

# Fundamentals of Exchange Traded Managed Funds (ETMFs)



## What is an Exchange Traded Managed Fund?

Exchange Traded Managed Funds (ETMFs) (also commonly referred to as Active ETFs) are quoted and traded on a stock exchange and provide ease of access for investors seeking an actively managed portfolio managed by an experienced professional fund manager.

Like traditional managed funds, ETMFs are opened-ended investment products that are managed by a professional fund manager and can invest in a variety of assets including Australian or global shares, fixed income, commodities and cash.



## What is driving the growth in Exchange Traded Products (ETPs)?

In recent years, there has been substantial growth in both number of, and capital invested, in ETPs. This includes passive ETPs, ETMFs and other types of exchange traded products.

We believe many investors don't have the time, expertise or in some cases, capital to build and manage a diversified portfolio of listed securities. ETPs can provide an opportunity for investors to access these portfolios in one trade. Investors can buy and sell the ETPs on the stock exchange at the prevailing market price through a stockbroker, share trading account or other securities trading platform, much like the process for buying and selling shares.

## How does an ETMF differ to other products?

In the below table, we've compared ETMFs to four common alternative investment options that may also provide investors with a diversified portfolio – Passive ETFs, LICs, LITs and managed funds.

	ETMFs or Active ETFs	Passive ETFs	Listed Investment Company (LIC)	Listed Investment Trust (LIT)	Traditional unlisted managed funds
Typical Management Style	Actively managed.	Passive / index tracked.	Actively Managed.	Actively Managed.	Actively or passively managed.
Way to invest	ASX	ASX	ASX	ASX	Apply/redeem directly through fund manager via unlisted application form and PDS.
Minimum investment	No minimum	No minimum	No minimum	No minimum	Typically set by fund manager e.g. A\$25,000.
Pricing	<ul style="list-style-type: none"> <li>Buy/sell at prevailing market price on the stock exchange</li> <li>Aims to trade close to their NAV or iNAV.</li> </ul>	<ul style="list-style-type: none"> <li>Buy/sell at prevailing market price on the stock exchange</li> <li>Aims to trade close to their NAV or iNAV.</li> </ul>	<ul style="list-style-type: none"> <li>Buy/sell at prevailing market price on the stock exchange</li> <li>May trade at a premium or discount to their NTA.</li> </ul>	<ul style="list-style-type: none"> <li>Buy/sell at prevailing market price on the stock exchange</li> <li>May trade at a premium or discount to their NTA.</li> </ul>	<ul style="list-style-type: none"> <li>Units are applied and redeemed at NAV per unit (subject to buy/sell spread) which is generally published daily.</li> </ul>
Liquidity	Open-ended	Open-ended	Closed-ended	Closed-ended	Open-ended
Performance (before fees and costs)	Investors may receive returns that are higher or lower than the relevant market returns.	Investors receive market returns, less fees.	Investors may receive returns that are higher or lower than the relevant market.	Investors may receive returns that are higher or lower than the relevant market.	Investors may receive returns that are higher or lower than the relevant market.
Distribution	Pay a distribution that may include income and capital gains; may include franking credits.	Pay a distribution that may include income and capital gains; may include franking credits.	Pay a dividend which is generally fully franked.	Pay a distribution that may include income and capital gains; may include franking credits.	Pay a distribution that may include income and capital gains; may include franking credits.
Tax treatment	Investors are generally subject to income tax in respect of the taxable distributions they receive from the fund at the income tax rate applicable to them.	Investors are generally subject to income tax in respect of the taxable distributions they receive from the fund at the income tax rate applicable to them.	Being a company, a LIC is taxed at the prevailing company tax rate. Investors are generally subject to income tax in respect of the dividends they receive from the LIC, though such dividends may carry franking credits.	Investors are generally subject to income tax in respect of the taxable distributions they receive from the fund at the income tax rate applicable to them.	Investors are generally subject to income tax in respect of the taxable distributions they receive from the fund at the income tax rate applicable to them.
Corporate Structure	Operates under trust structure.	Operates under trust structure.	Operates under a company structure and issue shares.	Operates under trust structure.	Operates under trust structure.



