

## New ETFs target niche sectors

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### Ruth Llew

State Street Global Advisors and Vanguard are building their exchange traded stables in an attempt to offer investors more investment choice.

Vanguard, one of the world's largest exchange traded fund providers, is also launching three ETFs on May 26.

The products include an Australian small companies ETF and large companies and high-yield Australian shares products.

SSgA listed its resources, financials and small cap ETFs on the Australian Securities Exchange in early April.

While ETFs have been part of Australia's investment landscape for a decade, it was only in the past two years that advisers and investors started taking more of an interest in the sector.

According to research house Investment Trends, 27 per cent of advisers now provide advice on ETFs, nearly twice as many as in 2008.

A further 27 per cent intend to begin advising on ETFs in the coming 12 months.

Two of SSgA's products (the resources and financials ex-Australian real estate investment trusts ETFs) will give investors specific exposure to the country's booming resources and financial sectors.

Both funds incur management fees of 40 basis points (or 0.4 per cent).

The SPDR S&P/ASX 200 Financials EX A-REIT Fund aims to track the returns of the S&P/ASX 200 Financial-x-A-REIT Index.

The resources ETF, SPDR S&P/ASX 200 Resources Fund, is benchmarked against the S&P/ASX 200 Resources Index.

The head of global equity beta solutions for SSgA in Australia, Susan Darroch, said she expected a "cyclical" take-up of the products by investors, including DIY super fund trustees.

The buying and trading of the new ETFs will depend largely on the performance of the sectors and the health of the economy, she said.

"We don't expect them to trade anything like the SPDR S&P/ASX 200 ... not always will investors want to be in each of the new ETFs," she said.

Ms Darroch said she expected the funds to be used as satellite investments to complement investors' portfolios.

"You can have something like the SPDR 200 [which seeks to replicate the S&P/ASX 200 Index] as your core," she said.

"[But] if you're fairly sure the banking sector will do well, you can have a satellite investment in the SPDR Financials ex-A REITs to take advantage of the health of the economy," she said.

State Street launched a third product, the SPDR S&P/ASX Small Ordinaries Fund, in April. The fund is benchmarked to the S&P/ASX Small Ordinaries Index, and incurs a fee of 0.5 per cent.

The idea behind the ETF is to provide investors exposure to the bottom 200 stocks in the S&P/ASX 300 Index.

But the strategy does not fully replicate the index. The ETF will not necessarily hold all 200 stocks, as some of the companies may be quite small and face liquidity constraints.

"[The ETF] will hold close to 90 per cent of the stocks in the ASX. It just isn't fully replicated," she said.

There are now nearly 50 exchange-traded products listed on the ASX, with a total market capitalisation of about \$5 billion.

The funds provide exposure to domestic and international equities, property, commodities and, more recently, currencies.

The Australian Financial Review

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