浦銀國際
SPDB INTERNATIONAL

EXCHANGE TRADED FUND (ETF)

Similar to stocks, exchange-traded funds (ETFs) are open-ended funds listed and traded on stock exchanges. Broadly speaking, ETFs fall into two categories: passive or active.

Passive ETFs aim to track an underlying index, which can be a stock market, a group of regional or global stock markets, or an industry sector. The underlying index can also track other assets such as bonds or commodities. Passive ETFs are also called index tracking ETFs.

Active ETFs do not track any underlying index but seek to achieve a stated investment objective by investing in a portfolio of stocks, bonds, and/or other assets such as money market instruments. The underlying assets of an active ETF are usually actively managed by a portfolio manager with an aim to outperform the market or a benchmark.

Investors should read the fund's offering document and product key facts statement. They will give details about the investment goals, index-tracking strategy (where applicable), risks, fees and procedures.

Key Features of ETF

1. Trading price vs. Net Asset Value (NAV)

   Each ETF has an NAV that is calculated with reference to the market value of the investments held by it. However, the trading price of an ETF is determined by the market supply and demand, so may not be equal to its NAV.

2. Indicative NAV per unit

   An indicative NAV per unit means a measure of the intraday value of the NAV per unit of an ETF based on the most up-to-date information. An ETF is required to provide the real time or near-real time indicative NAV per unit (updated at least 15 seconds during trading hours) through the ETF's own website or other designated channels.

   Normally, the trading price of an ETF is not expected to deviate significantly from its NAV. Therefore, it is always a good practice to check the indicative NAV before trading an ETF. Investors should exercise extra caution if the trading price of the ETF is at a large premium or discount to the indicative NAV.

3. Dividend entitlement

   An ETF may or may not distribute dividends, depending on its dividend policy.

4. Fees and charges

   An ETF incurs certain fees and expenses such as management fees charged by the ETF manager and other administrative costs. These fees and expenses will be deducted from the ETF's assets and the NAV will be reduced accordingly. Trading ETFs on the SEHK incurs transaction costs such as transaction levy and brokerage commission.

5. Regulated fund

   Like other authorized funds, an ETF has to comply with the relevant regulatory requirements imposed by the SFC. However, you should note that SFC authorization does not imply recommendation of the product.

6. Index tracking (for passive ETF only)

   To achieve the index tracking objective, a passive ETF manager may adopt one or more of the following strategies:

- Full replication by investing in a portfolio of securities that replicates the composition of the underlying index;
- Representative sampling by investing in a portfolio of securities featuring a high correlation with the underlying index, but is not exactly the same as those in the index; or
- Synthetic replication through the use of financial derivative instruments to replicate the index performance. Synthetic replication can raise efficiency and reduce cost. Where a passive ETF tracks a market (or an index in a market) that has restricted access, it can adopt this replication strategy.

7. Price index and total return index (for passive ETF only)

   Many passive ETFs track spot market indices, which measure the performance of securities traded on spot markets. Typically, a spot market index tracked by a passive ETF is either a price index or a total return index.

   - A price index only measures changes in the prices of the index's constituent securities.
   - A total return index takes into account both changes in the prices of the index's constituent securities and actual dividend/interest payments. The dividends/interest payments of the index’s constituent securities are assumed to be re-invested into the index portfolio according to their respective weightings.

<u>Key Benefits of ETF</u>

1. Easy to trade

   You can trade ETFs easily on the SEHK during its trading hours through a broker or a bank dealing in securities.

2. Diversification

   Usually, an ETF invests in dozens of securities. This spreads the risk. By investing in a passive ETF, you may gain exposure to the underlying index without the expense of buying all the underlying index constituents yourself.

3. Transparency

   Trading information of an ETF is easily accessible on a real-time basis.

4. Cost effectiveness

   Trading ETFs on the SEHK does not incur subscription or redemption fees, although transaction costs such as brokerage commissions still apply. Investors should check the fees with the intermediaries (e.g. banks and brokerage houses) as different firms would have different fee level/structure, e.g. some may charge a minimum brokerage fee.