



Credo Capital Plc
Exchange Traded Funds (ETFs)

Exchange Traded Funds (ETFs) - THE FACTS

Where should you invest your cash or pension?

Given that people like to feel in control, it is surprising how many individuals invest their savings without knowing the basic facts. This lack of research often forces people to make costly mistakes. Investing your money wisely, involves a lengthy decision making process.

The problem

Most individuals have neither the time and experience, nor the necessary performance and risk management software to manage and diversify their portfolios appropriately.

To get around these issues, people have traditionally paid fund managers to manage their investment funds for them. However, such funds managers charge high fees without offering any performance guarantees. There are also so many investment funds, making it a minefield to differentiate between them. Performance measurement has therefore increasingly become a necessity. Why then run the unnecessary risk of choosing a manager who may underperform the benchmark index (such as the FTSE 100), when the benchmark in itself is difficult to outperform over the long term?

Given these problems, and with the recent shake up in the pension industry (where annual and lifetime limits have been raised), the industry has been forced to find suitable investments that give direct exposure to markets. Exchange Traded Funds (ETFs) offer precisely that.

The solution

ETFs are the natural evolution of investing in shares and funds. They are quoted securities, made up of a basket of stocks that mimic a benchmark. They provide instant exposure to an entire index through a single security. Unlike a tracker, however, they are bought and sold on an exchange like any other share, rather than directly from a fund management company.

What are their benefits over traditional investment funds?

- ETFs are **cheap**, at a fraction of the cost of traditional funds
- ETFs offer **diversification** to a vast range of global indices, markets and sectors
- ETFs can be traded in **real time**, throughout the day (unlike other funds), giving investors the **flexibility** to trade in and out of their chosen index or sector
- ETFs provide an **efficient** means of entering more under-researched or illiquid sectors such as emerging markets, where it can be difficult to trade in and out of individual stocks
- ETFs allow you to trade "**short**" – taking advantage of downward market movements
- ETFs offer a **convenient** way to build a diversified portfolio that meets specific asset allocation needs
- ETFs can be placed into ISAs and Self Invested Pension Plans (SIPPs)

Traditional Index Funds vs A Modern Exchange Traded Fund (ETF)

	MANAGED	INVESTMENT	WELL DIVERSIFIED	PRICING	LIQUIDITY	COSTS	TAX EFFICIENT	POSITION	SETTLEMENT
MODERN EXCHANGE TRADED FUNDS (ETFs)	PASSIVELY	EXCHANGE TRADED	YES	INTRADAY & VERY CLOSE TO NAV	HIGH	CHEAPER & NO STAMP DUTY	YES	LONG OR SHORT	SAME AS A STOCK
TRADITIONAL INDEX INVESTMENT FUNDS	ACTIVELY BY A FUND MANAGER	OPEN-ENDED INVESTMENT FUND	YES	PERIODIC-HISTORIC PRICING	NO TRADING ON EXCHANGE	MORE EXPENSIVE	LESS EFFICIENT	LONG ONLY	SLOWER

The ETF market

ETFs are popular investments for pension funds, institutional investors, hedge fund managers, fund of fund managers and discretionary trusts. However, awareness of the real benefits of these types of funds remains fairly low among UK investors, although interest from retail investors is starting to pick up.

- The choice of ETFs is already huge and is growing fast
- There are almost **400 ETFs** around the world, with assets under management currently in excess of \$336bn
- The popularity of ETFs has surged in the UK – The London Stock Exchange reported that last year more than £9bn was traded in ETFs in the UK, about double the amount traded in 2004
- In the US, net sales of ETFs are expected to reach \$61bn this year

Types of ETFs

- There are funds that track indices from all over the world, including the FTSE 100, S&P 500, MSCI Japan Index, MSCI Korean Index, Dow Jones and NASDAQ
- ETFs track sectors such as oil, gold or telecoms
- Some ETFs follow only mid- or smaller-cap companies
- There are ETFs that track companies with the most generous dividends
- ETFs are regional- (Europe, Pacific Rim, emerging markets) and country-specific (Japan, Australia, U.K.)
- Specialised ETFs cover specific industries (technology, biotech, energy) and market niches (REITs, gold)
- Fixed Income ETFs are composed of long-term bonds, mid-term bonds and short-term bonds

Example

A 45-year old man, with a wife and two children, has a £300,000 lump sum to invest into his SIPP. He would like a well diversified portfolio, but, after extensive research, he is even more confused by the raft of funds. Each fund has a different manager, a different strategy and a different fee structure. He is simply seeking an allocation of 80% stocks and 20% bonds in the UK market.

This portfolio can be created with ETFs that can be further diversified by dividing the stock portion into large-cap growth and small-cap value stocks, and the bond portion into mid-term and short-term bonds.

What charges can I expect to pay?

ETFs have some of the lowest annual charges of all collective investment schemes - in the region of 0.5%. If you buy an ETF you also escape stamp duty charges. Purchases of London-listed shares normally incur stamp duty charges of 0.5 per cent.

