difficult for individual investors to gain research insights, such as with small caps, alternative assets, fixed income and emerging markets.

Long-term

A benefit of a closed-ended structure is that it allows the fund manager to focus on long-term investment objectives, rather than manage the liquidity requirements of open-ended vehicles as investors seek to enter and exit the fund.

What are the risks?

Performance risk

There is always the risk that the fund may underperform or decline in value, affecting your return.

Liquidity risk

LICs and LITs are closed-ended vehicles that trade on the ASX. This means the on-market liquidity is subject to the number of investors buying and selling shares/ units during the trading day.

Premium and discount to NTA

LICs and LITs often trade at a premium or discount to the value of their underlying assets – usually referred to as the fund's net tangible assets (NTA).

While there are many factors that may influence why a fund trades at a discount to NTA, on-market liquidity is one factor, which means that smaller LICs are at greater of risk of trading at a discount to NTA.

How to trade

Like shares and ETFs, you buy and sell LICs and LITs through a licensed intermediary, be it an online broker or platform, full service stockbroker or wealth adviser. Settlement of the trade takes place two business days after the date the order traded on the market – this is known as T+2.

What are Net Tangible Assets (NTA)?

NTA refers to the assets of an entity less any liabilities and intangible assets. NTA per share or unit is calculated by dividing the value of the NTA by the number of issued shares/units. LICs and LITs report their NTA at least monthly on ASX.

A-REITs and Infrastructure Funds

Australian Real Estate Investment Trusts and Infrastructure funds are listed managed investments that invest in property and other large scale physical assets.

What are they?

A-REITs, or Australian Real Estate Investment Trusts, are listed investment vehicles that provide exposure to property assets such as office towers, shopping malls, industrial buildings, hotels and cinemas. Like managed funds, they are pooled investments overseen by a professional fund manager.

Infrastructure funds, are listed investment vehicles that invest in public assets and services that people rely on to live, work and travel. Examples of infrastructure assets include toll roads, airports and energy utilities.

A-REITs and Infrastructure funds are closed-ended vehicles, so have fixed periods in which they can raise new capital, such as through an initial public offering (IPO) or a subsequent capital raising, such as a placement or entitlement offer.

Why choose A-REITs and Infrastructure funds?

Large-scale assets

Join a pool of other investors to access large-scale commercial assets that are likely to be out of reach for an individual investor.

They offer exposure to traditional assets such as office towers, shopping malls and roll roads, through to niche and sector specific offerings such as data centres, agriculture, healthcare facilities and pubs.

Income and growth

A-REITs and Infrastructure funds can provide a sustainable income stream. They generate two kinds of return:

- income, typically underpinned by predictable cashflow, such as rental payments, and
- capital growth through the increase in the underlying value of the land or asset.

Professional management

A-REITs and Infrastructure assets are run by specialist managers who may develop or select the asset, manage the services provided to customers, make improvements and carry out maintenance.

What are the risks?

Market and interest rate risk

Real estate and infrastructure can be sensitive to macroeconomic factors and market cycles, impacting your returns when the market environment dips.

Rising interest rates can have a negative effect on performance.

Gearing risk

Some A-REITs and Infrastructure funds may use borrowed funds to buy or develop an asset, such as a property. Borrowing can create high levels of gearing and while this can multiply capital gains when asset values rise, it can also multiply losses when they fall.

Concentration risk

While some A-REITs and Infrastructure funds provide access to a diversified portfolio, others concentrate on a few large assets or a single sector, leading to higher risks.

How to trade

A-REITs and Infrastructure funds are listed and traded on the ASX like shares and ETFs. You can buy and sell them through a licensed intermediary, be it an online broker or platform, full service stockbroker or wealth adviser.

Further Information

Visit **asx.com.au** for more information,
or contact your broker or financial adviser.

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