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Diversify your portfolio with cost-efficient ETFs

Investors seeking exposure to the Singapore market may consider ETFs tracking the Straits Times Index.

UNCERTAINTY continues to plague financial markets over the direction of interest rates and commodities prices. In Singapore, however, there has been a sharp improvement in economic data from the end of 2016. This is likely to be a boost to corporate earnings, bolstered by the government's policies that remain supportive of growth.

Valuations for the Singapore market are remaining close to crisis lows of 2009 on a price-to-book measure. As earnings estimates are on the uptrend, there is room for upside revaluations.

How then does one take advantage of the current market conditions without being subject to the vagaries of volatility from individual stocks or undue exposure to certain sectors? "One good option is an exchange traded fund (ETF), which is a basket of securities that tracks the performance of a broad or specific market segment, for example, the Straits Times Index (STI) in Singapore," said Matthew J. Arnold, Head of ETF Strategy & Research APAC at State Street Global Advisors. Like shares, ETFs are traded on exchanges throughout the day.

ETFs have several advantages over a stock. A major plus is easy diversification. With a single transaction, an investor can own a diversified basket of securities and

spread the risks. Diversification improves the expected return-to-risk ratio, that is, for the same return, an investor reduces the level of volatility. Other pros include cost efficiency, as most ETFs are index tracking and hence have low management fees and operating expenses, thus letting investors keep more of their money to invest. There is also trading flexibility as ETFs can be bought and sold all day long. Investors can also be assured of transparency as they can know precisely which securities the ETFs hold.

How well an ETF tracks its index is a major consideration when evaluating an ETF. Taking the SPDR STI ETF as an example, it returned 13.51% (exclusive of dividends) over a 1-year period, as of 30 June 2017. This tracks closely the performance of its benchmark index, STI, which returned 13.57% (exclusive of dividends) over the same period. The fund also aims to pay dividends every six months and the dividend rate was 2.90% as of 30 June 2017.

While ETFs can be used to trade for short term gains, they are also excellent investment instruments for investing in the long term. From its inception on 24 February 2009 to 30 June 2017, Nikko's ETF produced a total return (inclusive of dividends) of 140.53%.

Phillip Yeo, International Head of Product at Nikko AM opined, "The STI index

is likely to outlive most of the underlying constituent companies. Given this kind of longevity, ETFs that track the index of a favoured market, such as the STI, are great tools to pass on one's wealth to the next generation".

Among the leaders in the provision of ETF services and products are Nikko Asset Management and State Street Global Advisors.

Nikko Asset Management has been voted the Best Asia Pacific ETF Manager for the 7th time in 8 years in a survey conducted by ETF Express, a digital news publisher serving institutional investors and investment advisers. It is also ranked number 2 in Asia for assets under management in the ETF business. In Singapore, it manages 3 ETFs, namely, the Nikko AM Singapore STI ETF, the ABF Singapore Bond Index Fund and the recently launched Nikko AM-Straits Trading Asia ex Japan REIT ETF. With US\$182.7 billion under management as of 31 March 2017, Nikko Asset Management is one of Asia's largest asset managers, providing high-conviction, active fund management across a range of Equity, Fixed Income, Multi-Asset and Alternative strategies. In addition, its complementary range of passive strategies covers more than 20 indices and includes some of Asia's largest ETFs.

State Street Global Advisors created the world's first ETF in 1993. Since then, it has remained at the forefront of the fast-growing ETF industry and continued innovating by adding new markets and assets, including creating the international real estate, fixed income and sector ETFs. In Singapore, it launched the country's first ETF in 2002, and currently has 4 ETFs listed on the Singapore Stock Exchange. State Street and its ETF products are widely recognized by the industry, as evident in the numerous awards that the company received throughout the years. In the past year, it was named the "Best ETF Manager" in Asian Investor Asset Management Awards and the "ETF Manager of the Year" in Asia Asset Management Best of the Best Awards. SPDR ETFs are committed to delivering reliable investment solutions for investors' financial goals. All SPDR ETFs are backed physically, meaning investors will own a slice of the underlying securities at a fraction of the cost, providing a simple, transparent and cost-efficient way to access the target market segment.

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