

Vanguard unveils three new ETFs

The decade old Australian ETF market is booming with investors turning to exchange traded funds for diversification at minimum cost. Indexing specialist Vanguard has added to their existing ETF range with three more funds offering outstanding new investment opportunities, writes Rachel Davis.

By March 2011 the global ETF industry had grown to 2,605 ETFs with 5,905 separate listings. There are 142 ETF providers on 48 stock market exchanges around the world. The ETF business is booming.

In Australia, ETFs have captured investors' imaginations with their ability to provide convenience and instantaneous diversification while incurring negligible annual management costs.

There are over 50 ETFs currently available to Australian investors and Vanguard's release of three new equity ETFs is further testament to the increasing popularity of the investment world's new kid on the block.

ETFs are managed funds quoted for trading on a securities exchange. Commonly, ETFs are manufactured as indexed portfolios of shares or real estate securities and can be easily traded through brokerage accounts in the same way as shares. They offer investors, both retail and institutional, a unit based share of an index tracking portfolio.

First quoted on the ASX on 26 May 2011, the three new ETFs join Vanguard's existing stable of competitive ETF products, which also track broad market indices.

"The release of our three new ETFs offers more choice for investors who are looking to diversify," said Robyn Laidlaw,⁰¹ Vanguard's head of product management and development. "Our ETFs are a diversified portfolio of securities that have been constructed using an index approach which invests in all or a sample of the index they track."

ETFs provide investors with highly diversified investment opportunities and broad exposure to entire markets within one trade. This includes exposure to shares that investors might otherwise be unable to invest in directly on the ASX, such as international equities.

Vanguard ETFs track broad market indices representing a diversification of securities for the investor and their value moves in line with the index they are tracking.

ETFs are becoming increasingly popular not only because they offer low cost investment op-

portunities but also because they are simple to use and manage on an ongoing basis.

"Our new ETFs offer not only choice but also a set of construction tools for broad diversification of an investment portfolio," said Laidlaw. "They provide investors, both institutional and retail, with a range of opportunities to develop and maintain diversified portfolios."

"But the main advantage of ETFs is cost which is one of only a few factors an investor can control. ETFs keep costs low and help simplify the investment process."

Driving diversification

ETFs offer investors a number of advantages to help drive their portfolio to maximum returns with minimum risk, both from an investment perspective but also in terms of tax exposure.

They offer a unique investment opportunity because they invest in all or a representative sample of securities in an index and provide a highly diversified investment.

"One of the reasons ETFs are growing so rapidly in popularity is because you can tailor low cost, tax efficient portfolios using them," said Laidlaw. "Investors can combine ETFs into an existing portfolio to create diversification or use them as standalone investment products. They are great for building core investments and also for shorter term investments because they quickly deploy cash into the marketplace."

"For self managed super funds (SMSF), they are an ideal investment vehicle because they offer the combination of low costs but also ease of use. For SMSFs, they offer a way to access broader diversification and provide access to international markets which is difficult through direct shares."

"Much like traditional managed funds, Vanguard ETFs are constructed using an indexing approach, where an individual investment is pooled with other investors' money, this offers investors access to a wider range of investments, which may not be accessible otherwise."

"ETFs also offer the potential for tax efficiency, by maintaining a low turnover of securities in the index fund portfolio which minimises the capital gains distribution impact. This improves after-tax performance and tax efficiency over time."

"ETFs offer depth of liquidity because ETF securities can be created or redeemed regularly



01:
Robyn Laidlaw
Vanguard
head of product
management and
development



The quote

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and investors can also trade ETFs during ASX trading hours and at a price quoted on the ASX. They also provide investors a high degree of transparency because the issuer provides daily information to the market."

The Vanguard advantage

Vanguard is one of the world's largest investment groups, with funds under management of over \$A1.7 trillion. Vanguard looks after more than 25 million individual and institutional accounts globally and has established the reputation of being an indexing specialist in the Australian marketplace.

Vanguard has been providing investors with ETF products in the US since 2001 and launched its first ETF in Australia in May 2009. With the addition of the three new products, Vanguard now offers investors a suite of seven low cost ETFs.

The three new ETFs Vanguard has brought to the marketplace are:

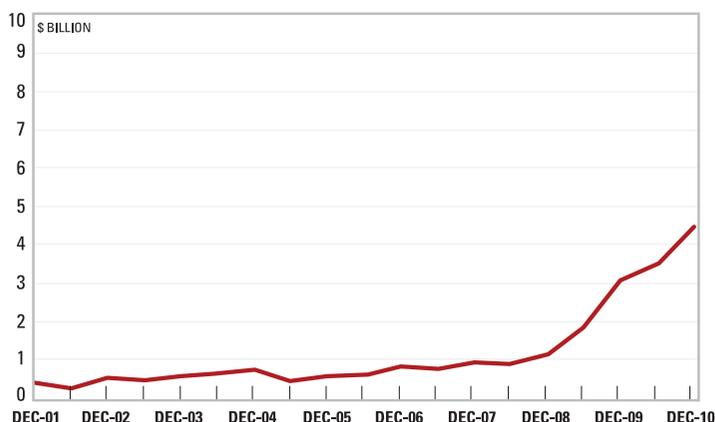
The Vanguard Australian Shares High Yield ETF which tracks the benchmark FTSE ASFA Australia High Dividend Yield Index of approximately 63 stocks and has yearly management costs of 0.25 per cent.

The Vanguard MSCI Australian Small Companies Index ETF, which follows the benchmark MSCI Australian Shares Small Cap Index of approximately 193 stocks and has management fees of 0.30 per cent per annum.

The third fund launched was the Vanguard MSCI Australian Large Companies Index ETF that follows the 31-stock benchmark MSCI Australian Shares Large Cap Index and has a management expense ratio which is 0.2 per cent each year.

ETFs are a cost effective way to access Vanguard's tried and tested investment management approach for maximum returns from a well diversified portfolio. **FS**

Figure 1. Australian ETF assets 2001-10



Source: ETF Issuers, ASX



Vanguard® Australian Shares High Yield ETF

Add some income to your clients' portfolios with an index of income-focused equities.

ASX code	VHY
Benchmark	FTSE® ASFA Australia High Dividend Yield Index
Management costs	0.25%



Vanguard® MSCI Australian Small Companies Index ETF

Go for a growth bias with exposure to the small caps index.

ASX code	VSO
Benchmark	MSCI Australian Shares Small Cap Index
Management costs	0.30%



Vanguard® MSCI Australian Large Companies Index ETF

Add a 'blue-chip' tilt with exposure to the large caps index.

ASX code	VLC
Benchmark	MSCI Australian Shares Large Cap Index
Management costs	0.20%