What kind of returns can I expect?

The crucial thing to get right, of course, is the asset allocation of the ETF, that is, which sectors or markets are going to rise the most. One of the best performing funds in the year to November 2005 was the FTSE 250 fund, which grew by 29.27 per cent.

How do I buy an ETF?

ETFs can be bought and sold easily through Credo Capital Plc. Contact **Your Relationship Manager or Client Services** on **020 7291 3200** or by email at info@credogroup.com

Important Notice

The value of the fund and income earned thereon can go up or down and you may not get back your money invested. Past performance is not indicative of future performance. Returns are not guaranteed. The information does not constitute advice or a personal recommendation. Suitability of a particular exchange traded fund and the amount you should invest will depend on your attitude to risk and your financial objectives. These will be determined once you have had discussions with an investment advisor. objectives. These will be determined once you have had discussions with an investment advisor.

WOULD YOU LIKE TO BUY SHARES OR GROW YOUR PENSION FUND OR ISA FOR THE LONG TERM?

WOULD YOU LIKE TO MANAGE THE INVESTMENT PROCESS YOURSELF?

FACTORS YOU HAVE TO CONSIDER

MACRO FACTORS

Regions to buy
Countries to buy
Sectors to buy

Currency Rates
Commodity prices
GDP

Geo-political risks
Housing Market
Inflation
Interest rates
Unemployment Figures

MICRO FACTORS

Company accounts
Dividend yields
Size of company
Liquidity of the company
Volatility of the stocks
Broker forecasts
Management of the company
Advisers to the company
Major shareholders
Directors' holdings
Recent transactions

TECHNICAL ANALYSIS

Support Levels
Resistance Levels

PERSONAL SITUATION

Personal Income
Risk appetite
Tax situation
Dependants
Age

ARE YOU STILL SURE YOU HAVE ENOUGH EXPERIENCE AND TIME?

OPEN AN EXECUTION ONLY OR ADVISORY ACCOUNT

WOULD YOU LIKE A PROFESSIONAL TO MANAGE THE INVESTMENT PROCESS ON YOUR BEHALF?

FACTORS YOU HAVE TO CONSIDER

TYPE OF INVESTMENT

Fund of Funds
Hedge Funds
Investment trusts
OIECs
Pension Funds
Unit Trusts

INVESTMENT STRATEGY

Arbitrage
Emerging Markets
Event Driven
Global Macro
Long/Short Funds
Long Only
Managed Futures
Neutral Funds
Short Bias

RETURN

Absolute Return
Relative Return

CHARGES

Upfront Charges
Commission Charges
Management Charges
Hurdle Rates

ARE YOU STILL SURE YOU WANT AN ACTIVELY MANAGED ACCOUNT?

OPEN A DISCRETIONARY ACCOUNT

HAVE YOU CONSIDERED AN EXCHANGE TRADED FUND (ETF)? THEY ARE TRACKER FUNDS THAT FOLLOW THE INDEX OF YOUR CHOICE

BENEFITS

Flexible
Low Cost
Simple
Openness
Transparency
Very popular
Not reliant on a manager
Well regulated
Trades on a Stock Exchange
Passively managed
Instant diversification
Trades all day
Efficient pricing
Efficient dealing
No Stamp Duty
No hidden charges
Dividends are paid
Settlement is like any share
Benefits of unit & investment trusts
No inherent gearing
Can be sold short
Tax efficient

EXAMPLES

ETFs can be used to follow

Market Indices e.g. FTSE 100, S&P 500
Commodities e.g. oil, gold, silver
Countries e.g. Japan, Australia
Regions e.g. Europe
Sectors e.g. Energy, Biotech
Fixed Income e.g. Long term bonds

THE SENSIBLE LOW COST ALTERNATIVE OFFERED BY CREDO CAPITAL PLC

www.credogroup.com

CREDO

PERSONALISED WEALTH MANAGEMENT

London
3rd Floor
33 Margaret Street
London
W1G 0JD
United Kingdom

Tel +44 (0)20 7291 3200
Fax +44 (0)20 7291 3290
credolondon@credogroup.com

Bermuda
Century House
16 Par-la-Ville Road
P.O. Box HM 1806
Hamilton HM HX
Bermuda

Tel +1 441 292 7478
Fax +1 441 295 4164
credobermuda@credogroup.com

Geneva
Boulevard Helvetique 15
CH-1207
Geneva
Switzerland

Tel + 41 (0)22 718 7200
Fax +41 (0)22 718 7201
credogeneva@credogroup.com

Johannesburg
1st Floor, Blue Strata House
66 Wierda Road East
Wierda Valley
2196
South Africa

Tel +27 (0)11 883 3222
Fax +27 (0)11 883 9905
credojohannesburg@credogroup.com

BVI
Geneva Place 2nd Floor
333 Waterfront Drive
Road Town Tortola
British Virgin Islands

Tel +1 (0)284 494 4388
Fax +1 (0)284 494 3088
credolbvi@credogroup.com