Fundamentals of Exchange Traded Funds

Exchange Traded Funds (ETFs) offer an approach to investing that combines instant diversification with trading flexibility and reduced expenses.

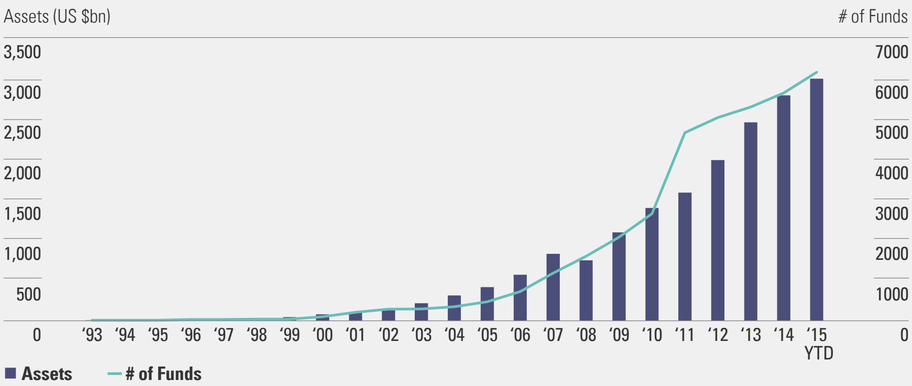
What Are ETFs?

An ETF is a collection of securities that tracks, and is intended to represent, the performance of a broad or specific segment of the market (e.g. global market equities, small-, mid-, large-cap stocks, emerging markets, etc).

An ETF is similar to an index mutual fund , or unit trust, but trades like a stock throughout the day. ETFs combine the features of index mutual funds with individual securities:

- Like index mutual funds, ETFs allow investors to track more than hundreds of domestic and international indexes, including the Straits Times index and S&P 500®, as well as specific sectors or industries (e.g, utilities, technology, healthcare or gold).
- Like individual stocks, ETFs give investors the flexibility to buy and sell on the major stock exchanges throughout the day, at the market price. Like stocks, investors can place stop loss and limit orders on ETFs. They can even be bought on margin and sold short, subject to your broker's terms and conditions.

Global ETF Growth Over The Last 23 Years



Source: State Street Global Advisors (SSGA) Global ETF Strategy and Research, as of 31 December 2015.

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Comparing ETFs to Individual Stocks and Managed Funds

	Trade Throughout the Day	Flexible Trading Options	Track an Index	Pricing	Minimum Investment
ETFs	■	■	■	Market Price	No minimum required
Index Mutual Funds	—	—	■	Closing Net Asset Value (NAV)	Some require minimums
Individual Stocks	■	■	—	Market Price	No minimum required

Unlike a stock, Index ETFs and mutual funds are managed funds that follow a passive investment strategy, attempting to track the performance of an unmanaged index of securities. As a result, the Funds may hold constituent securities of the Index regardless of the current or projected performance of a specific security.

The Potential Benefits of Exchange Traded Funds

Diversification ETFs offer one of the easiest ways to diversify a portfolio, especially for investors who want to focus on a specific sector or industry. By virtue of being index investments, ETFs offer exposure to a particular market segment, helping to protect against the risk of a select number of individual stocks hurting an investor's overall portfolio performance. It's important to remember that diversification does not ensure a profit or guarantee against loss.

Lower Fees And Expenses Because ETFs are passively managed, they typically have low management fees and operating expenses.

Trading Flexibility ETFs trade all day long, so investors can lock in the market value of the ETF anytime during the trading day. Because ETFs trade like stocks on an exchange, a wider range of techniques (short selling, stop loss and limit orders) can be used to take advantage of anticipated market movements. It's important to keep in mind that frequent ETF trading, which typically occurs through a broker, can significantly increase brokerage commissions potentially washing away any savings from low fees or costs.

Transparency Investors have all the information they need to make informed investments — no strategy drift or black boxes to decipher. With ETFs, you know precisely which securities the ETF holds and what you're invested in — there is no need to wait for the end of the quarter to review the fund's holdings.

Definitions

Flexible Trading Options

Ease and efficiency with which one can purchase a security. ETFs, like stocks, trade on an exchange and can be bought and sold at any point during trading hours at their current market value. Buy and sell orders for mutual fund shares are placed and transacted after the market close at the mutual fund's closing market value, where the closing value is calculated at the end of the trading day.

Source: SSGA ETFs: A Brief Introduction.

Index Definitions

Straits times Index

The Straits Times Index (STI) is a capitalization-weighted stock market index that is regarded as the benchmark index for the Singapore stock market. It tracks the performance of the top 30 companies listed on the Singapore Exchange. It is jointly calculated by Singapore Press Holdings (SPH), Singapore Exchange (SGX) and FTSE Group (FTSE).

Source: straitstimes.com.

S&P 500 Index

The S&P 500 Index is an unmanaged index of 500 common stocks that is generally considered representative of the US stock market. The index is heavily weighted towards stocks with large market capitalizations and represents approximately two-thirds of the total market value of all domestic common stocks. The S&P 500 Index figures do not reflect any fees, expenses or taxes.

Source: standardandpoors.com.

ssga.com | spdrs.com.sg