## Getting started – How to invest?

An ETMF is bought and sold on a stock exchange via a broker in the same way you buy or sell a listed share. Generally, a Holder Identification Number (HIN) will be issued to you which allows you to view your ETMF holdings alongside any other listed investments you have.

### 1. Do your research

- You should read the PDS before making any decision on how to invest in the ETMF
- Learn more about the ETMF by visiting the fund manager's website

For example, visit [www.perpetual.com.au/etmf](http://www.perpetual.com.au/etmf) for more information about Perpetual's ETMFs.

### 2. Contact or access your ASX stockbroker (full service or online) to place a buy order for the ETMF.

## What are the risks?

All investments carry risk and different strategies may carry different levels of risk. All investments are subject to risk which means the value of investments may rise or fall, which means that you may receive back less than your original investment or you may not receive income over a given time frame. The relevant product disclosure statement for the ETMFs should be considered before deciding whether to acquire or hold units in that the ETMF. Your financial adviser can assist you in determining whether an investment is suited to your financial needs.

## Considerations for investing in ETMFs

### ► Liquidity and spreads in ETMFs.

Investors need to be aware that liquidity in ETMFs is not always constant, and spreads may vary and increase significantly from time to time.

The size of the bid-offer spreads may vary according to the nature of the underlying asset of the ETP. There are times however,

where spreads may be wider than usual such as during the closure of foreign markets or during a staggered open of the Australian market when not all the underlying assets are open for trading. During this time, market makers may wait until they have more certainty around the underlying prices but may still quote at wider spreads to reflect this uncertainty.

This is important to keep in mind as bid-offer spreads may be so wide they can materially affect the cost of investing in the ETMF.

### ► Existence of INAV

An iNAV provides an indicative net asset value of an ETMF and is generally calculated by an independent agent. The iNAV per unit will be updated for price movements of an ETMF's investments through live market prices and if applicable, foreign exchange movements. There may be securities held by the ETMF that do not have live market prices during the trading day, in which case (for those securities only), the iNAV will generally reflect only what is considered the best estimate of fair value for such securities.

The iNAV provides a reference point to assist investors in understanding if they are purchasing or selling units in the ETMF at, or close to the NAV per unit. The iNAV is generally available on the fund manager's website and select data vendors such as Refinitiv and Bloomberg.

Investors should be aware that there are situations where the iNAV may not accurately reflect value of units in the ETMF – for instance, where there is a material change in the portfolio holdings during the day, or in major market events.

If spreads are increasing, this may indicate that there is uncertainty about the accuracy of the iNAV.

## Glossary

<b>Bid-offer spread</b>	The difference between the price at which investors can buy the ETMF on the exchange and the (lower) price at which it could be sold on the exchange.
<b>Close ended</b>	An entity that issues a set number of units that can then be bought and sold on a stock exchange.
<b>HIN</b>	A Holder Identification Number (HIN) is a unique number issued by the ASX for investors with a broker or an online trading account.
<b>iNAV</b>	Indicative or intraday Net Asset Value is the estimated value of the underlying portfolio of assets which is published on the Fund's website throughout the trading day and updated normally every 15 seconds.
<b>Market maker or market making agent</b>	A trading participant of the market where the ETMF is traded. Market makers perform a fundamental role in ensuring that ETMFs which do not have sufficient natural liquidity function efficiently. They seek to provide continuous liquidity to the market by quoting buy and sell prices throughout the trading day – these prices are updated continually to reflect price changes in underlying securities.
<b>NAV</b>	Net Asset Value. The NAV is the total value of the assets in a product minus its liabilities.
<b>NTA</b>	Net Tangible Assets. The value of total assets in a product reduced by the intangible assets and the total liabilities.
<b>Open ended</b>	An entity that can continuously issue and redeem units.



### More information

Perpetual offers investors a broad range of investment options across Australian and global shares, multi asset, credit and fixed income, and ESG funds. To learn more about Perpetual's ETMFs, please visit [www.perpetual.com.au/etmf](http://www.perpetual.com.au/etmf)

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