



# Barclays Global Investors iShares

## Barclays Global Investors' iShares series of Exchange Traded Funds are set to revolutionise how Australian investors access international markets, writes ALEX DUNNIN.

With investor sentiment moving so strongly towards international investing and Barclays Global Investors (BGI) being the world's leading Exchange Traded Fund (ETF) provider, it was only a matter of time before they would launch their product suite into Australia.

What makes BGI's iShares package of eight international equity ETFs so special however is how they will transform the level of flexibility investors will soon come to expect from their international funds and what level of fees they need to pay to reach markets as diverse as the S&P Global 100, the US S&P500, S&P MidCap 400 and S&P SmallCap600, the MSCI Europe 350, MSCI Emerging Markets, MSCI Japan, and even the MSCI EAFE (Europe, Australasia and the Far East).

It will force the transformation because investors will be able to achieve all this for just a fraction of the price they may now be paying. And being tradable on the ASX through cross-listed funds available through the New York Stock Exchange (NYSE) just makes their case so much more compelling, whether they be institutional pension funds, hedge funds, platforms, adviser groups, self-managed super funds (SMSF) or even individual investors.

### Exchange traded funds

The key to iShares being able to do this is the advantages they offer as ETFs, recalling that ETFs are effectively packages of securities that seek to deliver the pre-fee performance of the chosen index.

In this way they are very similar to index funds but they give investors access to the entire index while they can be

cheaper than index managed funds.

Illustrating the potential fee savings, the iShares S&P 500 comes with a wafer thin fee of just 9 basis points charge plus brokerage. Even investing into the Emerging Markets can cost only 75 basis points plus brokerage.

Compared to average institutional investment fees of 68 basis points, according to Mercer Investment Consulting's Global Fee Survey of 2006, the 1.87 per cent Morningstar average estimate for managed funds, and the 2.1 per cent Rainmaker platform average, these iShares ETFs fees are nothing short of stunning.

And this helps explain why ETFs, even though they may not yet be widely used in Australia, already amount to around \$780 billion in the US, up almost seven-fold in just seven years. BGI with more than 190 iShares ETFs account for more than 50 per cent of the market.

### Now is the time

BGI waited until now to launch iShares in Australia because while overseas investors are familiar with the product, they believed the nuances of the Australian market and the familiarity local investors had with it meant they had to wait until the time was right and investors were ready.

"Globally, BGI started to build iShares late in 1999 initially in the US and since then we tried to work out how the idea could be applied in Australia. It took us two years to get to the point where we could deliver cross-listed shares in Australia in a format clients and investors would accept and be likely to use," said Tim Bradbury, BGI co-head iShares. The

shift to fee for service advice among financial planners also helped tip the scales, he said.

But increasing investor sophistication was also a driving factor, said Will Britten, BGI head of channel. "In the US and the UK the experience with ETFs has been that big institutional investors are using them in very sophisticated ways and this trend seems very similar to growing Australian demand for more investment tools, particularly to help investors manage their cashflows."

But what really convinced BGI that iShares' time had come in Australia was being constantly asked by investors and intermediaries for investment instruments they could use to help them to tailor their international portfolios.

Reinforcing this is the sharp jump in recent years in international investing sentiment being seen even among SMSFs, said Britten.

"The opportunity is that SMSFs usually have big allocations to cash and Australian equities though they may have wanted to also have some international exposure. But they didn't have many tools to easily achieve this."

### Low cost diversification

The expanded investment tool set offered by iShares also enables intermediaries to construct diversified yet sophisticated asset allocation strategies.

They can even create tilting strategies akin to much larger investors, said Bradbury. They can then use them for short-selling and arbitraging if they want though they may prefer to leave this to

the hedge funds and much larger investments managers.

But where they really come into their own is they can be used to build more robust core-satellite strategies or beta-based approaches that blend into a client's existing investments, overlaid with being highly liquid, said Bradbury.

BGI expect iShares to become very popular among Australian investors once they understand how useful they can be. To facilitate this BGI are rolling out a package of education resources aimed at intermediaries, institutions and investors generally. Based on the reaction to iShares so far, BGI may well be right. ■

For more information, visit [www.iShares.com.au](http://www.iShares.com.au)



Will Britten

### The iShares range and what they cost

Fund name proposed	ASX code	Composition	MER
iShares S&P Global 100	I00	100 large transnational companies with minimum capitalisation of US\$5bn	0.40
iShares S&P SmallCap 600	IJR	US stocks capitalised at US\$300m to US\$1bn	0.20
iShares S&P 500	IVV	US large-cap stocks across a range of industries	0.09
iShares S&P MidCap 400	IJH	US stocks capitalised at US\$1bn to US\$4bn	0.20
iShares MSCI EAFE	IVE	Access to European, Australasian and Middle East markets	0.35
iShares MSCI Japan	IJP	Access to the Japanese equity market	0.54
iShares S&P Europe 350	IEU	350 stocks in 17 European markets and 10 industry sectors	0.60
iShares MSCI Emerging Markets	IEM	Leading companies in 22 emerging countries and 10 industry sectors	0.75

### How iShares can be used to achieve many investment strategies

<b>Portfolio completion</b>	Gain required international equity exposure – quickly and easily completing an asset allocation.
<b>Tactical asset allocation</b>	Implement short to medium-term portfolio positions in specific international equity markets.
<b>Core/satellite investing</b>	Use iShares as the "core" of the portfolio and seek outperformance through complementary actively-managed "satellites" and exotic index funds.
<b>Cash equitisation /portfolio transition</b>	Use iShares to maintain full market investment or to maintain international equity asset class weights during manager transition or stock selection process.
<b>Risk management</b>	Use as a stand-alone 100% index solution for international equities exposure or combine with actively managed portfolios, funds or direct shares to manage portfolio risk.
<b>Reduce concentration risk</b>	Use an iShare that corresponds to a single security already held in order to diversify risk. Or use an iShare that covers complementary markets to existing holdings in order to reduce risk.